Local Beer Report 2008

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Your Local Brewer

Introduction from the Chief Executive

This is SIBA's sixth annual report into the local brewing industry – following a comprehensive survey of Britain's independent local brewers that has targeted and analysed industry confidence, difficulties and trends, in both on- and off-trade. A balanced picture is presented that identifies distinctive local beers as buoyant performers in a declining overall market, but also warns of a coming year of struggle in the face of serious cost inflation, possible further duty hikes, and the unwarranted attention of an increasingly vociferous anti-alcohol lobby.

In last year's introduction, Keith Bott wrote of 'the growing interest in localism'. This is an industry development that has moved on apace. Breweries that are local and have always been local are showing increasing commitment to the underlying tenets of sustainable, community-focused business, coupled with their dedication to premium quality beers. The SIBA Direct Delivery Scheme has undoubtedly made it possible for beers with genuine local provenance to be a very real choice for participating multiple operators and publicans – and their customers.

There is an accelerating consumer movement towards principled and ethical purchasing, and buying local is taking precedence, even over 'fair trade' or 'going organic'. This is not to deny the commercial incentives that drive successful enterprise. Rather, it shows how in tune local brewers are with current market trends, and how well placed they are to exploit the market opportunities thus presented.

Barriers to progress are not glossed over, and there is no denying the problems that threaten a 'perfect storm' for the industry. But local brewers ply their trade with their eyes wide open and show a determination to continue to strive to make the best of whatever circumstances are thrown their way.

Thanks to the ongoing benefits of Progressive Beer Duty, the report is able to highlight judicious investment in the fabric of businesses, including further employment creation. It also points to the tangible results of success for SIBA brewers in the world of beer competitions. An assessment of the potential for continued growth in both retailing sectors completes an analysis that echoes every aspect of the SIBA determination to strive for 'a quality future'.

Julian Grocock

Julian Grocock
Chief Executive

Executive Summary

- Continuing buoyant demand for local beer is driving spectacular growth contrary to overall beer market:
    - ❍ 10.7% average volume growth in 2007
    - ❍ Annual retail sales estimated to be worth £320 million
    - ❍ Over 400 new businesses created in 5 years
    - ❍ Local breweries estimated to employ nearly 1 in 6 of those directly working in British beer industry
    - ❍ Stocking local beer is a major opportunity for creating revenue, competitive differentiation and footfall generation

- 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

- Overall gains in sales of local food and drink as consumer interest in provenance and sustainability heightens. There are encouraging developments across trade channels and retailers:
    - ❍ Two-thirds of all licensees are aware of the growing demand for local beer
    - ❍ A growing number of local breweries trade with pubcos and pub-owning brewers; 4 out of 5 local brewers trade with clubs
    - ❍ SIBA Direct Delivery Scheme added 3 new customers in 2007 and doubled number of outlets; won BBC Radio Food & Farming Awards Best National Retail Initiative
    - ❍ Some off-trade retailers with a strong local beer range are exceeding overall growth for premium bottled ales; Waitrose extended local beer to all stores; Tesco and Sainsbury set up local sourcing networks; M&S launched 4 bottle-conditioned beers from local breweries

- Significant barriers to progress still remain:
    - ❍ Availability of local beer in leased and managed pubs still lags behind freehouses
    - ❍ More than half of all local breweries do not trade with a pub-owning brewer
    - ❍ Consumer demand for local food and drink still not being met by ranging, promotion or merchandising policies
    - ❍ Local breweries undertrade with supermarkets
    - ❍ Reduced profitability due to dramatic input inflation
    - ❍ Price positioning of cask ale in general is forsaking revenue and profitability for brewers and retailers
    - ❍ Growing and important minority of local brewers are less confident about 2008 trading prospects in on-trade
    - ❍ Unprecedented lobbying against alcohol risks viability of brewers and retailers

- Support from central government is welcomed as Sustainable Communities Act passed enabling local authorities to promote local food economy and reduce food miles. Further intervention is required and SIBA calls for local sourcing statements to be issued by major retailers.

