

# Local Brewing Industry Report 2007

Published by the Society of Independent Brewers



## Introduction from the Chairman

The Society of Independent Brewers is proud to publish the fifth Annual Local Brewing Industry Report. Based on the most comprehensive survey of Britain's independent brewers ever undertaken this report demonstrates the wealth of passion and commitment to our national drink. It also highlights the concerns of the industry and the main issues faced at a time when our brewers are facing the toughest operating conditions in recent history.

Given the difficult background the report remains upbeat and provides an insight to the areas within the beer market where green shoots can be seen; in particular the increased demand for premium quality beers and the growing interest in localism. Combine these two and you have the products produced by "Your Local Brewer". Is it any wonder that when we surveyed those publicans allowed to purchase locally the conclusion was "increased choice of ales generates sales."

The report also declares the creation of 1300 jobs in the industry since 2002, jobs that are long term, reasonably well paid and creative. Increased employment, very often in hard hit rural environments, is just part of the proof of independent brewers' ethical credibility. A commitment to reduce food miles, use of locally grown ingredients and a genuine commitment to supporting the local community are nearly universal amongst our members.

The difficulties remain the battle against corporate inertia as proof that increased sales are available, or that increased footfall is generated by choice in pubs and supermarkets, may not be enough to compete with larger and larger discounts. One delivery from one logistics company may not be the most efficient or greenest way to deliver but it does allow complete control, and current contracts still need to be fulfilled.

The report does say that more frequent negotiations are taking place between multiple retailers and SIBA at a national level, but the pace is so slow. There are opportunities for retailers and brewers here and now, proven and waiting to be exploited. Let's hope that in moving that inertia real momentum will be provided for beer in general and, in particular, that the opportunities to try fantastic fresh local beer increase.

**Keith Bott**, Chairman



# Executive Summary

## Executive Summary

- Buoyant and increasing demand for premium quality beers produced by local brewers is driving impressive volume growth contrary to beer market fortunes:

- 7.5% average annual sales volume growth (2006 vs. 2005)
- 70% average five years sales volume growth (2006 vs. 2001)
- 170 million pints (est.) enjoyed by drinkers in 2006

- In order to further this impressive progress, local brewers are maintaining and projecting further high levels of investment in additional capacity, employment, capital equipment and marketing of local brands that represent the British beer industry.

- 1300 new jobs created since 2002

- The growth in demand for locally brewed beer is part of broader trends to increased interest in locally produced food and drink and environmental concerns over provenance and food miles

- Enlightened retailers are benefiting from this wider appeal:

- Majority of licensees recognise sales boosting effect of a wider choice of ales
- Licensees either price local ales at premium to or parity with usual cask ale
- Ever more frequent negotiations between multiple retailers and SIBA at national level
- Broad range of off-trade retailers offer local bottled beer
- Incremental beer sales opportunities are all the more attractive in toughening trading environments

- Barriers to further growth remain:

- Availability of local beers is restricted in key trade channels
- High trade margin expectations and pricing pressures are related to low incidence of trading with some multiple operators
- Only 1% of UK's pubs are controlled by local brewers
- A significant majority of respondents report losing regular customers to acquisition by pubcos and pub-owning brewery groups at levels similar to that reported last year
- Fewer than 1 in 3 local brewers market their beers through pub-owning brewery groups
- Almost 1 in 3 local brewers have lost customers through not being able to supply through centralised logistic operators
- Poor market access is forcing majority of local brewers to develop business by delivering beyond usual 30 mile definition of local produce
- Local brewers still under-trade with multiple off-trade retailers
- Majority of local brewers are making no improvement in gross margins



# Introduction

This is the fifth Local Brewing Industry Report produced by the Society of Independent Brewers. The term 'local brewer' is intended to encompass micro and local brewers and to distinguish these smaller brewers from the regional and national brewers<sup>1</sup>.

