HOW TO DRIVE SALES WHEN SEGMENT GROWTH SLOWS

A LOOK AT HOW COMPANIES IN A CROWDED SEGMENT LIKE CRAFT BEER CAN TAP INTO GROWTH AFTER THE INITIAL INNOVATION BUZZ FADES
INTRODUCTION

Over the years, fast-moving consumer goods (FMCG) companies have kept up with evolving shopper tastes and preferences by introducing new and enhanced products to the shelf. And while innovation is usually a good thing, churning out an array of new products that all offer the same benefit can lead to saturation within the category. It's scenarios like these that contribute to an increased number of items on the shelf and erode a company's pricing power and promotional efficiency. We often see:

- One company uncover an unmet consumer need or desire
- Other related companies flock to the area that's ripe for innovation to create products that they think will bring in additional sales and capture consumer interest
- The segment, in turn, becomes saturated and sales plateau or diminish

For example, miniaturized foods (e.g., candy) and clear beverages were all the rage in the 1990s. When manufacturers first brought these products to market they flourished because they were new and exciting. But then the product flood gates opened as many companies jumped at the opportunity to follow suit with competing offerings, each thinking they could outpace the competition with a better marketing approach. Unfortunately, when this happened, marketing approaches didn't matter. It was too late—the segment was saturated with similar products.

According to the Food Marketing Institute, the average U.S. grocery store has about 39,000 items and counting, but increasingly less space in which to carry SKUs and UPCs. With these odds, it's difficult for companies to capture consumer attention and contribute to growth. In turn, manufacturers feel the pressure to justify their product's role in the category. However, because it can be difficult to prove a product's value to retailers, manufacturers go the quick route of slashing prices and putting their product on sale to trigger a rise in purchasing. When manufacturers take this approach and execute incorrectly, sales could decline.

We see this happening across categories. In the craft beer category, for example, sales growth has slowed over the last five years, contrasting earlier periods of explosive growth. In this white paper, we'll examine how a more efficient approach to price and promotion—a universal discipline that's critical across all FMCG categories—could benefit craft beer. But first, we need to understand how the segment has gotten to where it is today. Let's take a look at how craft beer has progressed over the last decade.
CRAFT BEER: 
THE MAKING OF A SATURATED SEGMENT

Craft beer started to hit its stride in the mid 2000s at the start of the Great Recession. It’s common for consumers to seek solace in affordable luxuries during a significant economic downturn, and in the case of the 2008 downturn, craft beer was one affordable luxury.

Since then, craft beer sales both at retailers and in bars and restaurants have soared for a number of reasons, including varied tastes, flavors and experiences (which some suggest carry an air of prestige) that craft beer provides to consumers. And while craft beer aficionados continue to enjoy these specialty brews, times have changed when it comes to overwhelming growth within the segment.

A mere five years ago, sales of craft beers and domestic specialty segments were growing at an eye-popping rate of 23% at retail locations. Today, retail sales in particular are flat and share in these segments have declined to about 13%.

THE STAGNATION OF GROWTH IN CRAFT BEER

So while innovative value adds such as sours and Imperial IPAs have helped companies continue to drive sales, overall growth is tougher to come by. Said another way, craft companies can no longer win by “just showing up” on the shelf. Instead, craft beer companies need to work for each dollar of growth. Now that the segment has matured to the point where consumers have been exposed to a wide variety of brands and options, how can craft beer continue to grow and build on its prior successes?

To uncover growth opportunities, we’ll examine how the universal discipline of price and promotion has changed across the segment over the last five years.

Source: Nielsen Total U.S. All Outlets (xAOC + Liquor Plus + Conv + Military); period ending 8-11-2018 Craft incl Domestic Specialty share of Beer (ex FMB and Ciders); not including NYF and Coney Island
PROTECTING CRAFT BEER’S PRICING POWER

While the craft beer category has become increasingly crowded, it still has the most pricing power among its peers (flavored malt beverages, beer and cider). Over the last couple of years, craft has continued to increase its price and level of “premiumness” in both retail and on-premise channels.

For example, the dollar share for craft beer on premise is 32.8% and continues to grow.

PRO TIP

Segment your product in meaningful ways to uncover opportunities, like those in adjacent categories. In the case of craft beer, there continues to be growth in the super premium products because there are still benefits and spaces that premium manufacturers can further leverage and develop.