Introduction

This is the sixth annual report produced by the Society of Independent Brewers on the progress made and issues faced by the UK's local brewers. The term 'local brewer' is intended to encompass micro and local brewers and to distinguish these brewers from the regional and national brewers[1].

There are over 700 brewers registered in the UK. The vast majority are local brewers and are affiliated to SIBA. Typically a local brewery has a rural or semi-rural location and is an important contributor to their community, not only through the obvious supply of beer responsibly enjoyed in local pubs, clubs, restaurants and homes but also through financial support for community activities, direct employment in breweries, indirect employment through the local supply chain[2], and the broader underpinning of a sense of local identity that is important to social well-being and cohesion.

We have renamed this update the Local Beer Report to emphasise the surging consumer and trade interest in premium, quality beers estimated to be annually worth £320 million at retail and growing. Local beer is at the forefront of the revolution in demand for local produce, usually defined as food and drink that has been produced and marketed within a 30 mile radius. Local beer is thus central to and helping to develop many trends, including a burgeoning interest in provenance, sustainability, ethical consumerism and a move to premium products which offer retailers, drinkers and broader society opportunities and benefits.

Local brewers are overwhelmingly committed to cask ale which makes up more than 80% of their brewing volumes. Cask ale is a fresh product without artificial additives but most definitely with a huge array of natural ingredients, flavours and aromas. Largely abandoned by the dominant global breweries operating in the UK, the strong revival of drinker and trade interest in cask beer is due to the passion, commitment, innovation and commercial acumen of local and regional breweries.

Local Beer

A Star Performer in a Troubled Market

Beer is the dominant sector within the alcohol market. Among both on and off-trade retailers local beer is one of this highly valued market's most dynamic sectors. Against the background of the most challenging year for beer retailing for decades the continued strong growth of demand for local beer is spectacular. Counter to the trends of a market which saw consumption decline across many beer types the average volume growth in sales of local beer was 10.7%.

There are obviously mixed fortunes across individual brewers but the vast majority (71%) also reported sales value increases suggesting once again that volume gains are not being bought at the expense of value. Indeed, a greater number of businesses reported rising ex-brewery prices this year than last (62% compared to 52%) and the average price increase was an above inflation 3.9%.

Business confidence is unsurprisingly generally good but, as will be seen, there is a developing difference in confidence levels for business prospects among the off-trade and on-trade. Overall, nevertheless, the majority of local brewers are as confident or more confident about trading in 2008 compared to last year.

Growth is being generated by responsible investment of the savings generated from progressive beer duty and booming consumer demand for a greater choice of fresher, innovative, high quality, locally produced food and drink.

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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)
2. On average 85% of good and services needed for beer production is bought in the UK. The impact of smaller breweries on the regional economy is even larger.
'The Contribution made by Beer to the British Economy', Ernst & Young, November 2007

Progressive Beer Duty Five Years

2007 saw the fifth full year of progressive beer duty. 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, or as it is more fittingly known, Smaller Brewers Relief (SBR) in June 2002 gave beer duty concessions to those brewers with an annual output of less than 30,000 HL i.e. micro and local brewers.

SBR 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. This was intended to ensure diversity and wider consumer choice in Britain's indigenous beer style. SBR was extended in the 2004 Budget to an upper limit of 60,000 HL.

SBR has been responsibly invested by local brewers and has assisted them in meeting the surging demand for local beer. There has been an impressive and consistent pattern in focusing investment on equipment replacement, increased capacity, marketing and additional employment to help bring to market a range of distinctive beers:

Table 1: Ranked investment of SBR savings 2003-2007

	2007		2006		2005		2004		2003	
Area of investment	Rank	% of brewers investing	Rank	% of brewers investing	Rank	% of brewers investing	Rank	% of brewers investing	Rank	% of brewers investing
Equipment replacement	1	79	1	63	1	74	1	66	1	71
Marketing	2	54	2	61	2	63	2	55	2	56
Increased capacity	3	51	3	51	3	55	3	46	3	50
Increased employment	4	46	4	52	4	64	4	57	4	59

As can be seen three-quarters of SBR 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.

