

THE STATE OF THE U.S. BEER MARKET



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WELCOME

Welcome to the State of the U.S. Beer Report, an in-depth look at one of the largest fast-moving consumer goods (FMCG) categories in the country. With U.S. sales of just over \$37 billion for the recent year in Nielsen measured off-premise channels, the beer category is replete with depth and variety, which is a primary motivation for this report.

Despite the massive scale of the category, however, sales growth in recent times has largely been due to trading up, sometimes known as “premiumization” in the industry, rather than increased consumption. In fact, beer has lost some of its footing over the past five years or so, with consumers across generations spending more on wine and spirits without increasing their overall alcoholic beverage consumption. And this loss of share, combined with an increasingly crowded space (the ever growing abundance of craft beer variety, new flavors and hard sodas/seltzers), makes it that much more critical that we provide an overarching view of the landscape to help clients navigate the path forward.

THE BEER CATEGORY IS REPLETE WITH DEPTH AND VARIETY, WHICH IS A PRIMARY MOTIVATION FOR THIS REPORT

So when it comes to thinking about “what’s next,” it’s critical to have a clear view of what’s going on—and working—right now. And that means having comprehensive data—and knowing what it means. That’s where Nielsen comes in. Our data is backed by precision, experience and science. And that’s the key to succeeding tomorrow.

With a “what’s next” mindset in place, we’ve harnessed data and insights from across the Nielsen product spectrum to create a holistic view of the beer market, covering:

- Five-year trended beer sales data
- Ad spend on beer
- Sub-category growth areas
- Trends in craft beer
- Premiumization and style trends
- A look at “sessionability”
- The power of packaging
- Big beer markets across the U.S.

I hope you enjoy these highlights from across Nielsen’s wealth of consumer insights.

Danny Brager

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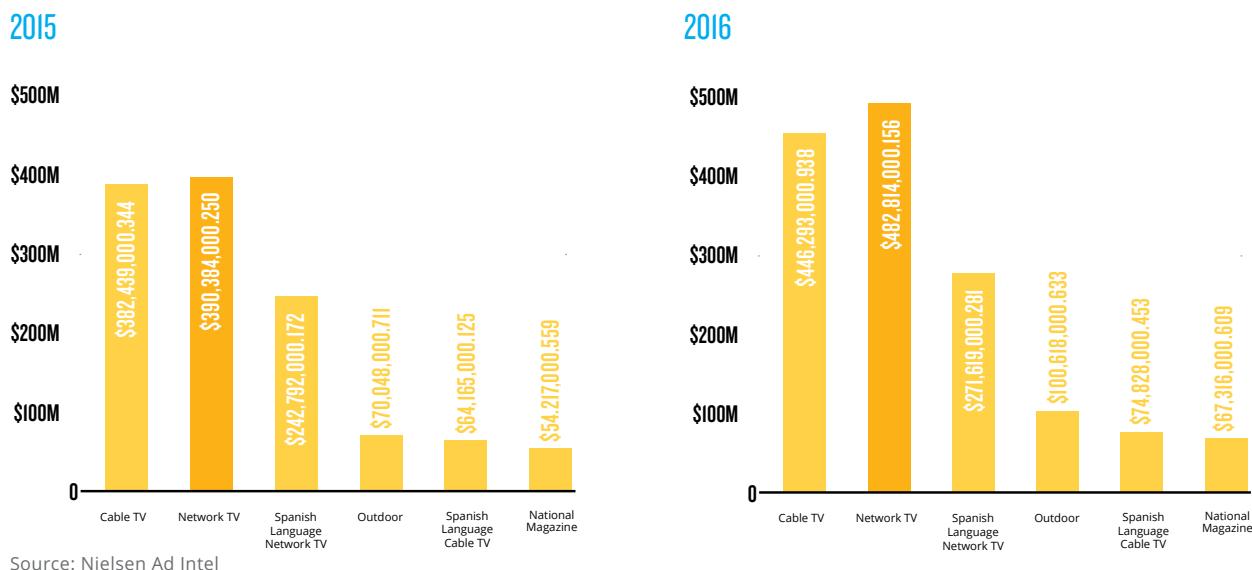
THE STATE OF THE U.S. BEER MARKET

Contrary to what you'll read on Wikipedia, beer is not the world's oldest alcoholic beverage. It is, however, the most consumed alcoholic beverage. It's also a massive category. In the U.S., Americans spent more than \$37 billion on beer at Nielsen-measured retail stores in the year-ended Feb. 25, 2017. For perspective, Americans spent just over one-third as much (\$12.5 billion) on water, the most consumed beverage globally. Beer sales also outpace those of wine and spirits—the other two categories in the adult beverage space.

Given the massive appeal of beer—as well as the immense variety in the category—marketers spend significantly on advertising to promote their brands, and that spend is growing. In 2016, marketers spent \$1.55 billion on beer advertisements across television, radio, print, cinema and outdoor media, up 20% from the nearly \$1.3 billion they spent a year earlier.