DOLLAR SALES AND VOLUME CONTINUE TO INCREASE FOR CRAFT BEER

On Premise – Restaurants + Bars

<table>
<thead>
<tr>
<th></th>
<th>Craft</th>
<th>Domestic Premium</th>
<th>Import</th>
<th>Domestic Super Premium</th>
<th>Below Premium</th>
<th>Cider</th>
<th>FMB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value Share</td>
<td>32.8%</td>
<td>32.7%</td>
<td>21.6%</td>
<td>3.7%</td>
<td>2.5%</td>
<td>1.9%</td>
<td>0.3%</td>
</tr>
<tr>
<td>288 oz</td>
<td>+0.3%</td>
<td>-6.0%</td>
<td>+2.0%</td>
<td>+7.4%</td>
<td>-0.1%</td>
<td>-3.6%</td>
<td>-3.3%</td>
</tr>
<tr>
<td>$</td>
<td>+1.0%</td>
<td>-5.3%</td>
<td>+3.4%</td>
<td>+8.0%</td>
<td>+0.8%</td>
<td>-2.9%</td>
<td>-2.4%</td>
</tr>
</tbody>
</table>

Source: Nielsen CGA on premise data – volume, value, subsegment, 288oz EQ, w/e 01/28/2017 vs YA

And, in brick and mortar retail, the price premium gap between craft beer and domestic premium beer has jumped from 66% to 79% in just the last five years alone.
But this could be about to change. Even though craft beer has managed to protect its pricing power, we forecast that the competitive marketplace may become more challenging in the next few years, particularly at retailers. But before that happens, which levers can craft beer manufacturers use today to drive profits as the segment matures and is no longer the new shiny object on the shelf?

Let’s start by segmenting the types of products and pricing within craft beer that are sold at retailers. (We should also note that it’s useful to pursue consumer segmentation, but we’ll save that for another time.) Here you’ll see that we’ve segmented brands into four different quartiles based on lowest to highest pricing. The first quartile, the lowest priced quartile, has an average price of $7.36 for a six-pack of 12-ounce cans, while a six-pack of 12-ounce cans is priced at a staggering $26.78 in the fourth quartile, the highest priced quartile.

Source: Nielsen Total U.S. All Outlets (xAOC + Liquor Plus + Conv + Military); Period ending 8-11-2018
There are multiple levers that can unlock growth. To help jump-start the type of stagnation that we saw at this time a year ago, we recommend that manufacturers use our six-step approach for selling into retailers.

### GROWTH ACROSS PRICING QUARTILES SINCE 2014

Despite having such a price premium, in terms of growth, in the next chart you’ll see that the third and fourth quartiles experienced high double-digit growth until 2017 when the fourth quartile saw only a very modest increase.

### SEGMENTING CRAFT BEER BY PRICE

<table>
<thead>
<tr>
<th>QUARTILE 1</th>
<th>QUARTILE 2</th>
<th>QUARTILE 3</th>
<th>QUARTILE 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of Items</td>
<td>25%</td>
<td>25%</td>
<td>25%</td>
</tr>
<tr>
<td>Average Price (per 6x12 oz)</td>
<td>$7.36</td>
<td>$9.53</td>
<td>$11.43</td>
</tr>
<tr>
<td>Top 20% $ Share</td>
<td>82%</td>
<td>82%</td>
<td>76%</td>
</tr>
<tr>
<td>Top 5 Items</td>
<td>Blue Moon Belgian White Ale 12PK</td>
<td>Blue Moon Belgian White Ale 6PK</td>
<td>Lagunitas Little Sumpin Sumpin 6PK</td>
</tr>
<tr>
<td></td>
<td>Leinenkugel’s Seasonal Shandy 6PK</td>
<td>Sam Adams Seasonal 6PK</td>
<td>Bell’s Two Hearted Ale 6PK</td>
</tr>
<tr>
<td></td>
<td>Sam Adams Seasonal 12PK</td>
<td>Lagunitas IPA 6PK</td>
<td>Stone IPA 6PK</td>
</tr>
<tr>
<td></td>
<td>Sierra Nevada Pale 12PK</td>
<td>New Belgium Fat Tire 6PK</td>
<td>Deschutes Fresh Squeezed IPA 6PK</td>
</tr>
<tr>
<td></td>
<td>Shock Top Belgian White Ale 6PK</td>
<td>Sierra Nevada Pale Ale 6PK</td>
<td>Dogfish Head 60 Minute IPA 6PK</td>
</tr>
</tbody>
</table>