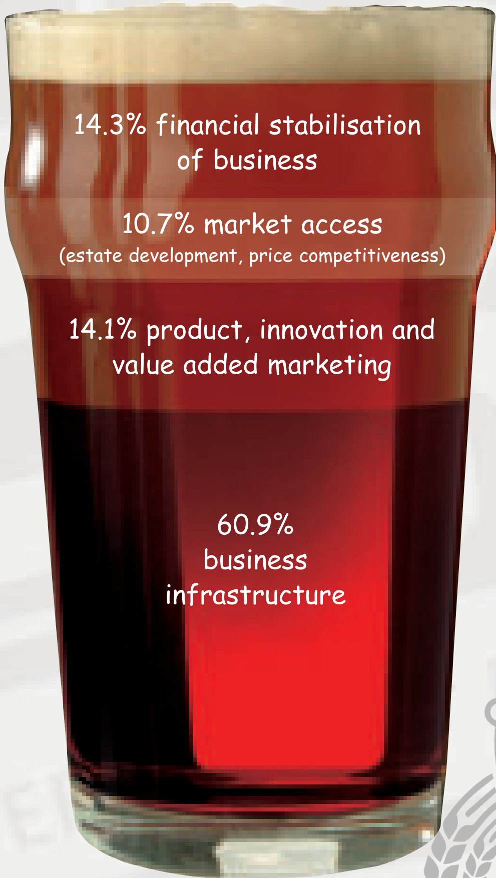


Figure 1 (right): SBR savings: where the money goes

# of Progress

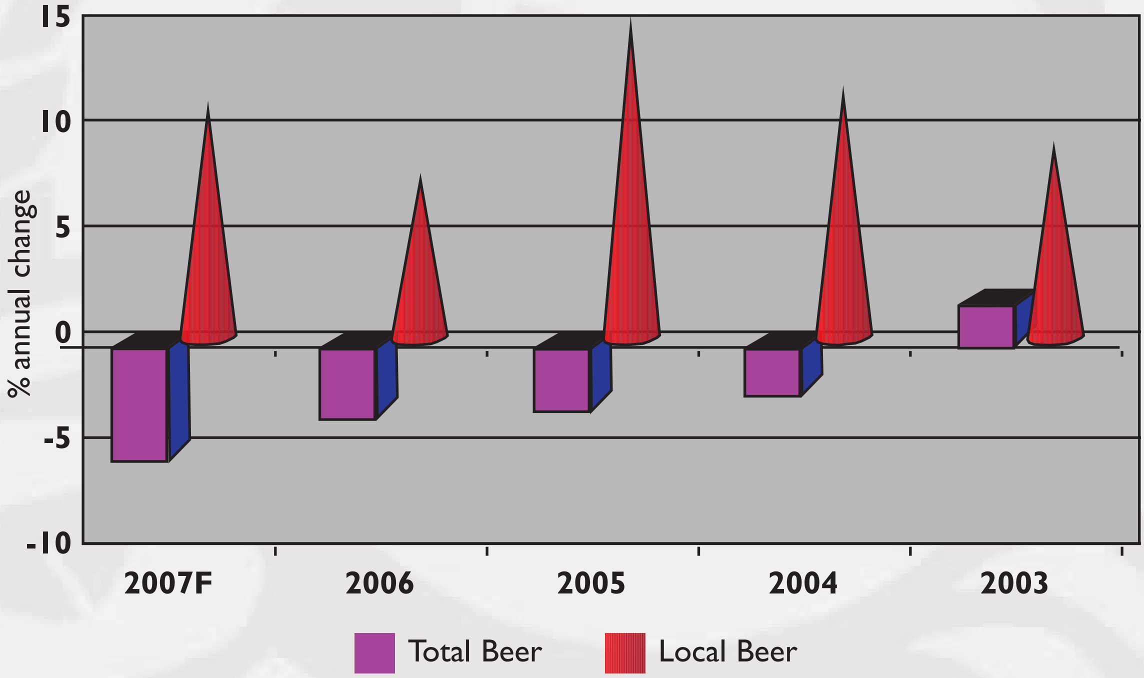
In 2008 investment levels will be similar as more than 4 out of every 5 local brewers plan to replace equipment, 6 out of 10 plan capacity increases and around half intend to take on new staff and invest in training.

