

November 13, 2024

## Keys to the On-Premise: Efficiency, Profitability and Frictionless Transactions

Zoe Licata – November 13, 2024

The on-premise channel – including bars, restaurants, event venues and more – is primed to provide growth for beer. The key for suppliers and distributors to capitalize on that opportunity is to understand what retail operators are prioritizing, including profitability and efficiency, according to Levy Restaurants director of beverage analytics and strategy Scott Brown and BeerBoard chief strategy officer Brandy Rand.

The duo spoke at the Beer Institute's (BI) Annual Membership Meeting earlier this month in New York City. The conversation was moderated by BI chief economist Andrew Heritage.

Draft beer sales through October have increased +1.4% year-over-year (YoY), while draft revenue has increased +6%, according to Rand, citing BeerBoard data. Note, BeerBoard's partners may skew more positively than total on-premise market trends, as the BI reported on-premise sales declining -2% this year.

The majority of on-premise taps are craft beer handles (63%), followed by domestics (20%) and imports (15%). However, domestics contribute about 75% of retailers' operating margins, according to Rand. Domestics also contribute the most draft volume (44%), while craft contributes about 39%. Imports, which contribute about 17% of draft volume, have increased share +4.8 points YoY, taking share primarily from domestics.

"Craft is really valuable to operators, but we're also seeing kind of a dilution of profitability, because we're throwing [them] too much assortment," Rand said.

"What happens there is that you have less fresh beer, you don't have the profitability that operators are demanding now, particularly in a challenging retail environment with costs," she continued. "It's really important that you find the right mix of brands."

Profitability has become increasingly more important for on-premise retailers who are still recovering from altered consumer habits following the COVID-19 pandemic, as well as increased operating costs.

“A lot of BeerBoard’s customers are looking at assortment and are making some tough decisions around, ‘How do we make the right brand for the right occasions?’” Rand said.

Draft makes up about 60% of on-premise sales, Rand said. And about 13 brands now contribute about 90% of draft revenue. As a result, establishments are prioritizing these brands, and have become more selective with what other brands are added to their tap lists, seeking brands that connect with consumers and move quickly.

“Open lines are open for a reason, right?” Rand said. “When we start looking at what’s driving profitability, the brands that people want, it really starts meaning, in a lot of cases, less draft lines to drive fresher beer and more profitability.”

Rand suggested suppliers and distributors be selective with who they are pitching their brands to, selecting accounts and markets where they already have brand power.

“Everyone’s trying to increase points of distribution by really refocusing on the on-premise, which is a positive thing to do, but if you push out the wrong brands in the wrong locations, then it erodes the brand quality overall,” Rand said.

“You have to look at quality, the right equipment, certainly the right brands, right assortment, and then we want people to go in and order it and reorder at the right location,” she continued. “This sort of helps the whole ecosystem. And it’s a win for consumers, it’s a win for operators, and it’s a win for distributors and for suppliers.”

Getting the right tap handles may also mean educating on-premise operators on market trends, Brown said.

“Help our operators, help anyone running an on-premise restaurant/bar, to understand what that market looks like, using some of the data, using assortment tools, carrying them out,” he said.

“It’s a very chaotic business,” he continued. “There’s so many things happening in large venues, and that means a lot to get the right information from supplier partners, from brewers, from distributors, and being able to use that factual information is really tactical. Supporting operators is critical, critical, critical.”

Levy provides food and beverages for entertainment and sports venues, with operations in more than 325 locations, including more than 240 that serve beer, selling 2 million case equivalents annually, according to Brown.

Levy’s own beer sales have increased +8% YoY, with packaged beer sales increasing +10%, driven by an increase in grab-and-go markets and venue sales. Levy’s partners now operate more than 100 grab-and-go markets, which allow consumers to select their own cans of beer, sometimes even avoiding any sales registers or human interaction. The new technology is contributing to the “frictionless” buying experience that consumers are looking for, particularly when they’re trying to get a quick drink between innings or songs, Brown said.

Draft beer is also recording its own growth in certain venues, including college stadiums and convention centers, with Levy accounts selling more than 120,000 kegs annually, Brown added.

Similar to BeerBoard, Levy's beer sales are top-heavy. Brown compared grab-and-go markets in two Major League Baseball parks. At one, 18 beverage brands contributed 80% of the market's sales, while 19 contributed 80% of sales at the other. However, the total selection at the two ballparks was vastly different – Ballpark A offered 147 total beverage items, while Ballpark B offered 58 – again highlighting the importance of knowing an operator's target consumer, and the market the on-premise account is in.

The importance of the consumer experience isn't unique to venues, Rand added.

“Because of the trends we're seeing around more price sensitivity, around the fact that prices are higher, people are being more cautious about what they're spending,” Rand said.

“That means, when they show up, when they actually leave their house, and they show up at a bar or a restaurant, it's so important for that operator to provide that guest with the best experience, with the best profitability.”

Draft beer is also recording its own growth in certain venues, including college stadiums and convention centers, with Levy accounts selling more than 120,000 kegs annually, Brown added.

Similar to BeerBoard, Levy's beer sales are top-heavy. Brown compared grab-and-go markets in two Major League Baseball parks. At one, 18 beverage brands contributed 80% of the market's sales, while 19 contributed 80% of sales at the other. However, the total selection at the two ballparks was vastly different – Ballpark A offered 147 total beverage items, while Ballpark B offered 58 – again highlighting the importance of knowing an operator's target consumer, and the market the on-premise account is in.

The importance of the consumer experience isn't unique to venues, Rand added.

“Because of the trends we're seeing around more price sensitivity, around the fact that prices are higher, people are being more cautious about what they're spending,” Rand said.

“That means, when they show up, when they actually leave their house, and they show up at a bar or a restaurant, it's so important for that operator to provide that guest with the best experience, with the best profitability.”