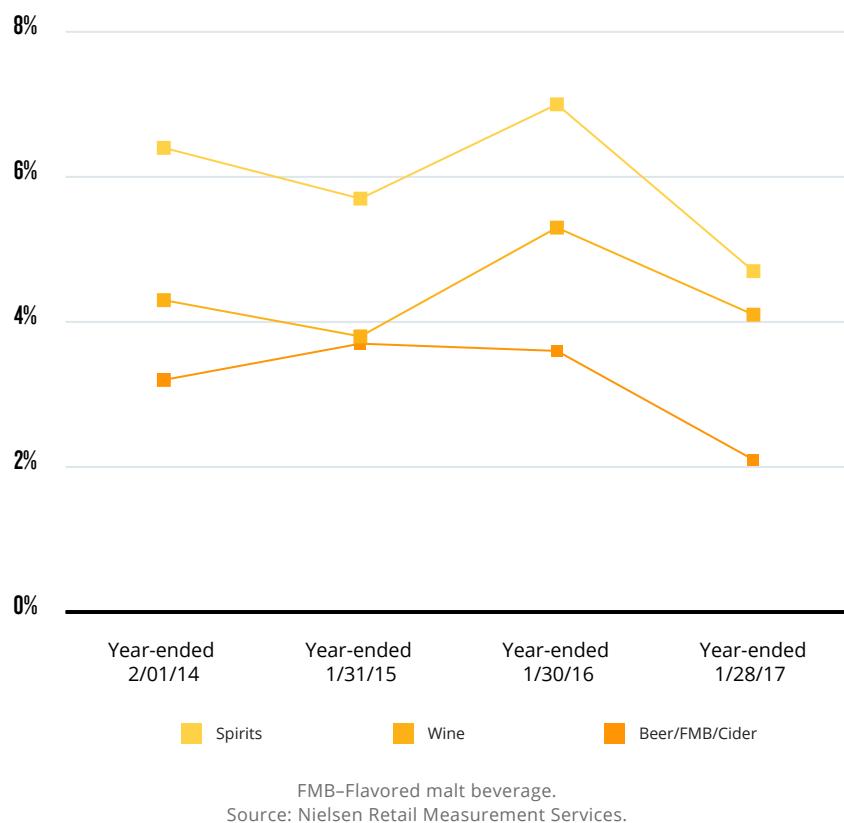
And while Americans might be seeing an increase in ads for spirits and wine these days, ads for beer account for the lion's share of ad spend across the alcoholic beverage universe. In 2016, beer accounted for about 74% of the ad spend across the alcoholic beverage universe, up from about 70% in 2015. And across media types, marketers put a majority of their ad dollars in network and cable TV spots. Beer spend in these two channels accounted for just under 60% of the total alcoholic beverage media spend in 2016.

U.S. AD SPEND ON BEER



Despite the massive popularity of beer, sales growth has slowed in recent years. Sales growth for wine and spirits have slowed too, but less than beer—and from a higher growth base. While the 2.1% growth in sales across beer, flavored malt beverages (FMBs) and cider in the recent year isn't particularly worrisome, especially when total sales are so high, it does represent the category's least growth of the past four years—and the first dip below 3%. So in terms of dollars spent, wine and spirits are slowly moving in on beer's territory—and have been for the past 10 years or so.

BEV/AL SALES GROWTH



So who's driving the shift in consumption? Unfortunately, beer is losing share across all generations, but Millennials are driving much of it. According to a recent Nielsen Homescan Generations study, beer share loss totaled 2.1% among Millennials, 4.7% among Gen X and 2.7% among Baby Boomers. Beer share has declined the most among Gen X, with wine share increasing as a result. Despite the percentages, however, Gen X hasn't caused the greatest impact because it's a smaller group than Millennials.

It's important to remember that very few Millennial consumers were of legal drinking age 10 years ago. Today, however, all Millennials are of legal drinking age and are having a much bigger impact on the shifts in the beer realm, effectively driving the dollar share loss. We also see that among Millennials, the loss is split evenly across wine and spirits.



A CLOSER LOOK AT THE NUMBERS

In looking more closely at data from the past few years, we see that the increase in sales (from a spend perspective) hasn't been due to increased consumption. In fact, Americans have remained consistent in their beer consumption over the past five years, buying about 1.5 billion cases of beer per year.

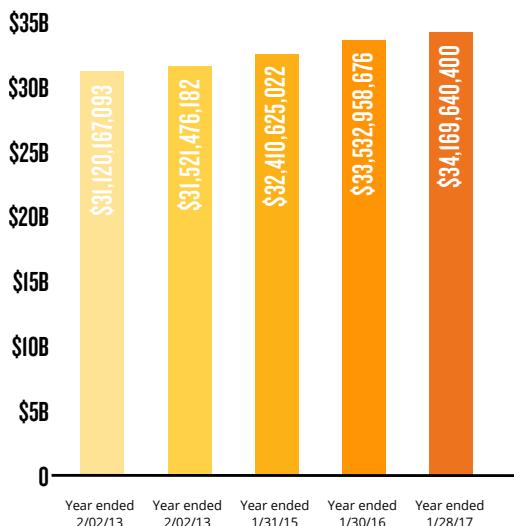
Up until recently, the real opportunity in the beer category has been in the craft sub-category. Specifically, dollar sales growth in the craft realm ranged between just over 15% to just over 18% from 2013 through early 2016, well above the 1.3%-3.5% posted by the overall beer category (excluding FMBs, ciders and seltzers). For the year ended Jan. 28, 2017, however, the craft engine slowed significantly, with dollar sales growth of just 2.9% in Nielsen-measured off-premise channels. Comparatively, sales growth in the overall beer category for the same period was 1.9%.

