The Great British Brewing Revolution

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ABSTRACT

The presentation describes the significant changes which have happened within the UK beer production and retailing industries over the last twenty years. The market has seen a swing away from the traditional British “ale” brands towards international lagers. The retail side of things has experienced a rise in influence of multiple food retailers and control of the take-home market. The draft beer trade has been transformed following the UK government “beer orders” of 1989, and the evolution of multiple pub chains is described. The traditional English country pub, long associated with heritage values, may soon be a thing of the past. Brewing companies themselves bear almost no resemblance to their ancestors of twenty years ago, with globalisation of brands and low cost production dominating today’s business drivers. Some views on the future direction, outside influences and market place in and around the UK are offered.

Keywords: British brewing industry, on-trade, off-trade, UK beer sales, alcopops

INTRODUCTION

The British brewing industry, in existence in one form or another for over a thousand years, had grown into a comfortable, fairly profitable but somewhat conservative establishment during the twentieth century, with little major change impacting it – until the late 1980’s. Over the following twenty years however, the industry was to find itself metamorphosing into a completely different animal, largely due to external forces and influences.

One most interesting and significant influence was the UK government. A change in law designed to have a specific effect, in reality, ended up producing quite the opposite.

THE SITUATION IN THE LATE 1880’s

The story begins in the late 1980’s when the industry looked something like this.

There were 7 major brewing companies, 6 of whom had an estate of outlets known as public houses, or pubs. The pubs sold exclusively the beers produced by the parent brewing companies.

<table>
<thead>
<tr>
<th>Major Brewers</th>
<th>Pubs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bass</td>
<td>7,405</td>
</tr>
<tr>
<td>Allied</td>
<td>6,748</td>
</tr>
<tr>
<td>Whitbread</td>
<td>6,464</td>
</tr>
<tr>
<td>Watney Mann &amp; Truman</td>
<td>6,222</td>
</tr>
<tr>
<td>Courage</td>
<td>5,012</td>
</tr>
<tr>
<td>S&amp;N</td>
<td>1,757</td>
</tr>
<tr>
<td>Guinness</td>
<td>Nil</td>
</tr>
</tbody>
</table>

FIGURE 1
Major UK Brewers and their pub estates (early 1980’s)
There were also many smaller brewing companies, usually each owning one to two small breweries, maybe a few pubs, generally making only traditional ales and distributing within a relatively small radius of the brewery. Most of these were family owned companies. Figure 2 shows the geographic spread of some of these.

![Map showing geographic spread of some regional brewers](image)

**FIGURE 2**

Some Regional Brewers in the 1980's

And then there was the free trade - pubs owned by private individuals who could buy their beer from whichever brewery they chose. It was not unusual to find a range of different brewers' brands for sale on one bar. In those days, pubs in the UK were evolving slowly from the male preserve of the 1950's into the family-friendly "old world" country pub so fondly associated by people from all over the world with rural England. The pub owner, or landlord, was an important member of the local community, with it not being unheard of for the local policeman, another important member of the local community, to be locked in with the regulars in late night drinking sessions after the rather conservative licensing laws dictated closing time.

**WHAT CHANGED?**

The Tory government of the 1980’s decided that the situation where big brewers could dictate the products sold in their estate was not allowing sufficient competition in the free market and that, consequently, consumer choice was restricted.

In 1989, following a detailed review of the beer industry by the Monopolies and Mergers Commission, the Department of Trade & Industry issued new legislation known as the Beer Orders. They concluded that there should be an upper limit on the number of pubs which a brewing company could own and in which they could control the beer brands sold. This forced brewers to release from tie some 11,000 pubs and triggered the disposal of 12,000 outlets, thus leading to a massive restructuring of the British on-trade. The cap on the number of pubs owned by brewers continues to this day.

It is important to note that this happened at a time when the retailing side of the beer business was starting to make a lot of its profit from food, soft drinks, gaming machines and other non-beer related markets. In the off-trade, multiple supermarket chains were becoming increasingly influential and driving prices down; their suppliers were being forced to accept reducing margins on even the most popular brands. In other words, the beer orders drove all brewers with pub estates to consider carefully whether they were so heavily reliant on pub retailing for the majority of their profits that they would be better off selling off their brewing operations altogether.