The focus on the local brewer is also intended to recognise the growing consumer and trade interest in local produce usually defined as quality food and drink with a specific geographic provenance which is produced and marketed locally, usually within a 30 miles radius. This focus was introduced in last year's report which identified broader trends that have continued and even accelerated during the last 12 months. These wider trends and issues form the backdrop to this year's report:

- Growing consumer purchase of local produce motivated by interest in provenance and sustainability of local economies and the environment
- Wider interest in environmental issues manifested in concern over 'food miles'
- Credibility of ethical consumerism of which local produce is a part
- Premiumisation of many food and drink product categories
- Variable trade commitment to local sourcing lagging consumer demand
- Success of local brewers counter to the development of the overall beer market

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1. A microbrewer produces up to 5 000 HL, a local brewer between 5 000 and 30 000 HL and a regional brewer between 30 000 HL and 2 million HL p.a. National brewers produce in excess of 2 million HL p.a. (HM Revenue & Customs definition)



# Continued strong growth of local brewers...

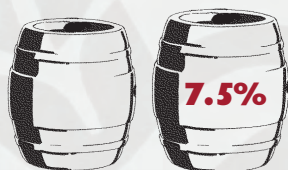
Established local brewers continue to enjoy significant gains in sales volume and report an average 7.5% increase in the last year. This follows strong annual growth rates reported in the 4 previous years and means that since 2001 volumes of locally brewed beer have grown by some 70%. This spectacular growth is against the development of the overall beer market which is estimated to have declined by 3% over the same 5 year period.

There are obviously mixed fortunes across the spread of individual businesses but nearly three-quarters (72%) of local breweries also report increased turnover for their latest financial year indicating that volume growth is generally not being bought at the expense of sales value.

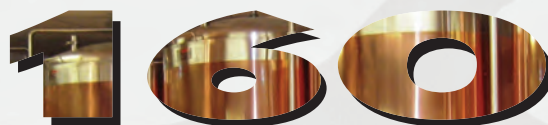
After 5 years of uninterrupted volume growth overall confidence is, unsurprisingly, high for 2007's trading prospects and members are predicting a return to double digit volume increases.

So despite the overall decline of the beer market locally brewed beer is one of the significant healthy sectors along with premium bottled ales and more recent newcomers such as speciality beers. The ability of newer segments to buck the trends of long defined market sectors suggests that current segmentation of the beer market is inadequate. SIBA encourages retailers to reconsider market analyses to more clearly reveal the market's areas of strength and opportunity.

## Local Brewers In Numbers



Average annual sales volume growth in 2006



New independent breweries opening in the last 2 years



Independent breweries in the UK



Average 5 years sales volume growth since 2001



# 170 Million

Pints of local beer drunk last year



# Growth fuelled by investment

Investment of savings from progressive beer duty continues to be made by local brewers both to drive and respond to growing demand for local beer:

- More than 6 out of 10 local brewers replaced equipment in 2006
- More than 6 out of 10 invested in marketing
- More than half increased capacity
- More than half took on new staff
- 6 out of 7 breweries established before 2002 have taken on new staff in the last four and a half years
- 7 out of 10 of these jobs are full-time
- 1300 new jobs are estimated to have been created in the local brewing sector and
- 4 out of 10 jobs for those employed in local brewing have been created since 2002

Responses to our annual member survey advised the percentage allocation by investment category and projected the amount of PBD savings last year allowing a weighted allocation as shown. As can be seen nearly three-quarters (74%) of PBD cash savings are reinvested into providing and marketing quality ales to the consumer. These uses include business infrastructure (brewery capacity, equipment replacement, new jobs, administration, casks and vehicles) and product development, staff training and value added marketing such as sponsorship and point of sale material.

## **PBD Savings:** *Where the money goes*



# Growth fuelled by investment (cont)

Marketing is undertaken by virtually all local brewers and is consistently one of the most common investments of savings from PBD. On average over 53% of the marketing budget is allocated to value added activities with a further 23% to communications such as a presence at beer festivals; less than a quarter is used for targeting greater price competitiveness. Point of sale material is the most common part of the marketing mix employed.

In 2007 investments from the savings generated by PBD are again foreseen by up to 15 out of every 20 local breweries. This incidence of investment is truly impressive and proof that the ambition of smaller brewers remains anything but small. The most important investment areas for local brewers are set to be:

**Table 1:**  
**Investment intention for 2007 - Percentage of local brewers planning to invest in key areas**

Investment area	% of local brewers planning to invest
Marketing	75
Equipment replacement	69
Increased capacity	59
Staff training	52
New products	50



# ... and growth fuelled by burgeoning interest in local produce

## Progressive Beer Duty (PBD) Backstory

SIBA led a 20 year campaign for concessions to enable smaller breweries to compete in a market where the big 6 brewers controlled 75% of beer volumes. The eventual introduction of PBD in June 2002 gave beer duty concessions to those brewers with an annual output of below 30,000 HL i.e. micro and local brewers.

