DIFFERENCES BETWEEN THE ON-PREMISE AND OFF-PREMISE CRAFT BEER EXPERIENCE: IMPLICATIONS FOR THE CRAFT BEER CATEGORY

Presented by: Karen Kalinski
Agenda

- What is craft beer?
- Relevance of the Study
  - Off-Premise (Retail) Channel
- Research Questions
  - Re-thinking the Problem Description
  - Development of Research Questions
- Foundational Literature & Method
- Participants
- Findings
- Conclusion
- Limitations and Future Research
What is Craft Beer?

- For this study: A craft beer is a conventionally made beer by a craft brewery producing no more than 6 million barrels in aggregate (industry-developed definition)
  - Made with traditional ingredients, adhering to traditional beer styles
  - But, subject to innovations in flavor as well as style modifications
U.S. Beer Sales Volume Growth 2014

- Overall Beer: 0.5% growth, 197,124,407 bbls
- Craft Beer: 17.6% growth, 21,775,905 bbls
- Import Beer: 36% growth, 29,430,185 bbls
- Export Craft Beer: 6.9% growth, 383,422 bbls

Overall Beer Market: $101.5 billion
Craft Beer Market: $19.6 billion

22% Dollar Sales Growth

11% Share in 2014 (21,775,905 bbls)
Import (29,430,185 bbls)
Domestic (145,918,317 bbls)

Source: Brewers Association, Boulder, CO
Relevance of the Study

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- Today, most Americans live within 10 miles of a brewery.
- Retailers need to pay attention!
Off-Premise (Retail)Channel

- Retailers are aware of consumers’ preferences for natural and local products and craft beer’s place in this development.
- Craft beer has traditionally sold on-premise but has made inroads in the traditional retail channel (off-premise).
  - Traditional retail sales takes away from the uniqueness and differentiation of craft beer from large national brands.
Research Questions

I. What are the on-premise and off-premise craft beer experiences?

II. Is there a significant difference?

III. Does the one experience affect the other in purchasing behavior?
Re-thinking the Problem Description

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This question came up while working with Bell’s Brewery and Meijer stores.

Craft brewers such as Bell’s are interested in obtaining more shelf space.

Retailers such as Meijer are interested in optimizing sales in the available in-store shelf space of the entire beer category.
Development of Research Questions

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- Craft brewers are at a disadvantage:
  - They lack the necessary funds to invest in national marketing and sales campaigns.
  - They lack the production capacity and financial means to quickly expand.
  - Craft beer supply is characterized by its inconsistent distribution.
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- Craft brewers are at a disadvantage:
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  - They lack the production capacity and financial means to quickly expand.
  - Craft beer supply is characterized by its inconsistent distribution.
- But, market basket of shoppers buying craft beer is of a considerable “premium” character.
  - This supports the industry-wide assumption that craft beer shoppers are of higher value to retailers.
From our initial data analysis we found that “experiential consumption” (Holbrook & Hirschman, 1982; Puccinelli & et al, 2009) – seemed to offer the best theoretical framework to approach our research questions and guide data collection.

- Note: Literature informed but did not direct the research
Method

- Data collection and their analysis was inspired by the Grounded Theory research tradition (Glaser & Strauss, 1967, Suddaby, 2006, Peirce et al., 1992; Peirce and Wiener, 1966)
  - We mainly relied on semi-structured interviews which consisted of open-ended questions and conversations about the interviewees’ experiences with craft beer
    - All participants were asked to sign release form for confidentiality
  - Interviews were transcribe by an outside party and then coded by the main researcher
  - During data analysis, regular review sessions were held with the thesis chair to compare code schemes and discuss and decide on the next iterative steps to take in data collection and consider alternative literatures to study
Participants

- 12 consumer/shoppers
- The main focus of the interviews was the researcher’s desire to understand the participants’ experiences, attitudes and opinions about craft beer
  - Some had extensive craft beer consumption experience, while others were relative newcomers to craft beer
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We also interviewed industry managers:

- Representatives of five craft brewers
- Two managers from a beer distribution firm
- A merchandising manager from a 200-store regional grocery chain
- And two managers from an international market research and market data provider
Initial Data Analysis
Findings: Segments

- In line with our findings as well as market research, we named these segments: the **novice**, the **experimenter**, and the **connoisseur**