Almost immediately, some companies decided to split up their brewing and retailing operations. Greenall Whitley, for example, a regional company which had been in brewing for over 100 years, decided to focus on retailing only, sold a couple of key brands to another brewing company and closed its breweries. Watneys and Courage essentially swapped breweries for pubs - Courage stayed in brewing and Watneys in retailing.

**THE CURRENT SITUATION**

**THE ON-TRADE MARKET**

Nearly ten years later, the situation looks like this. The biggest, and growing pub groups have no brewing interests whatsoever. Figure 3 shows the largest ten pub groups as of April 2000.

<table>
<thead>
<tr>
<th>Company</th>
<th>Number of Outlets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Punch Group</td>
<td>5,000</td>
</tr>
<tr>
<td>Nomura Principle Finance</td>
<td>4,800</td>
</tr>
<tr>
<td>Whitbread</td>
<td>4,000</td>
</tr>
<tr>
<td>Scottish &amp; Newcastle</td>
<td>3,300</td>
</tr>
<tr>
<td>Bass Leisure Retail</td>
<td>3,046</td>
</tr>
<tr>
<td>Enterprise Inns</td>
<td>2,437</td>
</tr>
<tr>
<td>Pubmaster</td>
<td>2,050</td>
</tr>
<tr>
<td>Wolverhampton &amp; Dudley</td>
<td>1,993</td>
</tr>
<tr>
<td>Greene King</td>
<td>1,730</td>
</tr>
<tr>
<td>Inspired</td>
<td>830</td>
</tr>
</tbody>
</table>

**FIGURE 3**

Number of Pub, Bar and Restaurant Outlets by Company (April 2000)

Interbrew's recent acquisition of both Bass and Whitbread's brewing operation leaves the retailing side of both companies to buy as many pubs as they wish. In April, five of the top ten pub groups were also brewers, in August only three. Ownership change of blocks of pubs happens daily at the moment.

So where does this leave the brewing companies? There is now only one UK-owned national brewing company, Scottish Courage, compared with six ten years ago. Over 20 breweries have closed down completely, with thousands of job losses. This consolidation and rationalisation is likely to continue further, as the industry kick-starts itself towards a cost and customer-driven focus.
THE OFF-TRADE (TAKE HOME MARKET)

The UK is still relatively unusual in that draught beer accounts for three-quarters of all beer sold (see Figure 4). However, the take home market is increasing, albeit slowly, as drink-driving pressures grow and other social habits change.

Another important factor influencing the shift in popularity towards the off-trade is the price of beers in the different markets - for example, with promotional activity and price competition in the multiple supermarkets, it is not uncommon for a major brand to be available in cans and bottles for take-home at under one third of the price paid in a pub.

THE BEER PRODUCTION BUSINESS

Today, beer production is largely focussed upon drive brands and marketing them cleverly - but somehow keeping costs of all stages of the supply chain to a minimum. These often conflict, as marketing initiatives can often demand short lead time novel packaging types, which mean production efficiencies are compromised.

THE IMPORTANCE OF BRANDS

As recently as 1980, ale-type beers were by far the majority over lagers, which were seen as fizzy, tasteless, cold and foreign. And then a strange thing happened. Little by little, lager took off. Twenty years later, there is almost twice as much lager consumed as ale (Figure 5). You only have to go back to 1989 to find ale and lager at 50:50, and to 1970 for ale to account for over 90% of the UK beer market.

This “ale” thing is almost exclusively British. Figure 6 considers what an ale actually is in terms of consumer perception: brown, less carbonated than lager, often with complex flavours such as hoppy, fruity, sweet, bitter and so on. It is usually sold at a warmer temperature than lager. This is not how the traditional brewing scientist was taught to differentiate - the fact that ales are top-fermented at high temperatures and lagers are cold matured means very little to today’s consumer.