It was designed to increase smaller breweries' ability to compete with their larger counterparts on price and generate higher profits leading to greater investment in product development and better market penetration. PBD was extended in the 2004 Budget to an upper limit of 60,000 HL. PBD is also fittingly known as Small Brewers' Relief.

Despite the growth of local brewers the beer market is more concentrated than ever with 4 companies now controlling 76% of beer volumes. The beer market has also become globalised - of the big 4 only one is British.

SIBA has long argued a healthy and growing interest in local produce. Where products are available consumer purchase of locally sourced food and drink is outpacing the overall groceries market. The Institute of Grocery Distribution's (IGD) second independent research report demonstrates that 65% of British consumers are now buying local produce and 40% want to buy more than they already do<sup>2</sup>. And in the on-trade more than 6 out of 10 regular pub-goers believe every pub should offer at least one locally brewed beer<sup>3</sup>.

### *They said it...*

"The purchase of more specialised (local) products, such as frozen desserts, alcoholic and soft drinks is also on the increase offering significant opportunities..."

**IGD**

"We are all becoming more aware of local produce and beer is no exception, with boutique and micro-breweries set fair for 2007."

**Jonathan Ray,  
Daily Telegraph**

<sup>2</sup> Retail and Foodservice Opportunities for Local Food, IGD, March 2006

<sup>3</sup> General Omnibus Survey RSGB July 2003



# The benefits for our trade partners and consumers

## On-trade partners

### *Innovation*

It has not become easier in the last 12 months to find incremental beer sales opportunities within the on-trade. While last year's resurgence of cider challenged the total beer market it did, nevertheless, confirm consumer demand for innovation in the long drinks sector. Local brewers are responsible for many of the beer market's most recent innovations including golden ales and the introduction of new ingredients to introduce a wider choice of aromas and flavours as well as responding to drinker demand for the revival of former beer types such as porters and India pale ales. The range of these innovations and quality of local ale is regularly celebrated by success in renowned brewing competitions – the prestigious title of Champion Beer of Britain, for example, has been awarded to a local brewer in each of the last 6 years.

### *Smoking*

The consensus on the imminent smoking ban's likely trade impact is short term pain for medium term gain. But eventual gains may come through increased food turnover and incremental wine sales. And many pubs may not be able or not choose to introduce or expand their food offering. Ways need to be found in the on-trade to combat the accelerating trend to at-home drinking as the on-trade now accounts for only 59% of UK beer volumes, an inexorable decline in trade channel share which will be accelerated by the smoking ban. Local brewers' commitment to the on-trade is underlined by the fact that 87% of local brewers' output is draught beer.

By tapping into the growing demand for local produce and a consumer willingness to experiment local beers can grow not only beer sales but total pub turnover. In a survey among 200 pubs last year 57% of pub licensees thought that beers sourced through SIBA's Direct Delivery Scheme (DDS) had grown total pub business. The increased choice of ales and stocking local ales were the main reasons cited for this growth. Local beers also offer the opportunity to generate premium sales – 29% of pubs priced local beers at an average 6-7% premium to their usual cask ale.



### They said it...

"The danger of only stocking large brands is lack of variety and interest for customers."

**John Hutson,**  
Chief Executive,  
JD Wetherspoon<sup>4</sup>

"Having choice is the ultimate consumer value"  
**Mr R Cooper,** licensee,  
Spencer Arms,  
Cawthorne, Barnsley

## On-trade partners (cont)

### *Brewer – licensee relationship*

The introduction of the pub chain broke the link between brewer and retailer in the majority of pubs. By exploiting the local brewer's preference for direct delivery to pubs licensees can restore that link and build a mutually beneficial relationship between two entrepreneurs. Activities such as tailored promotions, product introductions or general quality initiatives would be to the general benefit of the beer and pub market.

### *Pricing*

Along with smoking the other big issue in 2007 is likely to be the widening pricing differential between on and off-trade due to off-trade pricing and promotional policies. Choosing a cask beer from a local brewer allows an on-trade retailer to list a product uniquely available to the on-trade. Such positive product ranging decisions provide further differentiation from the at-home drinking experience, a means for footfall generation, avoid exposure to a pricing differential with supermarkets and, as shown, offer the potential to increase barrelage and total pub sales.