Such investments are reaping both rewards and awards – in fact 2007 was one of the most successful years for SIBA members as their passion, craft and commitment to brewing quality traditional and innovative beers was recognised by many of the industry's leading competitions:

- CAMRA Champion Beer of Britain - won by a SIBA member for the 7th consecutive year
- CAMRA Champion Beer of Britain – SIBA members won gold in all 7 categories
- International Beer Challenge – SIBA members won 5 of the 12 categories in this competition open to breweries from around the world
- Tesco Drinks Awards – SIBA members were the only British winners in the beer style categories

Appreciation of brewing innovation and commitment to excellence is obviously not restricted to competition judges as consumer demand has helped sales of local beer outperform the total beer market for each of the last 5 years:

Figure 2: Local beer vs total beer annual % change 2003-2007
(source: SIBA annual membership surveys, BBPA, industry estimates)



Encouraged by commercial progress and opportunities established breweries have collectively taken on approximately 800 new staff, the majority of which are full-time. A further 410 new breweries registered with HM Revenue & Customs in the period 2002-2006. This year's member survey identified that new breweries have an average headcount of 3. Extrapolation suggests that if all new breweries are in production then PBD would have assisted the creation of some 2,000 new employment opportunities.[3] SIBA believes that local brewers are now responsible for at least 15% of those directly employed in the British brewing industry.

3. Note that this estimate excludes brewery closures and is not a net figure.

Local Produce Becoming Mainstream

Local food and drink is a distinct market but is also part of other fast-developing markets including ethical goods, due to shopper motivations which place a high importance on provenance, and premium products thanks to the higher prices that local produce can command. Consumer interest in provenance is based in a belief that local food and drink is fresher and better quality as it has travelled less distance, is consequently beneficial for environmental sustainability and supports local producers and economies[4].

Evidence of demand for local produce is now overwhelming, irrefutable and expected to grow even further:

- Consumer purchases of local and regional food and drink were worth £4.3 billion in 2007 and are expected to grow by a third by 2012[5]
- Three-quarters of consumers either buy or want to buy local food and drink; nearly two-thirds already do so and 40% would like to buy more[6]
- In the on-trade more than 6 out of 10 regular pub-goers believe every pub should offer at least one locally brewed beer[7]
- In a YouGov survey for the farmers markets association FARMA[8]:
  - Over 70% of households would like to shop at a direct local food outlet
  - The number of households shopping at farmers markets grew by 42% in 2007
- The value of goods bought through local shopping increased by 14% in 2006[9]
- Sales of ethical food and drink, already the biggest sector in the £32 billion market for ethical goods and services, saw the biggest annual sector increase in 2006 and is considered to have broken through the 'green glass ceiling' into mainstream grocery[10]
- Local products are deemed the 'ethical' priority as British shoppers are much more likely to select locally sourced products than organic or fair trade[11]
- The Institute of Grocery Distribution (IGD) has identified shopper typologies which show that main shoppers whose shopping behaviour is influenced by their own personal or received belief systems as opposed to simply their needs are in the majority[12]
- In another YouGov poll only 6% of people would not be prepared to buy more locally produced food to combat global warming[13]
- 83% of people declared to have supported local shops and suppliers on at least one occasion last year, an ethical behaviour second only to recycling[14]
- 'LOAFers' or Local, Organic, Animal-friendly, Fairly-traded is tipped to be this year's acronym[15]

