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Beer Sales in Grocery and Convenience Stores

A Glass Half-full for Colorado Craft Brewers?

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EXECUTIVE SUMMARY

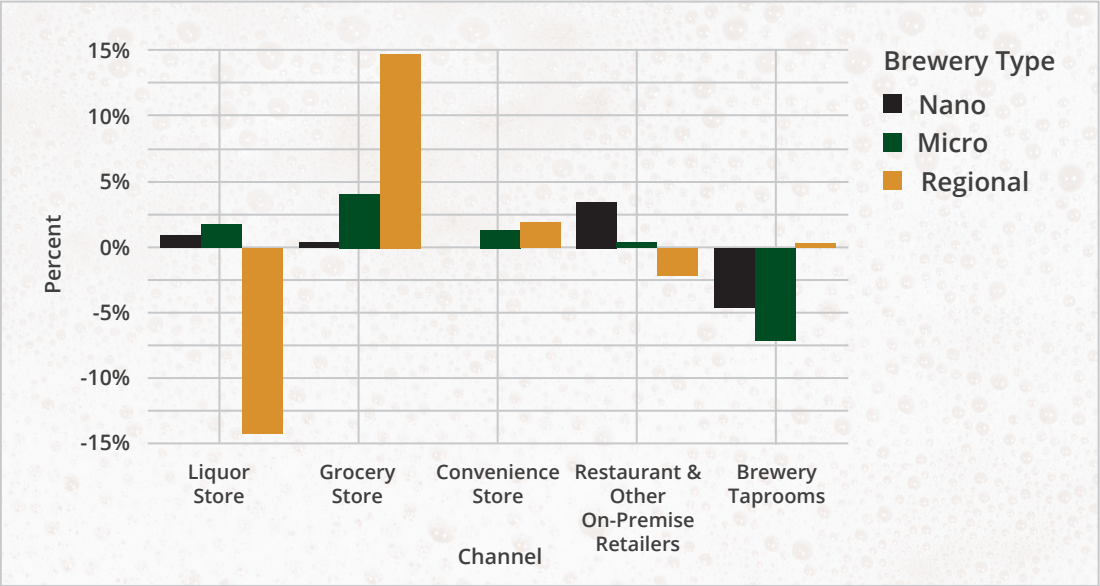
Motivation and Premise: Before January 1, 2019, Colorado only allowed the sale of full-strength (rather than 3.2% max ABW) beer through liquor stores (LS). Following a tumultuous, multi-year negotiation among grocery store chains, wholesale distributors, liquor store and consumer associations, and the local guild representing craft brewers' interest, the Colorado legislature passed a law allowing full-strength beer in grocery and convenience stores (GS & CS). At the time of implementation, in January 2019, the extent to which this change would affect Colorado manufacturing breweries was unknown, and its effects are still evolving. This study investigates how breweries adapted marketing strategies (product, packaging and distribution) to the new regulatory environment, and the implications for the craft brewing sector.

Methods: Our statewide survey, conducted in the second half of 2019, asked 184 craft manufacturing breweries about their marketing mix before and after full-strength beers entered G&C stores. We received 76 usable responses, broadly representative of the Colorado craft brewing industry and including 57 nanobreweries (under 1,000 barrels, or bbls), 16 microbreweries (1,000 bbls to 14,999 bbls), and 3 regional breweries (15,000 bbls to 6,000,000 bbls). Producers beyond 6 million barrels are not considered craft brewers and were not included in the survey.

SELECTED RESULTS

- About 10 percent of craft beer sales moved from LS to GS, while CS sales did not materialize. The total percentage of breweries reporting sales in GS increased from 5% (2017) to 24% (2019). In terms of share of total volume, GS sales increased from 4% to 14%, while LS sales decreased by a similar amount (45% to 33%). CS played a marginal role in distributing craft brews, with only 3% of the total craft volume in 2019.
- Nanobreweries remained anchored to business models reliant on taprooms. Even though the percentage of firms reporting to have access to the grocery channel increased from 2% to 11%, the volume nanobreweries sold through grocery and convenience stores in 2019 can be rounded down to zero. When nanobreweries entered the 3-tier distribution system (3TDS), it was generally by self-distributing to LS.
- Microbreweries continue to distribute mostly through LS. The percentage of microbreweries working with a distributor almost doubled to 43%, and the volume sold through distribution contracts increased from 31 to 36 percent. However, the importance of GS & CS remained rather marginal for this market segment. Half of the firms reported having access to GS sales, but only 5% of volume was sold through this channel in 2019, and convenience store sales are negligible. Meanwhile, LS volume increased from 33% (2017) to 35% (2019)
- Regional breweries are most successful at distributing in GS. The three regional brewers in our dataset expanded in the GS channel, with volumes jumping from 5 to almost 20% of total sales between 2017 and 2019, whereas LS sales contracted from 52 to 38 %. CS, on the other hand, was of marginal importance, with only 3% of volume sold in 2019.
- The research suggests the bottleneck in distributing to GS and CS is not access to packaging equipment, but rather in logistics. GS & CS sales channels are not well-suited for self-distribution by craft brewers or small volume niche distributors. Breweries of all sizes reported challenges selling beer to grocery stores, including lack of personal relationships, lack of trained salesforce at GS, an onerous and/or costly paperwork burden, unfeasible service expectations, expensive insurance requirements, difficulties keeping beer stocked, and problems with distributor performance.
- Successful marketing strategies focused on adapting to specific market segments. High involvement consumers seek experiences and variety, which they find at the taproom and in the LS. Consumers in GS tend to be low involvement beer buyers, more likely to stick with known brand with broad consumer recognition. Building brand awareness with low involvement consumers requires significant investment in advertising and promotion, which may be out of reach for nano and microbrewers.