### Source:
Nielsen Total U.S. All Outlets (xAOC + Liquor Plus + Conv + Military); Period ending 2-25-2017
STEP 1
VALIDATE WHERE YOUR PRODUCT FITS IN THE MARKET

Since sales trends within craft beer have plateaued, it’s especially important for craft companies within the higher price quartile to ensure that the everyday price for their products meet their brands’ sales, share and consumer objectives.

Often the industry encourages manufacturers to optimize their pricing quarterly or yearly to help them reach their goals. But pricing should not be considered in such a one-way fashion. Instead, manufacturers must always be focused on what’s optimal for both their brand and their retail partners.

The chart below shows craft beer by promoted product group (PPG) sensitivities. As a starting point, marketers need to make sure they consider what the market will bear—in addition to other factors, such as profitability and margins, brand objectives, etc.—when setting price. Here, you’ll see that craft beer is less sensitive to price changes than other adjacent categories, such as wine, liquor and other beer. It’s important to note that the illustration doesn’t map out additional attributes, such as sub-categories like India Pale Ales (IPAs), sub-segments like pack size or channel (e.g., drug stores and mass merchandisers), as these have their own specific values.

<table>
<thead>
<tr>
<th>LESS SENSITIVE</th>
<th>MORE SENSITIVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>• High Brand Loyalty</td>
<td>• Little Product Differentiation</td>
</tr>
<tr>
<td>• Infrequent Purchase</td>
<td>• High Competitive Intensity</td>
</tr>
<tr>
<td>• Low Competitive Intensity</td>
<td>• High Expandability</td>
</tr>
</tbody>
</table>
By looking at everyday price, you can identify price promoted groups that are particularly low and high in price elasticity. These elasticities provide insight into the distinctiveness, level of competitive intensity, equity and pricing power of each product. However, these factors are contextual and help inform rather than determine price strategy. So even though craft beer has more pricing power than other beer, we need to make pricing decisions in a broader context.

The key to driving profit and meeting your company’s financial objective is to build a flexible pricing strategy that accounts for all of the following dynamics.

- **Limited assortment**: We often find that channels with limited assortment, such as dollar stores, tend to have lower price sensitivity because there are fewer options available to consumers. This contradicts the widely-held assumption that these channels would compete on providing a low price and therefore would have greater price sensitivity.

- **High assortment**: The food channel, on the other hand, is sometimes the most price sensitive channel because they have a wide assortment and a significant number of deals. It makes sense that price sensitivity would be high in this channel. When shoppers have more choices, they tend to be more critical in their purchasing behaviors.

- **Product attributes (e.g., pack architecture)**: There’s a myth within the industry that value adds such as premium packaging or added ingredients like agave are the primary drivers of price sensitivity. For example, some practitioners in the industry believe that bottles are less price sensitive than cans because bottles cost more and are more value-added, yet bottles are more price sensitive (see below)

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**PRICE SENSITIVITY OF CANS VS BOTTLES**

- **Drug**: BOTTLES 1.51 vs CANS 1.25
- **Food**: BOTTLES 1.68 vs CANS 1.47
- **Major Mass Merchant**: BOTTLES 1.56 vs CANS 1.45

Source: Nielsen Total U.S. Food, Drug, and Walmart Period ending 1-31-2017
It’s important to consider and leverage price sensitivity dynamics by channel, by product benefit and by segment. However, we recommend against reflexively avoiding a price increase when elasticity is high and automatically increasing price when elasticity is low, as there are many other strategic and tactical considerations that need to be made before making a change to price. It’s important to first discern what the marketplace is telling you about the varying sensitivities of your product and try to leverage the broader insight. So if a certain attribute—in this case cans—has a low price elasticity, it might be telling us one of three things:

1. There is more room for innovation,
2. The feature is more value-added than we think, or
3. We are under-leveraging the benefit.
STEP 2
UNDERSTAND THE ROLE THAT PRICING SENSITIVITIES PLAY IN YOUR STRATEGY

Price elasticity, or sensitivity, is a summary measure that estimates how sales change when price changes. Because not all price changes are created equally, it’s important to consider:

- What other price changes are occurring—competing or otherwise
- When you last increased the price of your product
- Whether the price increase was coincident by way of a product improvement
- Whether the new price for your product would cross a market threshold or key price point

Let’s dig into this last point about thresholds. We all know that when a product exceeds $0.00 (e.g., goes into “the next dollar”), more volume is lost than usual. For example, if a company were to raise its price from $5.89 to $6.09 and crossed the $6.00 threshold, then the product would probably suffer more volume loss than if the company went from $5.79 to $5.99 and doesn’t cross into “the next dollar.”