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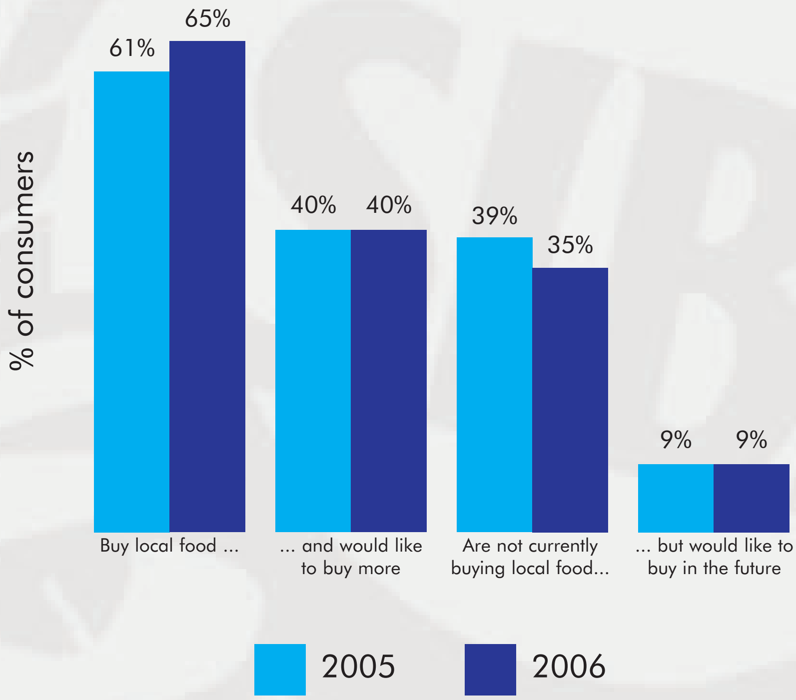
4. Research has confirmed that every £10 spent on locally supplied goods generates £25 for the local economy thus helping other local enterprises, creating more economic activity, local jobs and making other local services more viable. 'Plugging the leaks' New Economics Foundation, 2001
5. UK Grocery Outlook 2007, Institute of Grocery Distribution
6. Ibid.
7. General Omnibus Survey, RSGB, July 2003
8. Speciality Food magazine, January 2008
9. The Ethical Consumerism Report 2007, Co-operative Bank
10. Ibid.
11. Britain's Ethical Shopper: Which Way Now? AC Nielsen. Research conducted February and July 2007
12. Ethical Consumerism 2006, IGD
13. Daily Telegraph, 4 November 2006
14. The Ethical Consumerism Report 2007, Co-operative Bank
15. 'Shop of Things to Come' Daily Telegraph, 29 December 2007

Figure 3: Local produce: consumer purchase behaviour (Source: IGD Consumer Unit, 2007)



They Said It...

"The staggering 53 per cent growth in sales through box schemes and other direct routes confirms strong public support for local, seasonal and organic food that provides a fair return to farmers and growers, boosts the local economy, and also reduces your carbon footprint - consumers are increasingly linking everyday food choice to environmental action."
Helen Browning, Soil Association Director of Food and Farming, 2007

"Environmental and ethical concerns cover a broad range of issues for the British shopper. For many the most important aspects are being able to buy local products, products with minimum packaging or energy efficient appliances."
Britain's Ethical Shopper: Which Way Now?, AC Nielsen

"If we are what we eat, then what we eat tells a story. If we eat good food and pay a decent price, we not only get great produce, but we create a virtuous chain in which we all flourish."[16]
Rosie Boycott, Journalist

"Choice and information have encouraged customers to buy fresher, more local and more organic produce."[17]
Sir Terry Leahy, Tesco CEO

"I'm sensing in a lot of shops a change in attitude towards local suppliers and away from national brands."[18]
Darren Blackhurst, Asda Food Trading Director

If there is a dramatic and relentless pull from consumer demand there also needs to be a push from central and local government to assist the swing towards more local and ethical produce.