CHANGES IN VOLUME SOLD BY DISTRIBUTION CHANNEL: 2017 VS. 2019



INTRODUCTION

In the biggest change to Colorado's regulation of alcohol retail since the end of prohibition, full-strength beer sales at grocery and convenience **(GS&CS)** stores were legalized on January 1st, 2019. Grocery outlets include traditional grocery stores, mass merchandisers (e.g. Target), and club stores. The new regulations (Sealover 2018b) allowed beer to be sold at more than 3,000 additional outlets in addition to existing liquor stores **(LS)**. When the law took effect, the extent to which this change would affect Colorado manufacturing breweries was largely unknown, and the effects are still unfolding. Predicting the impact of legislative changes in the U.S. alcoholic beverage market is a bit like reading the tea leaves. The reason is the complexity of the three-tier distribution system used in most U.S. states, mandating the separation between alcohol production, distribution, and retailing; and the intricate fabric of state-specific clauses, exceptions and exemptions regulating the sector. We surveyed Colorado craft breweries and studied how firms modified marketing strategies (product lines, packaging, distribution channel and promotion) to develop an initial assessment of how breweries have adapted or are changing in response to the transition in Colorado's regulations.

The road to the (partial) liberalization of alcohol retail in Colorado was a tortuous one. Under the prior regulatory framework, the sale of full-strength beer, wine, and spirits was largely restricted to liquor stores. The only exception was a provision that allowed drug stores as well as grocery chains, mass-merchandisers, and club stores with pharmacies (e.g. King Soopers, Walmart, Costco, etc.) to operate a single (in the entire state) liquor-licensed point of sale offering beer, wine, and liquor. For all other locations, grocery chains, mass merchandisers, club stores and convenience stores could obtain a fermented malt beverage (FMB) license to sell beer less than 3.2% alcohol by weight (ABW). The first change to the status quo occurred in 2016 when SB16-197 was passed to deter a ballot initiative (sponsored by GS&CS) that would have asked voters to legalize the sale of full-strength beer and wine in GS&CS stores (Vela 2016). A compromise bill, **SB16-197** delayed the entry of full-strength beer into GS&CS stores until January 1st, 2019 and created a statutory working group to make recommendations on how to implement the transition. When the working group failed to reach a consensus, **SB18-243**, sponsored by the trade association for liquor stores, was introduced to mitigate potential losses sustained by LS (Sealover 2018a). The most salient impacts of these two pieces of legislation expanding retail opportunities for craft breweries are as follows:

1. As of January 1st, 2017, grocery chains, mass-merchandisers, and club stores with pharmacies can obtain additional licenses to operate **up to four** liquor-licensed drugstore locations in Colorado. Such locations can sell beer, wine, and liquor. This implies a relatively minor change, as GS chain such as King Soopers, which operates 152 stores in Colorado (Laxen, 2018), would be allowed only four liquor-license drugstore locations.
2. Starting January 1st, 2017, LS owners can obtain an additional liquor license and operate **up to two** locations. The provision balances the GS allowance, and was included to help liquor store compete on a level playing field against other alcohol retailers.
3. As of January 1st, 2019, retailers with 3.2% FMB (a.k.a. near beer) licenses **can now sell full-strength beer under the same license, but not wine or liquor**. This is the most consequential change, and significantly alters the Colorado alcohol retail market.

These changes are better understood in the context of the existing laws stipulating a brewery's ability to sell directly to a retailer (self-distribution). Colorado allows breweries to obtain

a distributor license and sell directly to retailers anywhere in the state irrespective of the size of the brewery (Colorado Revised Statutes §44-3-402 (2018)). Hybrid models are also allowed, whereby a self-distributing brewery can contract with an independent distributor, with the one caveat that the distribution territory of the brewery and that of the distributor may not overlap[1]. Removing retail restrictions for GS & CS implies, on one hand, that brewers have potential access to a larger customer base. On the other, distributing to GS&CS may require channel-specific marketing strategies, different from what traditional LS outlets demand. Furthermore, increased competition amongst retailers could lead to the closure of traditional off-premise LS outlets (Kessinger 2019). In sum, the full effect of full-strength beer into GS&CS is ambiguous.

To understand the retail environment, we first examined publicly available excise tax data from Colorado's Liquor Enforcement Division on the volume sold of beer, wine, and spirits before and after the transition, summarized in **(Table 1)**. We found the total volume sold in all three alcohol categories experienced modest, single-digit growth in the three years preceding the expansion of beer sales in 2019. After the transition, however, the volume of wine and spirits sold fell by 7% and 5%, respectively, while the volume of beer sold continued to grow by 4%. If the divergence in alcohol sales by category is driven by consumers transferring some of their purchases to GS&CS stores, then access to the GS&CS channel may determine the winners and losers of the policy transition among distributing craft breweries.

This begs the question of which craft breweries can be successful in GS&CS, and the marketing strategies necessary to access this new distribution channel.

SURVEY DESCRIPTION AND RESULTS

Our statewide survey[2], conducted in the second half of 2019, asked 184 craft manufacturing breweries about their marketing mix before and after full-strength beers entered G&C stores. The objective is to identify not only how SB16-197 changed where craft beer is sold, but also its effects on product lines, packaging and promotion. We received 76 usable responses from 57 nanobreweries (under 1,000 barrels, or bbls), 16 microbreweries (1,000 bbls to 14,999 bbls), and 3 regional breweries (15,000 bbls to 6,000,000 bbls). While we have few responses from regional breweries, our sample is consistent with and representative of[3]

[1]Brewers Association. 2019. "State Laws." June 25, 2019. https://www.brewersassociation.org/government-affairs/state-law

[2]All manufacturing breweries in Colorado that opened prior to January 1, 2017 were sent a survey.