We often find that the threshold effects in most categories tend to be greater than 5%. Below are real thresholds that we’ve uncovered in the craft beer category and their additional impact. So, even though craft beer products have lower elasticity than liquor, wine and other beer categories, the pricing effects of exceeding a threshold for these products could be quite high. You’ll see that there are multiple thresholds for craft beer because many of the segments’ qualities have become “less special,” making price more important.


**FOOD CHANNEL EVERYDAY PRICE THRESHOLD**

<table>
<thead>
<tr>
<th>PRODUCT</th>
<th>REGULAR PRICE THRESHOLD</th>
<th>ADDITIONAL IMPACT</th>
</tr>
</thead>
<tbody>
<tr>
<td>6 pack</td>
<td>$6.99</td>
<td>12%</td>
</tr>
<tr>
<td>6 pack</td>
<td>$7.99</td>
<td>6%</td>
</tr>
<tr>
<td>6 pack</td>
<td>$8.99</td>
<td>7%</td>
</tr>
<tr>
<td>12 pack</td>
<td>$13.99</td>
<td>7%</td>
</tr>
<tr>
<td>12 pack</td>
<td>$14.99</td>
<td>12%</td>
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<tr>
<td>24 pack</td>
<td>$19.99</td>
<td>11%</td>
</tr>
<tr>
<td>24 pack</td>
<td>$24.99</td>
<td>7%</td>
</tr>
<tr>
<td>24 pack</td>
<td>$27.99</td>
<td>7%</td>
</tr>
</tbody>
</table>

**INSIDE THE MATH OF PRICE ELASTICITY**

Let’s dig in to see what the outcome of a price change could be. To do this, we’re first going to view price elasticity as a multiplier, which—while not technically correct—is the best way to come up with an approximate estimate.

So, let’s say that a product in the food channel increased price by 5% and had an elasticity of -1, then basic math would show us that a 5% price increase would lead to about a -5% volume decline (5%*-1=-5%).

However, elasticity is actually an exponent. So, the correct math would be \((1.05^{-1})\), which is a 4.8% volume decline (very close to the above 5%). Here, the 1.05 reflects the change in price and denotes a 5% increase (just as a 1.07 would denote a 7% price increase, and a .94 would denote a 6% price decline). Then we raise this price index to the elasticity (-1.0).
STEP 3
“BE YOURSELF” WHEN IT COMES TO TRADE PROMOTION

Building price and promotion strategies can be tricky, especially when it comes to promotions. They say that imitation is the highest form of flattery. However, it’s proven that copying what other companies do in terms of trade promotion often does not pay off. We too often see companies resort to trade promotion as a short-term lever to drive growth when sales decline. And while promotions can be effective when used properly, craft beer’s promotional “efficiency”—or percentage of promoted sales that are incremental—is relatively low (about 33%).

Here’s a useful framework that’s based on everyday and promoted price elasticities (or sensitivities) to help manufacturers start building an effective strategy. It’s important to note that retailers would take an overarching, store-wide approach as opposed to a product-specific approach. We should also note that this exercise is only intended to provide manufacturers with a starting point. We highly recommend additional analysis to determine the best price and promotion activities for your company.