AMERICANS HAVE REMAINED CONSISTENT IN THEIR BEER CONSUMPTION OVER THE PAST FIVE YEARS

Much like dollar sales, case volume sales of craft beer have also tapered significantly over the past year, increasing just over 1.3 million, well below the pace between 2013 and 2016. Comparatively, unit sales across the total beer category have been flat.

U.S. BEER DOLLAR SALES

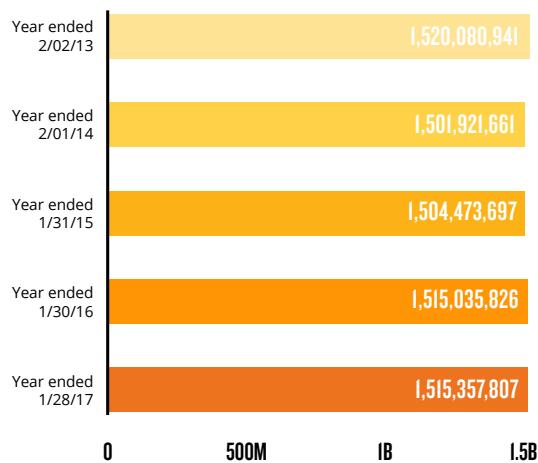
TOTAL BEER



Source: Nielsen Retail Measurement Services

U.S. BEER VOLUME SALES (IN CASES)

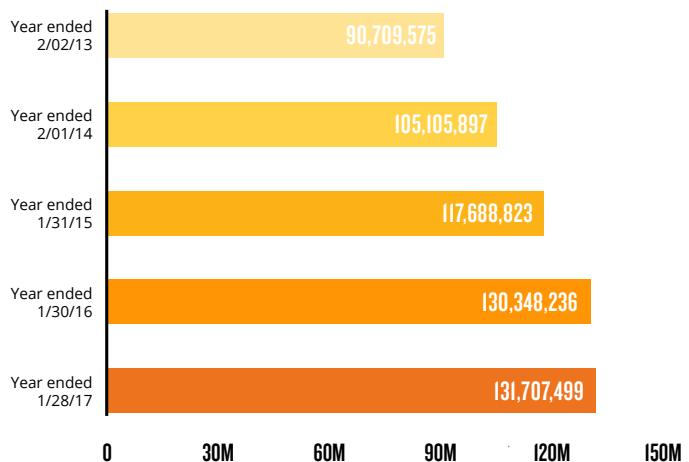
TOTAL BEER



CRAFT



CRAFT



Source: Nielsen Retail Measurement Services



MARKET THIRST AND THE NUMBER OF THIRST QUENCHERS

Given the size of the U.S. beer market, it's no surprise that it's rife with variety. The breadth and depth of the category is constantly evolving—not just in brands and styles, but in sub-categories as well. So that means that retailers have to stay on top of trends in order to keep the shelves stocked with what consumers are most interested in. Manufacturers and brewers aren't making it easy, however, as the market sees an exorbitant amount of new products each year. And that means there's bound to be a decent amount of shelf shuffling to accommodate the brands and styles with the most froth.

The market is fueling an over-abundance of supply, and the average number of items on the shelf has increased as retailers make space for more variety. In response to a cramped market, however, the number of new products across the entire alcoholic beverage landscape has been decreasing over the past three years. The wine category has seen the largest cutback, but there were about twice as many new wine UPCs in 2014 than new spirit UPCs. In comparison, manufacturers in the craft sub-category, have been leaning heavily on the innovation lever, largely in response to the massive sales spikes between 2013 and 2016.

NEW ALCOHOLIC BEVERAGE ENTRANTS

Category	New Product SKUs (No.)	
	Year ended 1/03/15	Year ended 12/31/16
Total Beer (including FMBs and ciders)	2,665	2,042
Craft Beer	2,016	1,804
Wine	3,026	2,167
Spirits	1,555	1,039
Total	7,246	5,248

SKU—Stock keeping unit. FMB—Flavored malt beverages.

With craft sales growth of just under 3% for the last 12 months, it's clear that surplus of new entries outweighs current consumption. Shelf space is at a premium, and retailers have more than their fair share of options to offer consumers, many of whom are young and very happy to try new offerings. In fact, a Nielsen CGA survey conducted last fall found that the average craft beer drinker's alcoholic beverage brand portfolio consists of 20.3 brands, compared with 15.7 alcoholic beverage brands among all U.S. beer drinkers.



TRENDS TO WATCH: PREMIUMIZATION AND NEW STYLES

Retailers are open to making room for many new entrants, but their shelf space isn't infinite. Two years ago, U.S. grocery stores carried an average of 438 beer, FMB and cider UPCs. That number had risen to 482 last year. With an abundance of choice and an eye on profits, most savvy retailers are keenly focused on trend watching—and adjusting as the tide shifts. So what's causing those shifts? Two of the big factors are premiumization and new craft styles. Others include growth of local beers, the expansion of regional beers, and an increase in popularity of brew pubs and tasting rooms.



IMPORT SALES HAVE
BEEN RISING

While much of the beer industry's recent focus has been on the growth of craft, the domestic premium sub-category remains the largest, though sales therein have been sliding recently. Comparatively, import sales have been rising, with sales growth of just under 9% in the year ended Jan. 28, 2017.

U.S. BEER SALES

Sub-segment	Dollar sales year ended 1/28/17	% change YOY
Below Premium	\$5.5 billion	-1.5%
Domestic Premium	\$14.2 billion	0.9%
Above Premium		
Domestic Super Premium	\$2.3 billion	8.0%
Import	\$6.8 billion	8.9%
Craft	\$4.8 billion	2.9%

YOY—year-over-year.