[3]A Komolgorov-Smirnov test did not reject the hypothesis that our sample is consistent with the distribution of breweries across market segments in Colorado. Survival bias should also be considered, since our survey only included breweries that survived from 2017 to 2019. Using national level data from the Brewers Association, we determine that around 3% of breweries producing < 15,000 bbls shut down in each year of our study period, suggesting that the potential effect of survival bias is low.

Table 1: Volume sold of beer, wine, and spirits in Colorado before and after the transition.

Alcohol Category	Year				
	2015	2016	2017	2018	2019
Beer					
Vol sold (gal)	111,460,900	115,728,500	117,582,100	119,269,000	124,465,500
% Change	-	4%	2%	1%	4%
Wine					
Vol sold (gal)	17,620,500	18,162,400	18,484,300	18,879,600	17,572,700
% Change	-	3%	2%	2%	-7%
Spirits					
Vol sold (gal)	12,440,000	12,860,300	13,401,900	14,072,500	13,313,700
% Change	-	3%	4%	5%	-5%

Table 2: Sales volume, product lines and packaging: 2017 vs. 2019

	Year	
	2017	2019
Total volume* (bbls)	252,308	283,508
% firms offering 3.2 beer	5%	9%
Avg number year-round beers	5	6
Avg number seasonal and single-release beers	24	32
% firms using packaging equipment	51%	60%
% vol serving tanks	4%	4%
% vol kegs	37%	37%
% vol bottles	22%	12%
% vol cans	37%	47%
* sum (across all breweries) of all estimated volume of production		

the number of firms in Colorado, which in 2017 numbered 123 nanobreweries, 55 micro, and 11 regional breweries (Brewers' Association, 2017). Again, it is important to note that macro breweries were not included in the survey. We first describe industry-wide changes in product, promotion and distribution strategies, and then refine our analysis by market segment to reveal scale-dependent heterogeneity in marketing strategies.

We present findings on how total volume, type of beer, and product packaging changed between 2017 and 2019 for the breweries in our sample **(Table 2)**. In aggregate, the average reported production increased by approximately 30,000 bbls, or about 12%. The percentage of breweries reporting to have a 3.2% ABW beer in their production mix actually increased, perhaps unexpectedly given the waiver of the 3.2 requirement for grocery stores. This may be explained by a growing number of breweries in the U.S. that are producing low calorie, low carb, and low alcohol "lifestyle" beers for the active and health-conscious consumer (Kitsock 2019; Watson 2019). We also find that the nationwide packaging trend away from bottles and toward cans (Watson 2020) is clearly present and ongoing in Colorado. In the U.S., the volume of craft beer sold in cans has steadily increased and is projected to overtake bottle sales in 2020 (Watson 2020). Craft manufacturing breweries in Colorado already sold more volume in cans in 2017 than in bottles and the gap continued to widen in 2019 (47% in cans vs. 12% in bottles). Our findings also show that on average breweries increased the width of their product lines; with average number of year-round beers increasing from 5 to 6 and average number of seasonal and single-release beers going from 24 to 32.

We next examine how distribution strategies changed following SB18-243 **(Table 3)**. The percentage of breweries reporting sales in grocery stores increased from 5% (2017) to 24% (2019), implying that craft manufacturing breweries are entering in the new distribution outlets. In interpreting our results, one should note that we report share of total volume by year to emphasize relative magnitudes, but one should keep in mind that the 2019 total sale have increased. In terms of share, GS sales increased from 4% to 14%, while LS store sales decreased by a nearly symmetrical amount (45% to 33%). However, convenience stores played a marginal role in distributing craft brews (only 3% of the total craft volume in 2019).

It is also evident that selling in grocery stores does not suit all breweries. Some of this is certainly owed to intentional marketing choices (e.g. focus on the taproom and keg sales), but even when we exclude non-distributing breweries (i.e. no sales in LS in 2017), we find that barely half of them entered the GS channel in 2019. The results from the market segment analysis will provide more context.

While the data revealed some significant changes in product, packaging and distribution, promotional activities remained relatively stable between 2017 and 2019 **(Table 4)**. The increase

Table 3: Distribution strategy: 2017 vs. 2019

	Indicator	Year	
		2017	2019
Access to market	% firms with taproom	97%	99%
	% firms in restaurant & OOP*	91%	92%
	% of firms in the LS channel	51%	62%
	% of firms in the GS channel	5%	24%
	% firms in CS channel	3%	8%
% Volume by distribution channel	% vol taproom	18%	20%
	% vol restaurant & OOP	32%	30%
	% vol LS	45%	33%
	% vol GS	4%	14%
	% vol CS	1%	3%
Third party distribution	% of firms with distributor	14%	18%
	% total vol through distributor	69%	64%
	% vol restaurant & OOP	27%	23%
	% vol LS	37%	27%
	% vol GS	3%	12%
	% vol CS	1%	2%
Self-distribution	% vol restaurant & OOP	6%	7%
	% vol LS	8%	6%
	% vol GS	0%	2%
	% vol CS	0%	0%

Table 4: Promotional activities: 2017 vs 2019

	Year	
	2017	2019
% firms with full-time sales representative	45%	47%
% firms offering volume discounts	29%	34%
% firms produced collaboration beer	68%	72%
% firms sponsored off-premise tasting event	53%	55%
% firms sponsored tap-takeover event	58%	70%
% firms participated in a community event	93%	99%
% firms participated in the GABF	83%	74%
Avg effort rating digital advertising*	3.25	3.55
Avg effort rating print advertising*	1.88	1.87
Avg effort rating broadcast advertising*	1.2	1.38
Avg effort rating out-of-home advertising*	1.14	1.17
Avg advertising budget	$24,955	$26,125
Median advertising budget	$2,750	$5,000

*Advertising effort was rated on a likert scale from 1 to 5, with 1 representing "no effort at all" and 5 representing "an extreme amount of effort".

in median advertising budget from $2,750 to $5,000/year is notable; but breweries kept focusing on digital advertising, maintained a strong presence in local community events, and strengthened the network of collaborations through special release brews.