16. Daily Telegraph magazine 1 September 2007
17. The Grocer 5 January 2008
18. The Grocer 22 September 2007

Local Gets Vocal

Sustainable Communities Act

As a firm believer in the role local brewers have in supporting and reinforcing the identity and prosperity of local communities, SIBA has long been part of the coalition of organisations which have actively supported the campaign behind the Sustainable Communities Bill[19]. We have additionally contributed to newsletters, local meetings, and national political conference presentations and conducted multi-departmental briefings across the political spectrum. The Society was delighted when this bill passed through the legislative process and finally became law in October 2007.

The Sustainable Communities Act makes provision for promoting the sustainability of local communities and aims to encourage the improvement of the economic, social or environmental well-being of a local authority's area. SIBA applauds the general aim of the act, namely involving people more directly in the process of democratic decision-making and enabling people to participate in that process. The act, therefore, should assist the maintenance and development of essential services including public houses which are central to local communities. More specifically this new law sets out matters to which local authorities must have regard including:

- the rate of increase in the growth and marketing of organic forms of food production and the local food economy;
- measures taken to reduce the level of road traffic e.g. by decreasing the amount of product miles where "product miles" means the total distance produce is transported from the place of growth or production to the place of consumption.

The principle of direct delivery, the heart of which is the avoidance of centralised distribution, is completely consistent with the one of the act's objectives and the mechanic of our Direct Delivery Scheme (see p. 32) can assist in delivering a key desired outcome. We will accordingly brief and support local authorities so that they can meet this important requirement to reduce product miles.

Responsible Reporting

Corporate Social Responsibility (CSR) is not a new phenomenon and a statement of a company's principles, policies and actions is a common feature of many public companies' annual reporting. Industry observers have commented that future reporting will include more information on companies' environmental initiatives and that these claims will probably be investigated and audited.[20]

The food and drink industry, agriculture, supermarkets, road distribution and shipping are all identified as high environmental impact industries[21] so it is appropriate that companies in these industries should report on their environmental policies and initiatives.

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19. www.publications.parliament.uk/pa/pabills/200607/sustainable_communities.htm
20. 'Sustainable Maths', Kate Galbraith in The Economist 'The World in 2008'
21. 'The State of Responsible Business: Global Corporate Response to Environmental, Social and Governance Challenges', Ethical Investment Research Services (EIRIS), September 2007

SIBA notes that less than 40% of companies surveyed by a leading body (Ethical Investment Research Services) had any form of environmental reporting[22]. As many of our members do not have the vehicle to issue annual public reports SIBA is keen to introduce a summary, to be expanded in future Local Beer reports, of the environmental actions undertaken by brewing members.

In 2007 more than 3 in 4 local brewers implemented an environmental initiative in the previous 12 months with the most popular actions taken stated as reductions in resource and material usage:

- Energy usage (56% of respondents);
- Water usage (47%);
- Packaging usage (23%);
- Beer delivery radius (15%) and
- Increase in sourcing of local ingredients (14%)

A key factor behind the growing demand for local food and drink is the consumer perception of the environmental benefits of local produce and their desire to support local producers in order to contribute to local economies. Some retailers are increasingly responding to this demand and publicly announce their commitment to local produce along with other reports such as environmental initiatives and their own role in supporting local communities. Yet despite the growing number of actual and potential customers to whom such a statement is important[23], there is inconsistency in the manner of reporting, a low recognition of the role of local sourcing in promoting sustainability, occasional failure to refer to support for local producers within community reports and no overall requirement to do so.

SIBA believes that retailers in both on and off-trade channels should be required to include a statement of policies, actions and performance in local sourcing, whether as a percentage of sales, their product range or supplier base. Consider this example from foodservice operator 3663's annual sustainability report which includes a section on championing local products and goes on to identify the number of products offered and producers dealt with:

> *'3663 in 2005 launched a campaign to satisfy customer and consumer demand for locally sourced products. Ten local product regions were established with the regional authorities. Local supply routes have been set up to provide local producers with easier access to the foodservice sector. This process towards nationwide coverage has continued in 2006 and 2007. Currently 50% of the country is covered with full coverage expected in the next 12 months.'*

Four major food processors have recently joined the Global Reporting Initiative, an organisation established to develop harmonised reporting rules for industry on issues relating to economic, social and environmental performance. These producers believe that sustainability reporting is a way to reinforce consumer trust and expand their competitive advantage. As local produce becomes increasingly established as a means to drive new revenues and enhance brand value and as ethical reputation becomes increasingly important, SIBA calls for a requirement for retailers to do likewise and include local sourcing statements in their annual CSR reports.