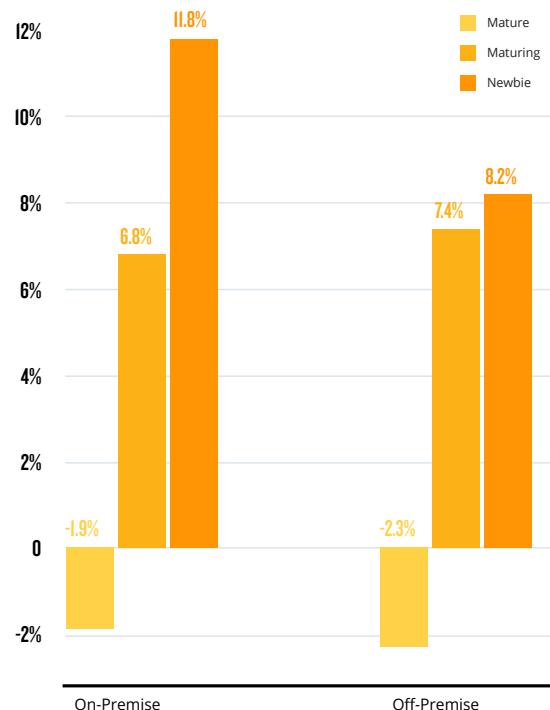
Source: Nielsen Retail Measurement Services

In the import realm, the U.S. sees the biggest volume from Mexico (\$4.4 billion in the most recent year) by a landslide, and Americans continue to increase their consumption of brands from this country, with sales jumping 14%, 15.4% and 13.7% over the past three years. Holland comes in at No. 2, but sales of Dutch beers fall just short of \$1 billion per year. Americans are also increasing their consumption of beers from Belgium, Costa Rica and France, with sales growth increases of 10.1%, 21.8% and 13.2%, respectively, albeit at far less volumes than those from other markets.

In terms of beer spend, Americans are shifting toward higher-end offerings. From an on-premise (bars, taverns, restaurants, etc.) perspective, sales growth for standard-priced beer has fallen 5.6% since January 2015. Over the same period, sales of premium-priced (above the median price for 12 oz.) beer spiked 10%. We see similar directional trends in off-premise (retail) sales: since 2013, growth among mainstream brands from the premium and below-premium segments is down 2.5%, while sales of above-premium beer, FMBs and cider are up almost 30%.

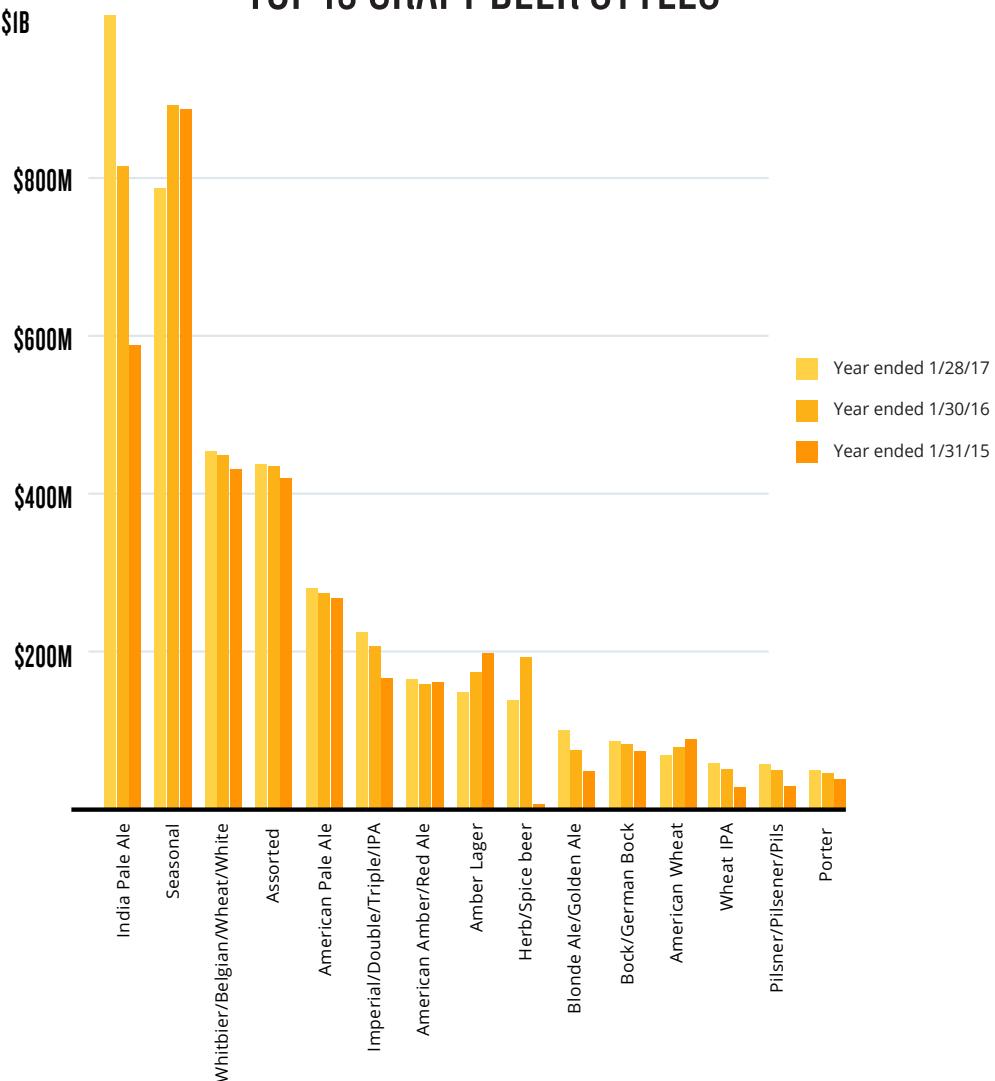
In addition to craving above-premium brands, consumers are eager to try new offerings. Among on-premise channels, mature craft brands (those with more than 1% market share) have seen almost a 2% dip in sales growth since January 2015. Comparatively, brands with less than 0.1% market share have posted on-premise sales growth of nearly 12%. Trends in off-premise channels are similar, with the newbies (those with less than 0.1% market share) posting slightly less sales growth than those in the on-premise arena.