An increasing number of on-trade retailers are recognising the benefits of trading with local brewers. In our survey:

- On average local brewers enjoy the support 112 free trade customers
- Nearly 70% of local brewers supply to a pubco operated pub
- The most commonly mentioned pubcos are Enterprise Inns, supplied through DDS, and JD Wetherspoon
- SIBA DDS is growing its penetration of pubco estates and continues negotiations with other pubcos
- Membership of DDS has grown to 250 local brewers, encouraged by the trading opportunities offered
- Just under a third of local brewers count a pub-owning brewer among their customer base, up from 28% last year

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4 Morning Advertiser, 9th November 2006



# The benefits for our trade partners and consumers

## The benefits for our trade partners and consumers

### Off-trade partners

Last year we observed the fast developing interest in local food and drink which adds interest to the shopping experience, engages shoppers with the products they buy and offers commercial benefits for general retailers, both in terms of volume demand and premium price. This must be all the more attractive in a tough grocery market where average sales value growth is forecast to be less than 3% in the medium term <sup>5</sup>.

These commercial opportunities are increasingly recognised by retailers - indeed provenance and general green issues were judged by a leading trade publication as the issue in 2006<sup>6</sup> but general availability of local produce still lags consumer demand. The IGD reported last year that a further 9% of consumers expressed an interest in buying local produce if availability was better<sup>7</sup> and a survey of wholesalers revealed that more than half (57%) do not offer locally sourced products on a regular basis<sup>8</sup>.

The off-trade's ability to share in the growing demand for locally brewed beers is certainly not constrained by supply. Mindful of consumer trends to drinking at-home 90% of local brewers either already market a bottled beer or will offer one by the end of 2007. For those who already market bottled beers they account for a growing proportion of business and now represent on average 15% of sales volume, up from 11% 2 years ago.

This growth has been achieved by selling into a wide variety of sales channels. Local beer volumes grew across all trade channels and confidence for 2007 trading prospects in the off-trade is high with 72% of local brewers more confident about off-trade business in the coming 12 months compared to last year. The main reasons for this confidence are the market's development, trade interest and investments made by brewers in exploiting the general growth of premium bottled ales.

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<sup>5</sup> 'Grocery market growth is the slowest in 16 years', The Grocer 21st October 2006

<sup>6</sup> The Grocer 16th December 2006

<sup>7</sup> Retail and Foodservice Opportunities for Local Food, IGD, March 2006

<sup>8</sup> The Grocer 2nd September 2006



**Table 2:**  
**Local brewers' bottled volume: weighted trade share**

Trade channel	Weighted % share
Farmers markets	2.2
Farm shops	4.1
Delis	2.4
Independent off-trade	14.1
Specialist retail	1.7
<i>Independent sub-total</i>	<b>24.5</b>
Multiple off-trade	6.2
Supermarkets	43.2
<i>Multiple sub-total</i>	<b>49.4</b>
Direct	17.3
Other e.g. on-trade	8.8
<b>Total</b>	<b>100</b>

### They said it...

"Retailers need to make themselves more interesting and add value, and you do this by stocking products from the small firms. Shoppers want innovative, local products – retailers need to meet that demand."

**Ed Hudson, FMCG Sector Leader, Ernst & Young<sup>9</sup>**

"Globalisation may be interesting for the bottom line but it turns customers off."

**Steve Esom, MD, Waitrose<sup>10</sup>**

"Where once price was all important, rising disposable income and a generally more affluent society has allowed people to start living up to their ethics and a third of adults now believe it is worth paying more for Fairtrade, organic and locally sourced foods."

**Mintel research agency<sup>11</sup>**

"Like speciality beers, bottled ale is a drink to be savoured as a treat. It is benefiting from the consumer shift towards these types of products for certain drinking occasions."

**Stuart MacFarlane, MD take-home sales, InBev UK<sup>12</sup>**

Some trade sectors are, however, missing out on the commercial opportunities offered by local beers. Less than half of local brewers currently trade with supermarkets for example. And multiple grocers, which account for two-thirds of all bottled ales by sales value, only represent 43% of local brewers' bottled volumes.