UK Beer Sales Analyzed between Ale, Stout and Lager

Although the market share of ales has reduced considerably over the last 20 years, the total volume at 22 million hectolitres is not insignificant. There are a few important points of difference with today’s ales which still have an appeal and may be further exploited:

i. Cask conditioned (which is how all ales were until about the 1960’s) is probably the most natural beer type in the world - fermented often at ambient temperature, using mixed strain yeasts which have existed for hundreds of years, unfiltered, unpasteurised, carbonated only by secondary fermentation within the cask.

ii. Nitrokeg - the term which has been commonly coined for a new generation of brands which have copied the dispense and head formation methods used for stouts; in other words, a clever balance of nitrogenation and carbonation.

iii. Canned beers with an in-can device and gas balance which promotes a draught-like effect when poured into a glass. This has now also been achieved in bottle.
It could be argued that both nitrokeg and draught-in can are actually mimicking the beautiful visual creamy effects obtained when cask conditioned ales are poured - but with the added benefits of long shelf life because of filtration and pasteurisation, and the clever technology involved appeals to marketeers because of the potential to patent and claim innovation.

COST MANAGEMENT

Brewing companies are undoubtedly in existence to make money. The last few years have seen significant consolidation, mergers and acquisitions, and brewery closures. As the breweries start to fill up their capacity as a result, the cost to produce each hectolitre of beer reduces.

But this is not the only factor to be considered here. When publicly listed companies are merged together, the decision has to appeal to both sets of shareholders and this is often achieved by demonstrating “synergy”, a euphemism for cost saving.

This is achieved not only by filling spare capacity but often by reducing headcount at a time where two cultures have not properly merged and not all activities are understood. It could be argued that some of these “synergies” are taken too far and errors happen potentially affecting product quality or people’s safety. It is, however, fair to say that the intention is always to minimise costs without compromising important things like quality. And this will continue as pressures on margins increase in both the on and off trade, and shareholder value also has to continue to be demonstrated. Another observation is that brewing must make a paradigm shift and realise that it must become a slick manufacturing industry, not the rather slow art which some people still would like it to be.

It must also be remembered, brewing has a very important raison d’etre other than making an alcoholic beverage for people to enjoy, and that is to make money for governments world-wide.

In spite of commitment by the European Union to unify duty rates, this has simply never happened (Figure 7). The amount of duty paid by UK brewers is significantly higher than that of many of its nearest neighbours, most importantly, France. This means that a significant percentage of beer consumed in the UK is imported across the English Channel by consumers, at vastly lower prices than they pay in the UK. A lot of it is imported illegally.

Something else that is happening regards duty in the UK is a change in the way Customs & Excise operate. Up until the 1980’s, there was often a one-to-one relationship between a brewery and the local excise officer, with both working to ensure duty was paid correctly in a reasonably amicable way.

This has changed. Like the breweries, the Customs & Excise organisation has downsized considerably. In addition the whole system for duty payment changed radically in 1993, from payment based the original gravity of unfermented wort to alcohol by volume in finished pack. These changes have meant an enormous financial shift in emphasis for brewers in the UK. One current conflict consuming a lot of time and effort revolves around the fact that underfilling a keg or can breaches trading standards legislation to protect the rights of the consumer, while overfilling can attract heavy excise penalties. It is an interesting ethical debate - who should have more influence on the focus of brewers, the consumer or the government?

Today's business drivers in UK breweries are tough; Figure 8 lists some typical measures. Cost, efficiency, quality and service levels are all jostling for top priority - but they all need to be top priority in today’s market.

- People costs per hL
- Fixed costs per hL
- Packaging line performance
- Quality indicators
- On time in full (OTIF)

“On-time-in-full” measures can be as demanding as meaning every single pack of every single brand in an order, delivered within a time window of plus or minus 15 minutes.

THE MARCH OF THE LAGER BRANDS

As mentioned earlier, beer consumption in the UK today is about a steady rise in the major lager brands.

Ten to twenty years ago, most UK brewers were trying to develop in-house new lagers. This strategy could not compete with the world-famous brands with established markets overseas. Acquisition of companies with established successful brands is the name of the game today.

Most regional brewers now adopt one or two main big lager brands for their tied estate, often doing a deal with the brewer of these brands either to keg the beer themselves, or even to fill up some of their spare capacity by brewing a contracted volume of a different beer for the larger brewing company. These reciprocal deals benefit the major lager brand involved because imme-
diately a new group of pubs are selling it, and this produces significantly more rapid growth of the brand than normal organic growth through consumer preference could ever hope to do.