We compare the product sales and packaging choices by brewery type **(Table 5)**, and distribution strategies **(Table 6)**. For each brewery type, we first describe the dominant marketing strategies in 2017, and then identify any significant changes from 2017 to 2019.

Table 5: Sales volume, product types and packaging by brewery type: 2017 vs. 2019

	Nano		Micro		Regional	
	2017	2019	2017	2019	2017	2019
Total volume (bbls)	25,454	38,331	43,854	61,927	183,000	183,250
% firms offering 3.2 beer	4%	8%	0%	6%	67%	67%
Avg number year-round beers	5	6	6	6	6	7
Avg number seasonal and single-release beers	25	33	19	23	45	50
% firms using packaging equipment	44%	50%	66%	87%	100%	100%
% vol serving tanks	21%	17%	9%	8%	0%	0%
% vol kegs	63%	63%	40%	39%	33%	31%
% vol bottles	10%	8%	3%	4%	28%	16%
% vol cans	6%	12%	48%	49%	39%	53%

Table 6: Distribution strategy by brewery type: 2017 vs. 2019

	Indicator	Nano		Micro		Regional	
		2017	2019	2017	2019	2017	2019
Access to market	% firms with taproom	96%	98%	100%	100%	100%	100%
	% firms in rest. & OOP	88%	89%	100%	100%	100%	100%
	% of firms in the LS channel	44%	55%	69%	81%	100%	100%
	% of firms in the GS channel	2%	11%	13%	50%	33%	100%
	% firms in CS channel	0%	2%	6%	19%	33%	67%
% Volume by distribution channel	% vol taproom	81%	76%	41%	34%	5%	5%
	% vol rest. & OOP	13%	16%	25%	25%	37%	34%
	% vol LS	7%	7%	33%	35%	52%	38%
	% vol GS	0%	0%	1%	5%	5%	19%
	% vol CS	0%	0%	0%	1%	2%	3%
Third party distribution	% of firms with distributor	7%	7%	25%	43%	100%	100%
	% vol sold through a distributor	2%	2%	31%	36%	86%	86%
	% vol rest. & OOP	1%	1%	11%	11%	33%	32%
	% vol LS	1%	1%	19%	20%	46%	35%
	% vol GS	0%	0%	1%	4%	5%	16%
	% vol CS	0%	0%	0%	1%	2%	3%
Self-distribution	% vol rest. & OOP	12%	15%	14%	14%	3%	3%
	% vol LS	6%	7%	14%	15%	6%	3%
	% vol GS	0%	0%	0%	1%	0%	3%
	% vol CS	0%	0%	0%	0%	0%	1%

Brewery Types

NANOBREWERIES (UNDER 1,000 BBLS)

The business model of nanobreweries is anchored on the taproom and other sales for on-premise consumption (restaurants, bars, etc.), as the sum of these two distribution channels accounts for over 90% of the volume sold by nanobrewers. This strategy is also visible in the packaging choices: while about half of the breweries have access and use packaging equipment, the vast majority of volume sold is moved through kegs and serving tanks. It follows that nanobreweries are only weakly connected to the 3TDS, with the vast majority of brewers choosing to self-distribute, or not distribute at all to off-premise retailers.

There are multiple explanations for why nanobreweries lag the rest of the sample in terms of distributing to GS. The most obvious is that, for most small firms, the taproom-centric business model is the best fitting, and entry in GS&CS is simply unappealing. Niche nanobreweries distributing to off-premise retailers may not see grocery stores as a good fit for their brand. That being said, the comment section of our survey (see Appendix) provides some evidence that nanobreweries interested in selling in the GS channel faced significant barriers, citing onerous paperwork, expensive insurance requirements, and unreasonable service expectations.

In addition, promotional efforts lag. Successful sales to grocery stores may require a full-time salesperson—an investment made by only about a third of nanobreweries. For grocery stores, brands with a loyal following offer less risk, something less likely with smaller nanobrewery brands. Developing brand awareness requires advertising and other forms of promotion; as shown in Table 7, while there was an uptick in average and median advertising budgets, the investments lag micro- and regional breweries. Nanobrewers also do not appear to have significantly increased efforts in other forms or promotion—as number increased only modestly from 2017 to 2019. The administrative, logistical, and brand awareness barriers to enter the GS channel required significant investment of financial and human resources that were scarcer to the typical nanobrewery operation.

> *"We have not attempted distribution to grocery stores even though we recognize a portion of the retail market has shifted there. This is due to relationships with smaller retailers, difficulty in stocking requirements in larger stores, lack of personal relationships with these retailers, and a lack of knowledgeable salesforce within these retailers."* – Nanobrewery Respondent

The most significant change from 2017 to 2019 for the nanobrewing sector is its growth, with an average 51% increase in total volume sold (or 12,000 bbls). The growth of the nano sector fits the national trend reported by the Brewers Association, who find that recent increases in craft sales are largely owed to smaller, newly opened breweries (Gatza and Watson 2019; Watson 2020). Based on our data, it is safe to say that this success has little to do with access to the GS&CS channel. Even though the percentage of firms indicating access to the grocery channel increased from 2% to 11%, the volume sold through GS & CS in 2019 can be rounded down to zero. When nanobreweries enter the 3TDS, it is generally by self-distributing to LS, which remained rather stable around 7% of total volume.