In 2007 the off-trade clearly has an opportunity to both further exploit the growth in consumer interest in provenance and capitalise on the on-trade disruption caused by the smoking ban by improving ranging, merchandising and promotion of local beers to offer local brands which drinkers may be familiar with from the on-trade.

<sup>9</sup> 'Small but making big leaps', The Grocer 15th July 2006

<sup>10</sup> The Grocer 14th October 2006

<sup>11</sup> 'Attitudes towards ethical foods in the UK', Mintel 2006

<sup>12</sup> The Grocer, 14 October 2006



# Consumers

Consumer interest in food and drink provenance is driven by concerns over the sustainability of local economies and the environment as well as perceived superior freshness and quality.

Support for local and regional breweries is a factor in choosing real ale for more than 1 in 4 cask ale drinkers<sup>13</sup>. Reasons for drinking cask ale reflect those broader motivations for choosing local produce identified above:

- Taste preference and quality perceptions,
- A wish to support local and regional breweries,
- A desire for experimentation
- Positive associations between real ale and the types of pubs serving it<sup>14</sup>

## Local sustainability

Research has confirmed that every £10 spent on locally supplied goods generates £25 for the local economy thus helping other local enterprises, creating more economic activity, local jobs and making other local services more viable<sup>15</sup>.

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<sup>13</sup> Real Ale Omnibus Survey, RSGB June 2004

<sup>14</sup> Real Ale Omnibus Survey, RSGB June 2004

<sup>15</sup> 'Plugging the leaks' New Economics Foundation, 2001



## Beer miles

Environmental concerns are often focused on 'food miles' which is a concern of at least 39% of shoppers<sup>16</sup> and even more concerning to older consumers who form the core of ale drinkers. As long ago as 2002 *Ethical Consumer* magazine revealed that ingredients used in a real ale from a local brewery could have travelled 600 miles before being consumed, whilst an imported lager produced by a multinational could have clocked up over 24,000 'beer miles'.

The centralised distribution system of the typical multiple on-trade and off-trade retailer also necessitates excessive beer miles. Local brewers' preference is for direct delivery and their typical fleet vehicle is a transit van. Food transport was shown in a 2005 report commissioned by DEFRA to account for 25% of all HGV vehicle kilometres and is estimated to cost as much as £9 billion per annum<sup>17</sup>. The report concluded that buying local produce has the potential to greatly reduce the distance food is transported provided it is supplied in an efficient way.

Constrained by the beer tie local brewers are forced to drive beyond the usual 30 mile radius definition of local produce in order to develop their businesses. Yet if brewers could gain more access to pubs local to their brewery then the majority (59%) would reduce their delivery distance by an average of 25%, thus further improving the environmental attraction for drinkers in choosing local beer.

## Quality

The dynamic growth of small breweries is testament to the growing consumer appreciation of independently brewed, handcrafted beer, the quality of which is continually reaffirmed by success in renowned brewing competitions at home and abroad. An even wider availability of local beer would have beneficial impacts on the general beer market resulting from wider consumer choice and innovation.

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<sup>16</sup> BMRB, reported in The Grocer 12th August 2006

<sup>17</sup> Report available at: [www.statistics.defra.gov.uk/esg/reports/foodmiles/default.asp](http://www.statistics.defra.gov.uk/esg/reports/foodmiles/default.asp)

# Barriers to the continued growth of local beer

## Availability

The restricted availability of local produce and suppression of the growth of local food and drink in general has already been observed. Progress is being made as seen but availability of local beer in the on-trade is restricted by a lack of control over pubs, the decline in the free trade where pubs are being acquired by multiple pub operators, the beer tie and the frequent use of a centralised distribution system which is neither flexible nor accommodating of a fragmented supplier base. In our survey:

- 71% of local breweries do not own or operate a pub
- Only 1% of the UK's pubs are owned or operated by local brewers
- 68% of local breweries do not count a pub-owning brewer among their customer base
- Local brewers lose on average 6 customers each year to their acquisition by a multiple pub operator
- 26% of brewers are less confident about next year's on-trade business prospects – the 2nd biggest reason cited is loss of free trade business
- 82% of local brewers do not deal with any of the big 3 outsourced logistics operators
- 31% of local breweries have lost a customer because they do not trade with these big 3

These last factors form the background to the development of SIBA's Direct Delivery Scheme which enables multiple operators to maintain logistical and administrative efficiency while enjoying the commercial advantages of trading with a local brewer.