Supply deals, usually involving national distribution arrangements with the independent pub chains, can be another means of brand growth. Few of the big players in this part of the pub business, however, are satisfied with tying up completely with one brewing company and there is healthy competition out there. But do not be fooled if you think the consumer is in control here: cost, margins and service level to the pub chain owners are often the drivers of these supply deals.

So what happened to the Beer Orders of 1989, designed to promote competition and consumer choice? Many people believe that they have produced the opposite effect. Interestingly, the UK government has recently embarked on a review of the Beer Orders; a report is due shortly.

THE ALCOPOP STORY

A little, or not so little, diversion has rather taken the old fashioned beer industry by surprise – the aJcopops. The current technical term for these is Flavoured Alcoholic Beverages (FAB). Some are mixtures of fruit based drinks with a shot of alcohol, others are mixes of popular spirit brands such as Bacardi and Smirnoff with flavourings. They appeal to young people – the brand owners claim the 18-24 year olds. It would be politically incorrect to suggest that some of these products appeal to the under 18’s.

Although beer is inherently frightened of these upset drinks, it need not be. Some of the FAB brands which started the craze are already in decline. The total volumes sold are not enormous; the profit margin, however, is high. But it should be remembered - the 18-24 year old group are notoriously fickle with their loyalty to brands, and enjoy trying all sorts of new things, which is not good news for capturing steady, single brand, loyal consumers.

Undoubtedly more of these brands will emerge, but perhaps we should make plans for beer to coexist with them rather than compete necessarily for the same drinking occasions.

THE PORTMAN GROUP

The aJcopops have certainly stirred up the Portman Group. This was formed by a group of UK drinks companies, (around the same time as the Beer Orders coincidentally) to try to act as a watchdog link between the drinks industry and the UK government. The idea was to encourage drinks companies to behave responsibly with regard to production and promotion of alcohol which could lead to underage drinking and alcohol abuse. The aim was twofold; firstly to encourage the government from introducing rigid legislation controlling these things, and secondly to help the drinks companies by protecting the image of drinking alcohol.

So while this group has been doing a good job in keeping an eye on overzealous marketers, the time maybe right for it to review its policies and, to a certain extent, leave the beer industry alone in light of the increasing amount of new information on the nutritional and health benefits of beer. Brewers in the UK are still nervous to promote any such positive attributes because of apprehension about what the Portman Group would do or say.

THE FUTURE

So what lies in store? Firstly, will beer survive? Undoubtedly, yes. It has been around for centuries, is tried and tested as far as safety is concerned and has a number of attributes which are rarely associated with other alcoholic drinks – not least, that is satisfied thirst, a basic human requirement.

As you look at successful global beer brands, a significant number contain 5% alcohol. This is probably because this offers a neat balance between flavour, cost, intoxicating effects and consumer perception of “premiumness”. Perhaps yet more brands at around 5% will emerge, but with some clever flavours to produce a point of difference.

There is definitely a place for niche brands or product types. Perhaps ales will enjoy a revival. Will people become bored with lagers?

And lastly, the real opportunity for beer is to extend into markets not traditionally appealing to the young marketing executive, such as the over 50’s, women, and people seeking health or nutritional benefits.

It is suggested that the single most effective action brewing companies could take to increase beer sales is to join forces and promote the nutritional and health benefits of beer as a food in order to increase the total market. This could potentially have far longer term effects on our industry than brand by brand marketing which usually has the effect of one substituting another.

CONCLUSION

Above are pictures of the same brewery in Yorkshire, England, with over a hundred years of history between them. The outside looks similar but inside is not. Radical changes include plant automation, reliance on computers and very few people.

At the turn of the last Millennium, in 1086 to be exact, there were 43 commercial brewers or cerevisarii in the UK, according to the Domesday Book. At the turn of the last century, there were 6447 commercial brewers on record. At the beginning of the year 2000, there were just over 300.

It may be that the pattern is cyclical. One thing that does seem certain is that change is here to stay, and that brewers who survive will be those who anticipate, embrace and actively influence these changes. The debate to be thrown open to brewers world-wide should be “what do you want to happen next?”