MICROBREWERIES (1,000 BBLS TO 14,999 BBLS)

Microbreweries in Colorado display a complex and eclectic mix of marketing strategies. The status quo in 2017 shows significant share of sales through the taproom (41% of volume) and other on-premise accounts (25% of volume). However, the micro sector in 2017 already had strong connections to the 3TDS: 69% of firms declared having access to LS sales, with about a third of total volume (33%) being sold through this channel. In addition, about a quarter of microbreweries contracted with a distributor for off premise sales. This multi-pronged distribution strategy is reflected in the packaging mix, with about half the volume sold in kegs and serving tanks, and half in bottle and cans.

Based on our results, it is clear that off-premise sale for microbrewers are still anchored to LS sales, which actually increased to 35% by volume. So why did microbrewers fail to succeed, at least so far, in the GS and CS environment? Packaging is certainly not the culprit, since the vast majority of firms (87% in 2019) have bottling or canning capability. The bottleneck is possibly in the distribution model, as microbreweries are still somewhat reliant on self-distribution (about two-thirds of volume is self-distributed). The little volume sold in GS (5%), was virtually all placed by third party distributors, and survey comments suggest that small distributors specializing in craft beer have been struggling to succeed in the GS environment.

The bigger reason may lie in microbreweries failure to adequately promote and build broad awareness for their brands.

> *"...we do not distribute to grocery stores because of the difficulty in dealing with them... One of the huge issues we are finding with the bigger grocery stores are the amount of insurance we have to have in order just to distribute to them."* – Microbrewery Respondent

In 2019 microbreweries reported an average 41% increase in total sales by volume, or 18,000 bbls. Our data also shows that **this market segment has become more embedded in the 3TDS: the percentage of microbreweries working with a distributor almost doubled from 25 to 43%, and the volume sold through distribution contracts increased from 31 to 36%.** The importance of sales through the taproom declined in relative terms, from 41 to 34 % of volume, perhaps as results of increased competition from the nano sector. Even though off-premise sales increased, the importance of GS&CS remained somewhat marginal for this market segment. Half of the firms reported having access to GS sales, but only 5% of volume was sold through this channel in 2019, and convenience store sales are negligible.

Grocery stores typically view adding new products to store shelves as risky and thus seek to lower the risk by choosing brands with strong existing consumer demand; demand often built through advertising (White, Troy, and Gerlich 2000). As shown in **Table 7**, microbrewers in our sample did not significantly increase advertising efforts or budgets between 2017 and 2019. Microbrewers continue to rely on events targeting the highly engaged craft beer drinker, who may not shop in the GS channel. We suspect that the typical craft beer purchase in the GS channel is more likely to choose a brand they know; whereas the LS shopper is likely to be aware of more brands and more willing to experiment with a brand they have not drank before (cf. Brewers Association 2015).

Table 7: Distribution strategy by brewery type: 2017 vs. 2019

	Nano		Micro		Regional	
	2017	2019	2017	2019	2017	2019
% firms with full-time sales representative	32%	33%	81%	88%	100%	100%
% firms offering volume discounts	18%	25%	56%	56%	100%	100%
% firms produced collaboration beer	58%	63%	100%	100%	100%	100%
% firms sponsored off-premise tasting event	45%	45%	75%	81%	100%	100%
% firms sponsored tap-takeover event	44%	60%	100%	100%	100%	100%
% firms participated in a community event	91%	98%	100%	100%	100%	100%
% firms participated in the GABF	77%	67%	100%	94%	100%	100%
Avg effort rating digital advertising*	3.21	3.56	3.38	3.38	3.33	4.33
Avg effort rating print advertising*	1.80	1.88	1.94	1.75	3.00	2.33
Avg effort rating broadcast advertising*	1.13	1.40	1.31	1.25	1.67	1.67
Avg effort rating out-of-home advertising*	1.10	1.12	1.12	1.00	2.00	3.00
Avg advertising budget (000s)	$4.4	$7.0	$43.7	$17.9	$300.0	$403.3
Median advertising budget (000s)	$1.0	$2.0	$8.5	$11.5	$200.0	$350.0

*Advertising effort was rated on a likert scale from 1 to 5, with 1 representing "no effort at all" and 5 representing "an extreme amount of effort".

REGIONAL BREWERIES (15,000 BBLS TO 6,000,000 BBLS)

The large production volume defining regional breweries necessitates a mass distribution strategy fully leveraging the 3TDS. All regional breweries in our sample already had distribution contracts in place in 2017, with 86% of total volume sold through distributors and a pivotal role of LS as the main point of sale (52% by volume). This strategy is also evident in the product packaging data, with only a third of the beer kegged, and the remaining volume either canned or bottled. Notably, one of the three regional brewers in our sample was already selling 3.2 ABW beer in grocery stores in 2017, but two were not. Overall, it is clear that, among all craft brewers, the regional segment was best situated to make the most out of the opportunities from SB18-243; and we find that indeed access to GS&CS had a profound impact.

All three firms in our dataset entered the GS channel, with this channel jumping from 5 to 19 percent of total sales, while LS sales contracted the same 14 percent, falling from 52 to 38 percent of total volume. CS, on the other hand, grew from 2 percent to 3 percent of sales volume, a channel of marginal importance even for regional craft brewers. This is not to say that SB18-243 resulted in a sudden bonanza. Following the general national trend for this sector (Gatza and Watson 2019; 2019), sales remained virtually flat between 2017 and 2019, which is in stark contrast with the growth observed in the nano and micro sectors. While these regional breweries had success in the GS channel, each commented on higher costs associated with distributing through the demanding GS channel.

The relatively greater success of the regional brewers in the GS channel likely follows from their higher level of awareness across both highly engaged and less engaged craft beer drinkers. The regional brewers advertising budgets saw significant increases between 2017 and 2019 and dwarf those of micro- and nanobreweries. As noted in the previous section, we suspect that less engaged craft beer drinkers are more likely to purchase in the GS channel—and may favor brands they have experience with or know by name (Brewers Association 2015).