4 STRATEGIES TO PRICE AND PROMOTE PRODUCTS EFFECTIVELY

<table>
<thead>
<tr>
<th>Base Price Elasticity</th>
<th>Promotional Price Elasticity</th>
<th>Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>High</td>
<td><strong>High-Low</strong></td>
</tr>
<tr>
<td></td>
<td>Low</td>
<td>Consider investing in promotion to drive volume and protect share by increasing base price to fund additional promotion depth / frequency</td>
</tr>
<tr>
<td>Low</td>
<td>High</td>
<td><strong>Hybrid/Options</strong></td>
</tr>
<tr>
<td></td>
<td>Low</td>
<td>Consider diverting trade investment away from promotions to keep base price low on an everyday basis</td>
</tr>
<tr>
<td></td>
<td>High</td>
<td><strong>EDLP</strong></td>
</tr>
<tr>
<td></td>
<td>Low</td>
<td>Consider reducing depth of promotional discounts or increase everyday price to recapture margin and drive additional GP</td>
</tr>
</tbody>
</table>

**High-Low**

Because both everyday and promoted sensitivities are high, increasing price or promoting less deeply could put volume at risk. Alternatively, it’s likely that decreasing everyday price or increasing promotions could result in more volume. Further P&L/ROI analysis needs to be conducted to evaluate these possibilities.
To understand when it's most appropriate to implement one or more of these strategies, let's take a look at the spectrum of how consumers react to price and promotion changes.

- While everyday price is often a predictor of promoted price sensitivity, sometimes they differ. **High-low** refers to a high promoted sensitivity **but** a low everyday sensitivity. If the everyday sensitivity is low, then a manufacturer can increase price without losing much volume (thus "high" or going high on price). If the promoted sensitivity is high, then a manufacturer can gain significant volume by discounting products (thus "deep" or being aggressive on discounts).

- If a product has high everyday price sensitivity **but** a lower promoted price sensitivity, the manufacturer should consider an **everyday low price (EDLP)** strategy. This strategy focuses on pricing products at a lower everyday price rather than waiting to put them on sale.

- Some products have high everyday **and** high promoted sensitivities. This is known as a **hybrid** strategy because both levers—everyday pricing and promoted pricing—can be managed to generate changes in volume.

- **High-shallow** sensitivities refer to a low everyday **and** a low promoted sensitivity. If a manufacturer can increase the everyday price of a product and not lose much volume, it shouldn't also offer deep discounts because it won't gain additional volume. In these scenarios, manufacturers often consider raising everyday price, lowering promotional discounts or a combination of both to avoid volume loss.

It's difficult to determine the general approach for craft beer because its **everyday** and **promoted price elasticities** are about average. This reinforces our point that important pricing and promotion decisions should be made at the promoted product group level, rather than at the category level. Within the craft beer segment, there are several factors that impact promoted product groups (e.g., product attributes such as packaging).

No matter what strategy you use, it's important to start with this approach of deep investigation instead of trying to provide a simple solution (e.g., reactionary promotions) to a complex phenomenon, such as competing in a saturated space. Again, our framework is a starting point and doesn't reflect a complete evaluation.
STEP 4

STRIKE A BALANCE BETWEEN PRICE AND PROMOTION SENSITIVITIES

To get a sense of where craft beer falls on the pricing matrix, let’s take a look at the segment in comparison to other beer segments. In the next example, based on the premium beer segments’ two sensitivities, premium doesn’t have a clear-cut path to pursue because promoted and everyday sensitivities are about equal and average. However, some specific promoted product groups may have more clear direction. To identify a clearer action plan, we need to conduct a deeper analysis at the promoted product group level instead of the segment level.

PRO TIP

Challenge your organization on its price-promotion principles to uncover the combinations of product features and benefits that unlock your product’s pricing and promotion potential. Be sure to examine promoted product groups, benefits and product attributes rather than broad segments.
Generally, other beer products are relatively more price sensitive and tend to be on promotion quite often. High everyday price sensitivity likely reflects that these types of mainstream products have a widespread appeal. Beer has a wide-ranging ability to draw in consumers, while products with a more narrow appeal such as craft brews likely have less ability to do this. Additionally, mainstream brands that promote a lot also tend to have high everyday sensitivity, as promotions tend to make price more noticeable to consumers.