They Said It...

"Retail futures will be resolved by which retailer tailors its offer around real food, sustainably produced and distributed."
Tim Lang, Professor of food policy, City University[24]

22. Ibid.
23. A third of people now actively seek information on a company's reputation at least once a year. The Ethical Consumerism Report 2007, Co-operative Bank
24. The Grocer, 24 February 2007

Benefits for our Trade Partners

General

Satisfying the demand for local beer has long been the preserve of freehouses, farmers markets, independent shops, and enlightened multiples such as JD Wetherspoon, Enterprise Inns, Waitrose and Booths. After several years of growing consumer pressure, encouragement from trading associations such as SIBA and even retailer associations such as the Institute of Grocery Distribution, many multiple retailers began to capitalise more on the commercial opportunities from local food and drink in 2007 as it passed from a niche status to the mainstream.

Fast growing trade interest in local food and drink is driven by a growing appreciation of:

- Additional revenue streams available due to volume demand
- Improved cash margins from premium prices
- Opportunities to create competitive differentiation
- Means to drive footfall[25,26]
- The need to substantiate 'triple bottom line' reporting, a concept whereby companies demonstrate improvements not only in their economic performance but also in their social and environmental impact

On-trade

Why Stock Real Ale?[27]

Any consideration of the reasons to stock local beer must begin with the benefits of stocking real ale:

- Cask increases total beer sales by as much as 20% versus pubs that don't stock it
- Real ale drinkers are mainly affluent and upmarket – this is also consistent with the consumer profile for local food and drink
- Real ale drinkers frequently determine the choice of pub
- Increased variety can increase a pub's profitability, providing the quality is good
- Managing real ale shows you care about your pub
- The number of pubs that stock real ale is steadily increasing[28]

They said it...

"I've never doubted the strategy (of selling real ale) – especially when I see competitors now beginning to open more pubs offering real ale."[29]
Tim Martin, founder, JD Wetherspoon

"The pub went from strength to strength, as it's new lessee specialised in cask ale and attracted new cask ale lovers. The lesson here was that cask ale could be used as a unique selling point by a manager or company with a proper sympathy for it'"[30]

25. An Ipsos MORI poll, which asked respondents to name the factors that most influence their grocery purchasing decisions aside from essentials such as location, price and range, revealed that some 28% of respondents ranked locally sourced goods as their first choice. Speciality Food Magazine, June 2007
26. More people would change to another retailer if they thought that retailer had more locally produced products than if the alternative retailer had more recyclable packaging or was more environmentally friendly. Britain's Ethical Shopper: Which Way Now?, 2007, AC Nielsen.
27. The Intelligent Choice. The True State of the Market for Cask Ale in 2007, P. Brown
28. 22% of pubs have recently increased their number of cask ale pubs while only 16% have decreased their range. CGA Strategy, 2007
29. What's Brewing, November 2007
30. Paul Charity, Morning Advertiser 15 March 2007

Local Ales Boost Sales

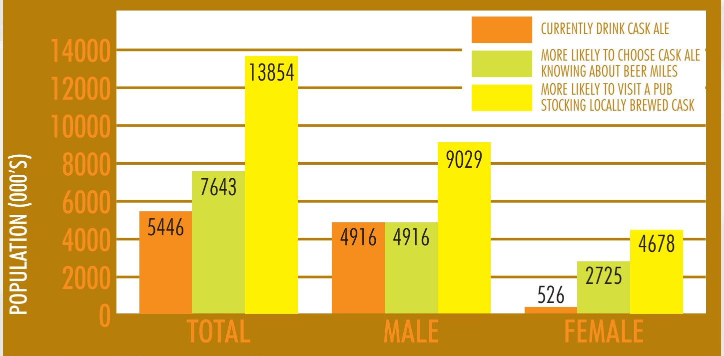
Last year was an 'annus horribilis' for the pub trade thanks to dramatic adverse weather conditions, a worsening price differential with multiple off-trade retailers, especially on lager, and the effects of the smoking ban. SIBA reported last year that ways need to be found to combat the accelerating trend to at-home drinking. There is now an even greater urgency as the on-trade share of the beer market declined further to an estimated 57% of UK beer volumes with the impact of a full 12 months of the smoking ban yet to come.