> *"The biggest issue in 2019 is stocking and rotating in chain stores. They expect the same level of service as their direct store delivery vendors (chips, soda, tortillas) but their business model is set up that way. Ours is not. [It is] very costly making sure our beer is always stocked and accessible to customers."* – Regional Brewery Respondent

Conclusion

CONCLUSION AND MARKETING CONSIDERATIONS

There was hope that with the Colorado Senate Bill SB16-197, the allowance of full-strength beer in GS & CS would offer new opportunities for craft breweries. While the effects of the legislation are still emerging, our survey provides an early picture of how craft brewers adapted to the new distribution environment. The opening of the GS and CS channels to craft brewers changed market dynamics, creating both opportunities and threats for craft brewers. Our assessment is that, overall, SB18-243 handed Colorado craft brewers a glass half-full. The new channel appears to have stimulated demand for beer—sales relative to wine and spirits jumped in 2019. Nano, micro, and regional breweries differ in how they perceived and responded to the new market.

On one hand, regional breweries gained a solid foothold in grocery stores, with 19% of total volume sold through GS in 2019, and there may still be room for growth. This is certainly a success, especially when one considers that regional breweries account for a large share of the craft market. However, growth in the GS outlet was counterbalanced by a similar decrease of sales in LS, resulting in a mere transfer of sales from LS to GS and no evident net gain. Of course, it is still possible that regional brewers' sales would have decreased without access to GS. The survey only involved Colorado craft breweries, and we simply don't know what would have happened without SB18-243. We also cannot determine how the transfer of sales from LS to GS affects overall profitability, as we have no data on whether costs and profit margins differ across the two channels.

The new channels appear to be demanding. Simply getting on the shelf requires significant sales and administrative hurdles for brewers and their distribution partners. Once on the shelf, stocking and service demands appear to be much greater than traditional channels. All of these costs—sales, logistics, servicing, advertising and promotion—are largely fixed costs. Regional breweries can spread these costs over a larger sales volume. But on a per barrel basis, we suspect micro and nanobreweries may find entry into the GS or CS channels significantly less profitable than their larger competitors. This may be less of an issue for nano and microbreweries that have good working relationships with distributors and have already incurred some of these investments. That said, nano- and microbreweries may want to proceed with caution in moving toward this channel – the required investments may not produce the desired revenue.

For micro and nanobreweries, which account for the vast majority of firms, sales in the GS sectors remained negligible overall. This is no surprise for the case of nanobreweries, which generally rely on a taproom-focused business model (76% of sales through taproom in 2019); but it is somewhat unexpected for the microbrewing segment. In 2017, microbreweries had good access to the 3TDS, the capacity to bottle or can their products, and significant volumes sold in LS rather than on premise. And yet, out of premise sales for microbreweries remained solidly anchored to the LS channel (35% of volume), and only 5 % of volume being sold in GS. The major challenges to sell in grocery stores are (at least) threefold: 1) getting on the GS shelf, 2) ongoing servicing requirements, and 3) getting into the consumer's shopping cart. The first two challenges, in part, require a good distribution system and strong distribution partners. Microbreweries tend to either self-distribute or work with smaller distributors specializing in the craft market, and neither of these strategies can meet the demands of GS, which include product rotation, restocking and large sale volumes by shelf space. The GS salesforce is generally untrained and lacks craft-specific expertise, so niche products tend not to fare well. Once a craft beer brand gets on the store shelf, they must get the attention of the GS shopper—who may be more likely to choose well-known brands. Microbrewers have usually not made investments in advertising needed to achieve higher levels of brand awareness.

To our surprise, the CS channel failed to bring any significant craft beer sales, with a mere 3% share of total craft volume. Craft brewers face two obstacles when attempting to sell in CS. One is once again distribution: the sheer number of CS points of sale, imposes a capillary distribution network. The second is brand recognition. According to the National Association of Convenience Stores, "The average time it takes a customer to walk in, purchase an item and depart is between 3 to 4 minutes". This quick in-and-out implies that CS are more suited for beer brands with mass recognition, generally owned by macrobreweries and large corporations.

While the opening of GS and CS to craft brewers created opportunities for new sales, it appears that at this time, the bulk of sales in those channels went to regional brewers.

From a consumer perspective, we conjecture that increased competition likely lowered prices and forced LS to specialize on offering product choices and on-site services. While the nano- and microbreweries didn't gain many sales in GS and CS, these two craft beer sectors continued to grow between 2017 and 2019. Our data also shows, that LS lost a significant share of the regional breweries volume to GS competitors. In the long run, this may cause LS closures, and a loss of shelf space and access to market for microbrewers. Drawing on the results of our surveys and related interviews, we offer some informed speculation about how regional, micro- and nanobreweries might adapt marketing strategies moving forward[4].

MARKETING STRATEGY RECOMMENDATIONS

The growth in beer sales (relative to wine and spirits) in 2019 suggests increased demand and consumption of beer overall (Table 1). Further, the greatest growth among the three craft beer sectors in Colorado was reported by the nano (+51% 2017 to 2019, see Table 5) and microbrewery (+41%, Table 5) sectors. While craft brewers appear to have done quite well in this new market, our survey highlights a certain level of confusion and disappointment. There may be opportunities for further growth if breweries adopt more intentional marketing strategies.