But there are exceptions to the rule that large brands are more price sensitive than smaller products or those with narrower appeal. On the next chart, we see that smaller 24-pack of products (denoted by the small bubble) have higher price elasticities than larger volume products, such as six- and 12-packs. Although 24-packs have higher price elasticities, we don’t believe that their promotions work harder for the entire category than six-pack and 12-pack promotions. This is because 24-packs tend to have a smaller baseline. They generate a high lift off of a low baseline resulting in less absolute volume than six-pack and 12-pack promotions.
When a product or segment such as craft beer enjoys years of a consumer trend tailwind and then growth slows, sometimes panic ensues. Organizations look for quick fixes like promotions because sales goals are not met. And, although injecting additional trade promotion investments will increase sales, there are often unintended consequences. For example, retailers may expect additional trade spending in the future or consumers may think that they can get lower prices on their favorite products if they merely wait for “the deal.” Nevertheless, how a product responds to trade promotion depends on myriad factors, including:

- Promotion expectations that have been set by the category or competition
- The price and promotion sensitivity of the product
- The product’s ability to bring in competitive buyers and those in adjacent categories, possibly inducing trial and hopefully repeat purchases

Nielsen examined the optimal discounts for trade promotion as defined by manufacturer profit and lift across various beer segments. We found that craft beer requires a relatively low discount—approximately 8%—to strike the right balance between price and promotion discount. This aligns well with the overall perception of craft beer, as it is not a particularly price-driven segment because its benefits, brand equity and image matter more than price.
There are a variety of reasons to increase trade promotion as a brand matures. However, our advice is to judiciously invest and instead look for the trade promotion sweet spot that maximizes profit, share and volume (in a way that also benefits your retail partners) and to not rely unnecessarily on deep discounts. It’s also prudent to consider the attributes of your product (e.g., its pack size) not just your brand name.
STEP 5
PROMOTE YOUR PRODUCT IN THE MOST EFFECTIVE WAY POSSIBLE

When building an effective price and promotion strategy, it’s important to fully evaluate what it costs to make, distribute and bring your product to market. Trade promotion, for example, is often the second most expensive cost to manufacturers—the highest being the cost of goods (see illustration below). Not only does it cost a lot to promote a product, we’ve also seen a decline in trade promotion’s effectiveness. A recent Nielsen study determined that, across the industry, 72% of promotions failed to break even.

A LOOK AT THE COST OF DOING BUSINESS

When implementing promotions, it’s important to consider both your costs and objectives. Here are a couple of rules of thumb to keep in mind regarding retailer levers of promotion:

- Impulse products tend to be display driven. Displays are also a great way to help bring awareness to new products on the market.

- Planned and expensive purchases tend to benefit from ads. Ads are also a great way to bring awareness to mature products that already have a strong consumer following.

In both cases, it’s important to consider the trade off between the value of the additional volume and the cost of the promotion itself.

Illustration: allocation of spend / cost based on average percentages
Breaking down our example from earlier, implementing a promotion for a 24-pack of craft beer would be more complicated. On one hand, it's less of an impulse buy due to its large size and price. However, consumers familiar with the product might be motivated to buy it on sale because they can save a lot by buying 24-packs on deal. Beer that comes in 12-packs and smaller sizes tends to be more of an impulse buy because consumers are more willing to take a chance on something that catches their eye. This makes smaller pack sizes good candidates to put on a display because the goal is to capture consumer interest for a product that otherwise may not catch their eye on the shelf.

For those consumers that typically buy a 12-pack, a hot deal on a 24-pack may just be enticing enough to encourage them to buy the larger size. This may be beneficial even if we end up subsidizing the purchase of the 12-pack. In this case, half of the 24-pack is subsidized and half is incremental. This would then take the consumer out of the market from his or her typical purchasing cycle because s/he is stocking up.

Remember how we emphasized the importance of consumer segmentation? This example shows why segmentation is so important, as you need to know who is in your general consumer base to fully understand how to go about securing incremental volume. This is a guiding principle for effective trade promotion management.

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**CRAFT BEER LIFT BY PROMOTION SUPPORT TYPE**

<table>
<thead>
<tr>
<th>Pack Size</th>
<th>Display</th>
<th>Feature</th>
</tr>
</thead>
<tbody>
<tr>
<td>4PK</td>
<td>0.20</td>
<td>0.15</td>
</tr>
<tr>
<td>6PK</td>
<td>0.18</td>
<td>0.14</td>
</tr>
<tr>
<td>12PK</td>
<td>0.15</td>
<td>0.13</td>
</tr>
<tr>
<td>24PK</td>
<td>0.11</td>
<td>0.15</td>
</tr>
</tbody>
</table>