Industry commentators have observed that innovation and intervention are required to ensure the long term growth of environmentally sounder products and markets. Despite the innovation offered by DDS and some political encouragement the receptiveness of on-trade retailers to local brewers is inadequate and lags behind that of the off-trade.

In the off-trade over half of local brewers do not trade with a supermarket and the biggest perceived barrier to trading is buying price – this factor was mentioned by an overwhelming 90% of breweries and almost 3 times as frequently as the next barrier of promotional spend. And just over 1 in 5 local breweries have been rejected by a multiple off-trade retailer with price and inability to support local suppliers being the most common reasons. Given the higher cash margin on offer from premium priced bottled ales it may be opportune to question whether multiple retailers expectations of the percentage margin affordable by small suppliers is excessive.



# Barriers to the continued growth of local beer

## Pricing and profitability

Within the context of a declining beer market characterised by pubco business models using beer margins as a major revenue source and off-trade retailers using low cost beer as a footfall generator, trade expectations of buying discounts are massive. There is consequently significant downward pricing pressure on local brewers and last year just under half were not able to increase net selling prices. The average price increase for others was 3.6%. Given the industry's inflationary pressures including rising malt prices and utility costs, which typically increased by 20% for gas and 26% for electricity, it is unsurprising that two-thirds of brewers made no progress in improving their gross profit margins last year.

## Quality

SIBA members are audited to ensure conformity to our code of practice which covers relevant brewing quality standards. We note, however, the continued need to ensure appropriate training and good practice in cellar management, as well as investment into ensuring quality at the point of dispense so that retailers can ensure they benefit from the strong growth in drinker demand for locally brewed beer.

### *They said it...*

"The efforts of far-sighted, highly motivated consumers need to be leveraged and supported with business innovation and government intervention."

**Craig Shannon, Executive Director of Business Management, Co-operative Bank<sup>18</sup>**

"...the ability of public houses to offer a broader range of products, for example to satisfy demand for local products, is important in the interests of extending consumer choice."

**Trade & Industry Select Committee Pubco Inquiry<sup>19</sup>**

"We encourage more retailers to embrace practical and effective solutions to the logistics issues of sourcing locally such as SIBA's Direct Delivery Scheme."

**Julian Gairdner, Farmers Weekly Local Food Is Miles Better campaign director,**

"Frozen out of most of the tied and free trade as a result of the deep discounts policy demanded by pub operators, the micros have looked for new routes to market."

**Roger Protz, Morning Advertiser<sup>20</sup>**

<sup>18</sup> Ethical Consumer Report 2006 available at [www.co-operativebank.co.uk](http://www.co-operativebank.co.uk)

<sup>19</sup> Pub Companies, 2nd Report of Session 2004-05, House of Commons Trade and Industry Committee, The Stationery Office Ltd, 21st December 2004

<sup>20</sup> Morning Advertiser, 23 March 2006



# Local ales boost sales!

## Summary of October 2006 Survey of 200 pubs by DDS

### DDS is good for business:

- 57% of pubs thought DDS had grown total pub business
- Biggest reasons for helping to grow pub business:
  - Greater choice of ales - 66% of pubs mentioning
  - Local ales - 35% of pubs mentioning
  - Negligible reporting of drinkers brand switching
    - Only 1% of pubs in growth
    - Only 5% of all pubs

### DDS grows total cask volumes:

- Two-thirds of pubs grew total cask volumes\*
- Strong double digit increase in total cask volumes
- Only 1 pub registered decrease in total cask volume

### DDS generates premium sales:

- 29% of pubs set bar price of DDS ale at premium to usual ale
- Average premium 6 - 7%
- Only 2% of pubs priced DDS at discount to usual ale at equivalent ABV
- Vast majority price all cask ales at parity – local ales support policy

### DDS is liked by licensees:

- Three-quarters of pubs believe DDS is excellent or good
- Most common spontaneous suggestion for improvement:  
'none – works well already'

### Conclusion: increased choice of ales generates increased sales

\* 143 pubs responded to this question

[www.siba.co.uk](http://www.siba.co.uk)