Understanding the target market and consumer is key to developing successful marketing strategies. There are at least two segments of craft beer consumers. The low involvement craft beer consumer may be new to the craft beer scene or possibly not as sophisticated about beer consumption. These customers are less likely to try something new, and tend to stick to known or familiar brands, favoring the regional (and national—though that segment was not part of this study) brewers and brands they know from advertising. The opening of the GS and CS channels has likely been most beneficial to this beer consumer, triggering growth in this market segment. More involved craft beer drinkers tend to be more adventurous and engage in variety seeking. A report by the Brewers Association (2015), noted that millennials (age 21-35) drinking craft beer weekly averaged 5.1 different brands per month (Nielsen 2015). This same study found 47% of purchases by Millennial males were for brands they had never seen advertised or never heard of before. The buoyancy of microbreweries in LS outlets has likely been supported by this type of more involved consumers.

Brewers need to decide which of these two market segments they want to serve – or if they want to try to serve both. Nanobrewers may want to ignore the GS channel completely and double down on their taproom distribution model. Even with the opening of the GS channel, most nanobrewers stuck to the taproom (98% use this channel, 76% of volume), restaurants and off premise (89% use this channel, 16% of volume). More nanobrewers moved to LS (44% in 2017, rising to 55% in 2019), which may simply reflect a natural outcome of a smaller but growing brewery. Nanobrewers' sales through GS channels remain modest, rising from 2% to 11%. This reflects the challenges faced with getting into GS – and we suggest the investment in administration, sales, and advertising to successfully compete may not be a good investment for most (if not all) nanobrewers. The Millennial consumer values experiences – which the taproom provides. Developing a more pleasant taproom environment, while offering a wider range and higher quality food products and possibly more types of beer may be the best strategy for nanobreweries appealing to the high involvement, experience-focused craft beer consumer.

Microbreweries have a more difficult strategy decision to make. Some microbreweries may have the resources and brand awareness to pursue both market segments. Or they may have a long-term strategy to grow to become a larger microbrewery or regional brewery. The GS channel offers an opportunity for microbrewers to gain more awareness, reach a broader consumer market and grow sales from additional shelf space. That said, this strategy may require an increase in advertising and promotion to grow brand awareness among less involved consumers; and our data shows that most microbreweries are currently not doing this. Currently, while 50% of our sample of microbrewers has access to GS, the channel represents just 5% of their volume. Like the nanobrewers, microbrewers (which at one time were likely nanobrewers) have traditionally focused on the high involvement craft beer drinker and emphasized the taproom experience. Microbrewers should recognize the additional caveat that this strategy may cannibalize off-premise sales in bars and restaurants.

[4]Our interviews and survey occurred prior to the massive business closings related to the pandemic and these recommendations do not consider its impact directly.

A potential opportunity for nano- and microbreweries to grow in their base, high involvement market segment is to work more closely with the LS channel. Currently, LS are losing sales of regional brewers to the GS channel of distribution, which may make many LS more willing to promote an extensive line of craft beer as a point of differentiation. The downside of appealing to this market segment is its low loyalty and tendency to try many different beers. Part of such a strategy may require expanding the product line to offer these beer drinkers the variety they seek.

Regional brewers have found an opportunity in the GS channel – with 19% of sales coming from this channel in 2019. As already noted, GS customers may be more likely to choose brands they have heard of—so regional brewers should consider increasing advertising. It may make sense to promote a flagship brand while also promoting the umbrella (brewery name) brand. Such an umbrella branding strategy may encourage low-involvement craft consumers to experiment with new types of beer within a brand they already trust. This suggests regional brewers might increase use and promotion of variety packs and seasonal beers. Colorado brewers like Odell and New Belgium already employ this strategy and have grown beyond their flagship brands. The risk is that loyal customers may evolve to highly involved craft beer drinkers—who are often less loyal to particular brands or breweries.

LIMITATIONS, ONGOING WORK AND FUTURE RESEARCH

Our survey presents a picture of how craft breweries in Colorado changed after SB18-243, but the transformation of the CO alcohol industry is still ongoing, and many important aspects could not be examined with our survey. First, it is important to note that our results do not give a causal explanation of the impact of SB18-243 as we are not controlling for other possible confounding factors that could have influenced a brewery's marketing mix over the study period. Our current efforts are focusing on expanding the scope of our analysis to include neighboring states where laws similar to SB18-243 were passed, plus control states where beer remained unavailable in GS and CS. Rather than surveying brewers, we plan to gather new data to study consumer shopping behavior and product prices. We are already analyzing anonymized cell phone tracking data from Safegraph to uncover how shopping trips to alcohol point of sales have changed from 2017 to 2020. In addition to sales, it is important to understand how LS adapt to competition from GS and CS, especially in terms of the variety of products they decide to stock and the location where stores are opened. We are also in the process of accessing consumer Nielsen Homescan consumer panel data, which will allow studying consumer purchases and prices.

The big elephant in the room is, of course, the devastating impact of **COVID-19** on the craft brewing industry. Based on this survey, it is easy to predict that non-distributing breweries (i.e. nano and, to some extent, micro) are the most affected by social distancing measures, but early data suggest that overall alcohol consumption has increased during quarantine. We will be coordinating with the Brewers Association and the Colorado Brewers Guild to identify the most pressing research questions.