CRAFT SALES GROWTH BY MARKET SHARE



Sources: Nielsen CGA, Nielsen Retail Measurement Services

TOP 15 CRAFT BEER STYLES



Source: Nielsen Retail Measurement Services

When it comes to popular craft beers, two styles have been vying for the top spot over the past three years: India Pale Ales (IPAs) and seasonal offerings. While seasonal beers held the top spot in 2014 and 2015, IPAs racked up more than \$1 billion in sales for the year ended Jan. 28, 2017, to claim the title of most popular craft style, while seasonal offerings have experienced somewhat drastic declines in the last year.

The news shouldn't come as a surprise to anyone familiar with the beer market, but the rise of the IPA has been nothing short of market-shifting, considering that annual off-premise IPA sales in the U.S. were just under \$600 million at the start of 2015. Seasonal beers are currently in the No. 2 spot, but sales in this sub-category fell almost 12% in the recent year.

While sales of seasonal beers have been trending downward for the past three years, the Witbier/Belgian Wheat/White sub-category is in a distant third place, with just over \$450 million in sales for the year ended Jan. 28, 2017.

But trends can fall in and out favor very quickly in the craft beer realm. For example, the brown ale and Saison/farmhouse styles experienced sales dips in the year ended Jan. 31, 2017, after posting notable increases in the previous two. Trends for the Saison/farmhouse style are slightly more noteworthy: sales growth was 30.4% for 2014, 27.6% in 2015, but reversed course last year (-2.9%). Comparatively, sales growth for brown ale were 9.6%, 6.2% and -2.1%, respectively, for the same periods.

As a sub-category, craft makes up a small portion of the total beer market. Craft beer sales totaled just under \$4.8 billion for the year ended Jan. 28, 2017, a fraction of the \$34.2 billion in total U.S. beer sales. From a dollar share perspective, only a handful of craft styles ring up more than \$100 million in annual sales. And only one (IPAs) of those top-earning styles posted meaningful double-digit sales growth for the recent year. To find the real movers, you need to look deeper down the list.

Some of the biggest sales growth gainers don't post huge dollar sales (yet). Cream ales, for example, are currently on a rising hot streak. In 2014, this style posted off-premise U.S. sales of just \$2.3 million. In the most recent year, the style garnered sales of \$21.8 million, up more than 372% from the \$4.6 million in 2015. Gose, a top-fermented German beer that is brewed with 50%-60% malted wheat, is also on a sales tear, posting 732% growth in the most recent year by racking up \$9.8 million in off-premise sales. Comparatively, the Gose style was virtually unknown in 2014, when sales totaled only \$154,000.

SOME OF THE BIGGEST SALES GROWTH GAINERS DON'T POST HUGE DOLLAR SALES (YET)

But craft drinkers aren't just open to trying new beer styles. According to 2016 Nielsen Homescan data, craft beer drinkers are spending 23% more on wine and 29% more on spirits than they were just two years ago. They're also spending 16% more on beer. This promiscuity may have a long-term impact, as the openness to new beverages is more prevalent among young men. The same generations study found that 38% of Millennial males will drink three different types of alcoholic beverages during one occasion, well above the 15% reported by Baby Boomer males.



SENSE AND “SESSIONABILITY”

While cost, style and availability all play into what makes a beer popular, recent Nielsen research highlights yet another metric: “sessionability.” While there is no standard definition for a “session beer,” the origin of the term, according to *Beer Advocate*, dates back to a time when drinking periods were permitted during the English workday. With alcohol by volume (ABV) percentages of 3%-4%, sessionable beers of the time were brewed (in theory) to not inhibit the coherence of the drinker during working hours. The general premise holds true today, as 45% of craft beer drinkers say that under 5% is the ideal craft ABV.

SESSIONABILITY ISN'T JUST A TREND AMONG BEER HEADS

The rub, however, is that beer drinkers’ primary association with sessionability has very little to do with ABV. In fact, a recent Nielsen survey found that beer, wine and spirit drinkers use several other traits to define session beers before ABV: flavor, color and style.

WHAT MAKES A BEER SESSIONABLE?



Nielsen Harris Poll Survey, January 2017

Sessionability, however, isn’t just a trend among beer heads. In looking at sales for the year ended Dec. 31, 2016, 13 of the top 25 fastest growing beer brands have ABVs of 5% or less. And what’s more, 53% of beer drinkers between the ages of 21 and 34 say they always or often pay attention to alcohol content in the beer or FMBs they drink.