Source: Nielsen Total U.S. Food Period ending 1-31-2017
Shifting gears from pack size, when we analyze trade promotion by Beer types we find a less orderly relationship. Craft beer tends to produce stronger results when put on display, attesting to its impulsive nature. The takeaway here is that craft beer needs to continue to find ways to drive displays, whether it’s through:

- Pallets
- Display contests
- Win-win sales stories
- Additional display funds
- Tie in with existing retail programs (e.g., pairing craft displays with private-label pretzels to satisfy consumer cravings)
- Shopper marketing
- Other types of marketing (e.g., tie in with programs promoting a sports team)

In contrast, as shown next, cider, more matured domestic premium beer and premium beer show strong signs of benefiting more from ads than displays. This being said, perhaps craft beer could use displays to drive trial and then, as the segment continues to mature, transition to promoting via ads. Or, display small pack sizes and use ads for larger sizes.

**TRADE PROMOTION BY BEER TYPE**

Source: Nielsen Total U.S. Food Period ending 1-31-2017
STEP 6

CONSIDER SEASONALITY
IN YOUR APPROACH

Timing also plays an important part in trade planning, as it can be especially lucrative to align promotional events with seasonal ones. However, seasonality doesn’t have as much of an impact on trade events within the craft beer segment, except during the week of Christmas, when sales tend to be 24% above average. This is the highest seasonal week, and even this isn’t especially high.

It’s also important to consider the seasons where there are too many promotions. While it’s still possible to drive sales during these periods, it’s also possible to lose opportunities to competitors who may be promoting their products in a lower seasonal time period. If we can secure quality merchandising during a less crowded/lower seasonal time, we should seek it rather than settling for a temporary price reduction during the higher seasonal time period.

CRAFT BEER WEEKLY BASE SEASONALITY INDEX

Source: Nielsen Total U.S. Food, Drug, and Walmart Period ending 1-31-2017
BUILD AN EFFECTIVE PRICE AND PROMOTION STRATEGY

No matter the state of your category, the process of building an effective price and promotion strategy requires a careful review of past effectiveness of portfolios and an understanding of current market dynamics. Here are a few key takeaways to help you set your brand up for success.

- Put innovation at the center of your overall strategy as it transcends pricing, promotions, pack design, etc. To start, try looking to competitors and categories adjacent to yours for inspiration to see where you can extend your product offering into related categories or import benefits from an adjacent category into your product (e.g., agave into a craft beer).

- Segment products and consumers into like groups to identify untapped opportunities that can help support your strategy.

- Determine whether your product is trade driven and use trade promotion judiciously. Relying too heavily on trade promotion can lead to unnecessary discounts.

PRO TIP

In constructing highly efficient trade promotion events, focus on promotional product groups, product attributes, trade promotion levers, depth of discount/price point/thresholds, multiples and timing. There are other considerations, such as whether there is a shopper marketing tie-in and consumer overlay. Contact a Nielsen rep to learn more.
• Focus on the levers that brought you strength, but remain open to game-changing activities.

• Build marketing and sales plans that are tailored for each product in your portfolio instead of relying on the same plan for all products. Each plan should leverage category, brand and attribute-level insights to help you build more effective price and promotion strategies.

• Consider the life stage of your product when formulating your trade promotion activities. For example, displays are suitable for young products and those that are impulse driven, while ads can be more effective with well-known products.

• Remember that each channel responds differently to promotions and product attributes, and can also attract different types of shoppers. Leverage them accordingly.

Ask us how our solutions and tools can help you make pricing and promotion decisions like these quickly and accurately at headquarter and account-level planning. We’re experts in identifying pockets of opportunity for products across different life stages. For more information, contact a Nielsen representative.
ABOUT NIELSEN

Nielsen Holdings plc (NYSE: NLSN) is a global measurement and data analytics company that provides the most complete and trusted view available of consumers and markets worldwide. Our approach marries proprietary Nielsen data with other data sources to help clients around the world understand what’s happening now, what’s happening next, and how to best act on this knowledge. For more than 90 years Nielsen has provided data and analytics based on scientific rigor and innovation, continually developing new ways to answer the most important questions facing the media, advertising, retail and fast-moving consumer goods industries. An S&P 500 company, Nielsen has operations in over 100 countries, covering more than 90% of the world's population. For more information, visit www.nielsen.com.
At Nielsen, data drives everything we do—even art. That’s why we used real data to create this image.

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