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APPENDIX B. BREWERY COMMENTS ON THE IMPACT OF SB18-243

Size	Comment
Nano	I view this initiative as an opportunity for small producers to enter a larger stage and for the local quality package store to become more of a business with service and quality at the forefront much like small breweries. This is simply a change that will prove beneficial once the industry adjusts. I've operated in 2 other states (NY/IN) where these types of laws were very complementary to the craft sector.
Nano	We sell to 2 grocery stores belonging to the same chain but in different locations.
Nano	It hasn't appeared to have any effect on our distribution, but we don't can or bottle for off premise.
Nano	Difficult to work with grocery stores as a small brewer with self-distribution. Stores have preferred to fill shelves with multiple products from one or two large distributors instead of multiple small guys.
Nano	Too small of a system to distribute so advertising is mostly a waste at this point
Nano	We've seen a downturn in off-premise sales and an unwillingness from grocery store buyers to deal with small self-distributing breweries
Nano	Really no effect yet, too early to tell. We will be affected when small/independent stores begin to close
Nano	I am ok with the bill. It has opened space in independent liquor stores.
Nano	It's been fairly easy to get into some grocery stores but frustratingly difficult to navigate the application forms from others. In my opinion the convenience store/ grocery store alcohol sales have only given us more mediocrity in the overall quality of stores. They have beer, but no help or knowledge.
Nano	With our size and the types of beer we make it has zero impact on us
Nano	We are in a small rural town in NE Colorado and although we haven't noticed a big change in our sales, of the six liquor stores in our town, 1 has permanently closed, 2 are for sale, and 1 has changed ownership. It is very sad to see.
Nano	I do not personally purchase beer at the grocery store. I enjoy the interaction between the small business owner and myself
Nano	We are small and don't really want to distribute to stores, we are concentrating on other forms of distribution.
Nano	We are not in grocery stores. SB 18-243 guarantees we will never be.
Nano	Regional breweries control the state and the guild. Small breweries don't have a chance unless you have a niche.
Nano	We are a small independent brewery running for nearly 10 years. After self-distributing for so long, recent changes are driving us towards a distributor. However, small craft distributors are also getting forced out of the market, so it is difficult to try to join a profile.
Nano	Retail stores now dealing with lots of nationwide distributors bringing in tons of their brands from east coast and west coast. Colorado beer presence seems "smaller" in stores. Pricing higher? (branding?) I see the craft shelves in the "box stores" not restocked - empty, yet commercial shelves full.
Nano	It has had no impact on us as we are a taproom focused brewery with 70% on site draft sales and have hyper local (5-mile radius) self-distribution tap accounts off-site. No packaging other than crowlers and limited bottles to go from taproom.
Nano	As a self-distributing brewery, we have been unable to sell to larger grocery store chains. Our grocery store sales are limited to smaller chains with a limited amount of stores.
Nano	We have no distribution other than keg accounts so impact on us has been minimal
Nano	Full strength beer in grocery stores effectively kills the opportunity for small producers to enter that channel and has squeezed more traditional RLS accounts as they lose beer as an overall percentage of their overall sales, causing a loss of shelf space to wine and spirits. We face more competition from other craft centric breweries in Craft-focused liquor stores, making shelf space harder to obtain.
Nano	I think it hurts small craft beer in a big way, long term it takes small breweries out of the distribution game.
Nano	We have reduced plans for distribution.
Nano	The small size of our brewery has caused us to pull back on our distribution. We do not have the resources to take advantage with SB 18-243. We are specifically "sitting on the sidelines" regarding distribution. Instead we are focusing on building our brand through other methods.

APPENDIX B. CONTINUED

Size	Comment
Nano	The ability to produce beer below 4.0 ABV has been useful. We have not attempted distribution to grocery stores even though we recognize a portion of the retail market has shifted there. This is due to relationships with smaller retailers, difficulty in stocking requirements in larger stores, lack of personal relationships with these retailers, and a lack of knowledgeable salesforce within these retailers.
Nano	Drove more taproom and to-go sales. Not enough volume for our strategy of rotational SKU's.
Nano	Small taproom, not much impact.
Nano	We had a distributor from 2013 to 2018. They clearly shifted focus to packaged/ off-premise vs draft/on-premise. Within the off-premise accounts they also shifted focus to large accounts (natural) and started gearing up for grocery store accounts before they left the distribution business. As a generality SB 18-243 appears to have helped the mid-large sized packaging brewers and hurt us small/micro packaged brewers. Go big or go home. We are now focused on taproom and draft-only self-distribution and profitability is now much better.
Nano	Considering our size and our focus on taproom sales, we have experienced little to no impact from 18-243
Micro	Do not currently distribute in cans so have not had an impact, yet.
Micro	We were proactive in getting out of self-distribution operation in late 2015 to expand our volume and to state-wide distribution. Other factor in this decision was to get into distribution system in advance of law change and grocery channel sales. We did not want to service grocery/c-stores via self-distribution.
Micro	Retail sales is not an important part of our business. Although retail sales have increased, we will be scaling back, due to decreased sales in retail accounts. Packaging was not a consideration in 2017 and 2019 further solidifies our position to continue to not package beers in the future. We believe the SB 18-243 represents an opportunity for us to expand our sales to on-premise retailers such as bars and restaurants. There is some backlash from on-premise retailers against breweries expanding multiple locations and now directly competing in the bar/restaurant space. We also believe that SB 18-243 represents a detriment for us to expand taproom sales.
Micro	Our strategy has not changed, as we do not plan to be in grocery stores for some time. We are seeing our small liquor stores struggle with overall beer sales.
Micro	Question #2 2019 numbers are estimated as we just signed on with Colorado Craft Distributor last month and that's what we expect to do. Question #8 is blank, we do not distribute to grocery stores because of the difficulty in dealing with them. The answer would be 5 straight across plus the additional insurance required by each retailer is too high for what we would expect to sell. One of the huge issues we are finding with the bigger grocery stores are the amount of insurance we have to have in order just to distribute to them. We would have to pay an additional $5000 to just to distribute to them.
Regional	Less billbacks, hand sales and tasting money spent. General marketing efforts need to increase. Dedicated staff for chain relationships and sales.
Regional	The biggest issue in 2019 is stocking and rotating in chain stores. They expect the same level of service as their DSD vendors (chips, soda, tortillas) but their business model is set up that way. Ours is not. Very costly making sure our beer is always stocked and accessible to customers.
Regional	Our distributor partners do not execute well since SB 18-243, they are doing a poor job with the difficult tasks at chains and completely dropping the ball at independent retailers. It was a challenge they are not adequately prepared for and are struggling at.