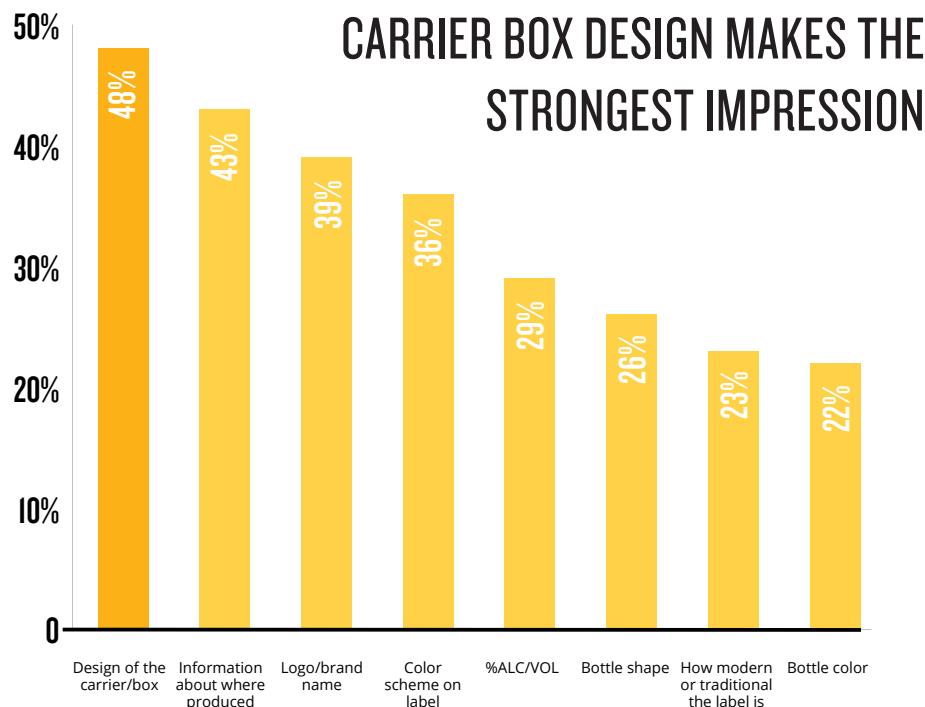


THE POWER OF PACKAGING

With so much variety and competition in the craft beer aisle, particularly as craft sales inched up just under 3% over the past year, marketing and label innovation play a significant role in getting noticed and added to shoppers' carts. It's also worth noting that a Nielsen Craft Beer Design Audit study in April 2016 found that 70% of beer purchase decisions are made at the shelf, which is 12 percentage points higher than average of 58% across U.S. fast-moving consumer goods categories.

So what drives those at-shelf decisions? Seventy-one percent (66% men, 75% women) of craft beer buyers say they like to try brands with bold and interesting packaging. Sixty-six percent say that a beer's package design is very or extremely important in catching their eye, and 60% say the packaging design is very or extremely important in convincing them to try a specific brand.

When it comes to package and label design, there's myriad places to focus: the carrier, the can/bottle, the cap, the logo, etc. But above all else, the design of the carrier/box has the biggest impact.



Percentages based on response to: "When you are at the store choosing a craft beer, which physical attributes of the packaging tend to make the strongest impression on you?"
Source: Nielsen Design Audit Series: Craft Beer, April 2016

During our Craft Beer Design Audit study, we tested 17 package designs in the craft beer realm: nine that were big sellers on the East Coast and eight that were big sellers on the West Coast. Among those with sales from the East Coast, only Big Kona Brewing's Big Wave Golden Ale and Deschutes Brewery's Black Butte Porter were viewed as distinct. On the West Coast, Kona's Castaway IPA and Saint Archer's IPA ranked highest in terms of equity differentiation.