<table>
<thead>
<tr>
<th>Segment</th>
<th>Characteristics</th>
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<tbody>
<tr>
<td>Novice</td>
<td>• New to the category</td>
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<tr>
<td></td>
<td>• Relies on other’s advice</td>
</tr>
<tr>
<td>Experimenter</td>
<td>• Willing to try new beer</td>
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<tr>
<td></td>
<td>• Looking to develop taste</td>
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<tr>
<td>Connoisseur</td>
<td>• Know what they like</td>
</tr>
<tr>
<td></td>
<td>• Consider themselves expert judges of taste</td>
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Findings: Core Themes

- Taste
- Taste Development
- Brand Loyalty
- Occasion
- Price
Taste

- Taste was a **consistent first decision** factor across both on-premise and off-premise experiences
  - The connoisseur views taste as an important factor within the context of further developing their craft beer expertise
  - Experimenters were much more willing to experience beer styles and flavors that they may have not liked in order to further define their palette
  - Novices had a much more straightforward relationship with taste
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  - Novices had a much more straightforward relationship with taste
- Flights/ samples were the essential component of the ever-growing taste experiences of connoisseurs and experimenters
- Novices tend to stick with what they know they like
Taste Development

- Taste development is closely related to taste, but differentiated as each segment develops taste in distinct ways.
- It was found that the recommendations by others are an important element of taste development.
  - Connoisseurs actively searched for recommendations from others, such as brewers, bartenders or even other connoisseurs.
  - Experimenters were more reserved about asking for advice, but did rely on any advice given by friends and mid-level experts such as waiters and bartenders.
  - Novice consumers will take recommendations from others, but remained hesitant to act on the advice fearing that they would not yet possess the knowledge to contextualize the advice.
Brand Loyalty

- Consumer loyalty was found to be directed more towards certain styles or flavors
  - This factor was most prominent with connoisseurs
  - And, lower for the experimenter and novice segments
- In general, many connoisseurs were loyal to a “go to” brand

“I’m all over the map, I don’t get stuck in a specific genre or flavor or brewery. I just like to experiment [with brand and styles].”
Occasion

- Occasion differed significantly between on-premise and off-premise situations
- For all segments, “atmosphere” played a crucial role
  - For connoisseurs the on-premise atmosphere does not solely consist of esthetics of the brew pub, bar or restaurant, it was more important to have the ability to talk/discuss beer with bartenders, brewers, and other connoisseurs
  - In contrast both novice and experimenters described and experienced “atmosphere” in the on-premise context in terms of social experience

“I like having a beer with my dinner and I don’t drink at home by myself, it’s a social thing for me, I drink with other people.”
Occasion Cont.

- Consumers **do not** think it’s possible to recreate any part of the on-premise experience besides taste
- This reality leaves room only for two main factors that affected consumers’ off-premise buying decision:
  - The shopping occasion, and
  - Whom the craft beer is being purchased for
- Connoisseurs displayed the most purposeful purchasing behavior
- Experimenters and novice consumers were much less concerned with their purchasing decision

“You can recreate the taste, but you can’t re-create the experience because the experience is this. It’s the physical presence.”
Price

- Price affected the craft beer experience across all segments
- On-premise, all segments’ purchasing decisions were influenced by bar specials, i.e. price promotions
- For experimenters and novices, price was a much more important factor (price as a “segmentation tool” (Myers & Zondag, 2010))
- Off-premise price promotions seemed to have the same influence, a positive, but often temporary effect on sales

“Price also plays into whether I’m going to try something new or not.”
Conclusion

- Craft beer is a high-involvement product
  - Experiential consumption provides a fitting theoretical framework to understand consumers’ craft beer experience
- Data shows that the on-premise experience does not translate to the retail shelf
  - This disconnect is explained as the obvious difference in purchase occasions
- A further complicating factor is the complexity of the craft beer segment
  - In the retail context the multitude of options can become intimidating and confusing
Quotes

“Sometimes I don’t know what style a beer is because the labels can be confusing and busy.”

“It’s helpful to be able to talk to someone in the store that is familiar with the products because there are often many beers that I am not familiar with.”

“The craft beer shelf tends to be confusing with the abundance of choices.”
Craft beer attracts a variety of consumers; in theoretical terms, each segment has its own consumer decision tree.
Conclusions Cont.

- On-premise selection and experimentation is experienced as a lower risk choice with less commitment
  - Off-premise consumers fall back on known brands and styles
- Factors that affect all consumer segments in a near identical fashion: **taste and price**
- There is opportunity for in-store consumer education
- There remains an acute need for shopper marketing outside and inside of the store
Limitations & Future Research

- Findings of this study are limited to the qualitative data collected
  - Findings can act as the basis for development of future quantitative research
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- This study was regional in nature, as the majority of data was collected in Michigan
  - This may have biased the data and requires future research to expand its scope to a regional or even national level
Cheers!
Questions?