CRAFT BEER DESIGN AUDIT: TOP PACKAGE DESIGNS

EAST COAST



WEST COAST



Source: Craft Beer Category Design Audit May 2016

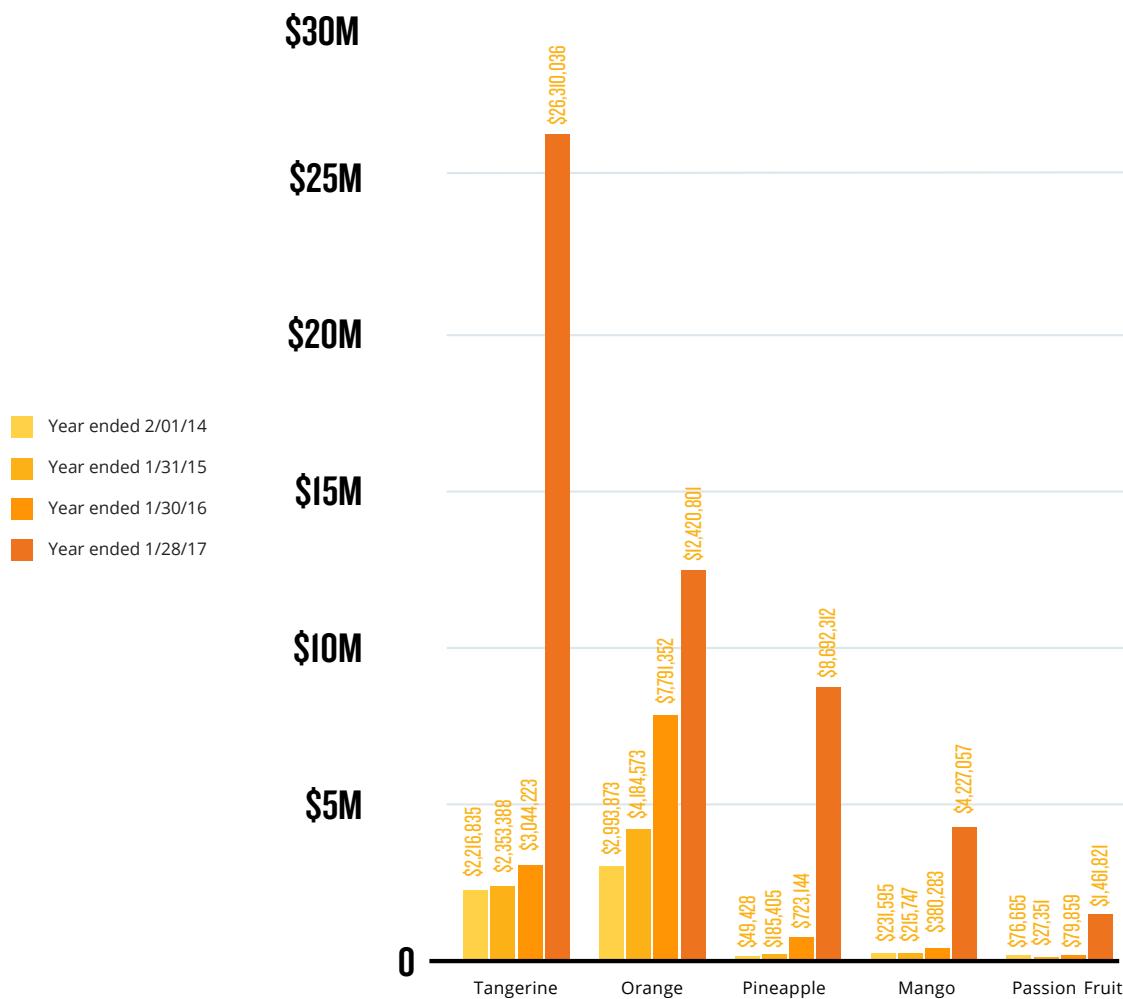
But with the entire beer category growing each year, package design is a key consideration across the board, especially in newer sub-categories that are growing, like cider. Not only were there three times as many new cider entrants in 2016 as there were in 2012, cider competed with an average of 627 beer items on the average liquor store shelf. And as a result, consumers who buy cider say that 72% of the time, they make their purchase decision after they've looked at all the options (rather than knowing ahead of time).



A FEVER FOR FLAVOR

When it comes to flavor, cider isn't the only game in town. The flavored beer sub-category has been on a steady climb in recent years, growing from just under \$1.6 billion in sales at the start of 2013 to more than \$1.9 billion for the year ended Jan. 28, 2017. While total flavored beer sales did dip just over 1% in the most recent year, a handful of flavors managed to cash in on consumers' willingness to try new offerings.

TOP SELLING FLAVORED BEERS



Source: Nielsen Retail Measurement Services

Flavor is also capturing expanding flavor tastes in craft beer as well, which is simultaneously fueling overall growth in the craft sector. Consumer appetite for flavored IPAs, for example, has exploded over the past four years. At the start of 2013, annual flavored IPA sales were just over \$1 million; that total is now pushing \$85 million.

But beer represents just a slice of the overall flavored pie. Thirst—and opportunity—is blossoming in the FMB and cider space. Notably, Americans spent more than \$2.5 billion on FMBs and ciders in the year ended Jan. 28, 2017, significantly outpacing sales in the flavored beer realm. In fact, when Nielsen ranked the top 25 fastest-growing beer, FMB and cider brands, 12 were flavored. Flavored hard seltzers are another growth area, with Americans spending more than \$43 million in this sub-category for the year ended Jan. 28, 2017.



BIG BEER MARKETS

So now that we've looked at the overall beer market, the styles that consumers are most interested in and what catches the beer consumer's eye as they search the shelves, which markets are the biggest beer markets? There are myriad ways to cut the data to answer that question, but when it comes to overall saturation, Milwaukee is the biggest in the U.S.

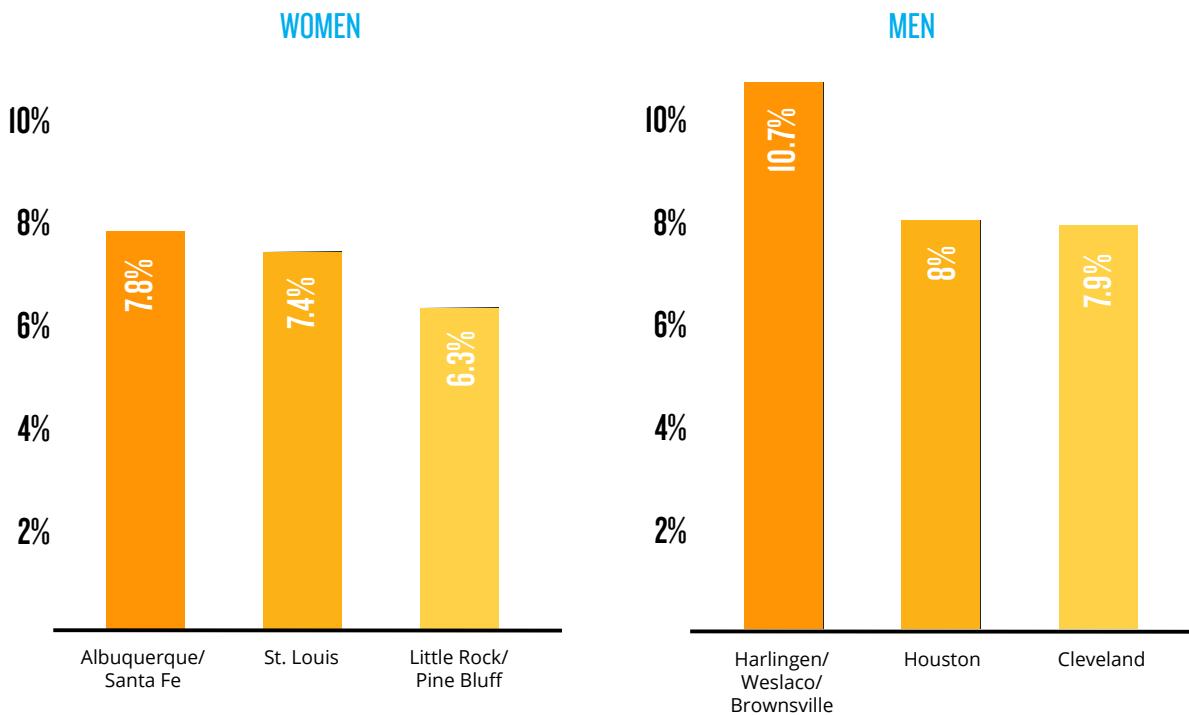


CONSUMERS IN MILWAUKEE ARE 24% MORE LIKELY TO DRINK A BEER THAN AN AVERAGE PERSON

To arrive at this finding, we looked at the adult drinking populations of Nielsen's designated market areas (DMAs) and created an index that assessed the likelihood that adults 21 and older in those areas would have consumed a beer in the last 30 days. With this index, we determined 51.3% of the consumers in Milwaukee has consumed a beer in the last 30 days. Additionally, consumers in Milwaukee are 24% more likely to drink a beer than average person 21 and older.

The Albany, Buffalo, Chicago, El Paso, Green Bay, Spokane and Minneapolis-St. Paul DMAs aren't far behind, with beer saturation percentages of 50.7%, 50.2%, 49.5%, 49.5% 49.4%, 49.2% and 49%, respectively. From a growth perspective, a handful of DMAs are seeing notable increases in consumption, particularly when we look at individual genders.

MARKETS WITH THE LARGEST GROWTH IN BEER DRINKERS



Source: Nielsen Scarborough

Digging into beer style, craft beer drinkers are more likely to be in Portland, Denver and Seattle, while domestic beer drinkers are more likely to be found in Harrisburg/Lancaster/Lebanon, Pa., Cleveland/Akron, Ohio, and Austin, Texas.



FOLLOW THE FROTH

When it comes to food and beverage, few categories measure up to beer. Not even salty snacks (almost a \$28 billion category) can beat beer. That's not to say, however, that it's all froth. In fact, the overall beer category has some work to do in order to keep from losing more ground to wine and spirits—particularly among Millennials.

So the keys to success going forward will certainly involve knowing where the growth is—even when the opportunity is smaller than you'd like it to be. Imports, flavors and select craft styles will continue to outperform the overall market. As noted earlier, eight of the top 25 fastest growing brands in the overall category are Mexican imports. Another 12 are flavored adult beverage brands.

It will also be interesting to monitor the influence that brewer-operated pubs and tasting rooms have on off-premise beer consumption. It's possible that the growth of these direct-to-consumer outlets is eating away at on- and off-premise sales, but our research highlights how retailers can benefit at the same time: 60% of craft beer drinkers say they purchase more beer from a specific brewer after they visit that operator's brewery. Among Millennial men, that percentage is 78%. But despite a rise in pub and brewery visits, the home remains a key location for craft beer drinkers. And that means retailers control their own destiny when it comes to meeting craft beer drinkers' needs.

THE OVERALL BEER CATEGORY HAS SOME WORK TO DO

Just like the media landscape, the beer market is brimming with choice and diversity. And with overall beer consumption (volume) relatively flat over the past five years, flavor, style, branding and innovation couldn't be more important.

METHODOLOGY

THE INSIGHTS IN THIS REPORT WERE LEVERAGED FROM THE FOLLOWING SOURCES:

- Nielsen Retail Measurement Services
- Nielsen CGA Off-Premise Measurement
- Nielsen sessionability survey conducted by Harris Poll, Jan. 20-24, 2017
- Nielsen Homescan Panel, year ended Dec. 10, 2016, vs. 2 years prior
- Nielsen Bev Al Generations study, conducted via Nielsen Harris Survey, Nov. 29, 2016 – Dec. 14, 2016
- Nielsen CGA on-premise consumer survey: September 2016
- Nielsen Craft Beer Category Design Audit, Summer 2016
- Nielsen's Craft Beer Insights Poll conducted in June 2016 by Harris Poll
- Nielsen Scarborough consumption growth data August 2015-November 2016
- Nielsen Ad Intel. Measurement Intervals: Dec. 29, 2014-Dec. 27, 2015 and Dec. 28, 2015-Dec. 25, 2016. Excludes local time sold during national programming.

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