Local brewers' commitment to the on-trade is underlined by the fact that 88% of local brewers' output is draught beer. By tapping into the support from local brewers, the growing demand for local beer and a consumer willingness to experiment local beers can grow not only beer sales but total pub turnover.

In a 2006 survey among 200 pubs 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.

Further research demonstrates the importance of stocking local beers in generating footfall as almost a third of adults would be likely to visit pubs that stock cask ale from a local brewery:[31]

DOES THE FACT OF LOWER BEER MILES MAKE YOU MORE LIKELY TO DRINK LOCALLY BREWED CASK ALES/VISIT A PUB THAT STOCKS IT?



SOURCE: CAMRA TNS, STORM LANTERN, JUNE 2007

They said it...

"Ranges should suit customers' needs and tastes, not supply agreements."
Harris International Marketing OnTrack

Community Support

The growing interest in what businesses are doing to support their local community also extends to pubs. Industry observers have commented that support for the pub football team is no longer adequate and only those pubs who really integrate into the local catchment will remain the hub of the community. This is done by appealing to all of the local population and by serving local food, local beer and local wine.[32]

You Can't Get It in a Supermarket!

There was much comment last year on supermarkets' pricing and promotional policies which frequently offer beer more cheaply than bottled water.[33]

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.

They said it...

"Cask ale is the only drink you can't replicate in the home. For me it defines what a pub is, and it defines a good pub. These are exciting times for small brewers. We aim to make use of that."[34]
Matthew Deane, Senior Marketing manager, Ember Inns

31. The Intelligent Choice. The True State of the Market for Cask Ale in 2007, P. Brown
32. '10 for 2010 – what will pub customers want in 2010?' Harris International Marketing OnTrack
33. A leading premium lager was priced at £1.40 - £1.60 per litre in the top 4 supermarkets, i.e. less than £1 per pint. The Grocer's alcohol pricewatch, 5 January 2008.
34. The Publican Cask Report September 2007

Benefits for our Trade Partners

Increase In Trading With Local Brewers

An increasing number of on-trade retailers recognise the benefits of trading with local brewers. In our most recent membership survey:

- On average local brewers enjoy the support of 120 genuine free trade customers
- Nearly 8 out of 10 local brewers supply to a pubco operated pub compared to 7 out of 10 last year
- Just under a half (45%) of local brewers count a pub-owning brewer among their customer base, up from just under a third last year
- More than 8 out of 10 local brewers trade with a club with general social clubs and working mens' clubs the most commonly mentioned

Further pub surveys demonstrate that two-thirds of licensees are aware of the demand for local beer but just over a third have yet to offer it to their customers.[35]

How to Boost Sales Still Further

- Review beer range and pricing structure – are there opportunities for a tiered range of price points from national to regional, local and seasonal beers?
- Undertake staff training – talk to your local brewer about their support for training on premises or at their brewery – and encourage drinks recommendations
- Ensure top quality in beer dispense from cellar management to the serve ensuring optimum temperatures, clean lines and glassware. Local brewers spend more money on quality initiatives than on marketing so take advantage of their willingness to support you in cellar management and provide branded glassware
- Offer samples – regular research shows it's one of the most proven ways to stimulate purchase
- Emphasise the link between beer and food

Off-trade

Category Growth

There are very clear incremental sales opportunities from local food and drink: SIBA estimates that despite restricted availability the growth in the 2007 market for locally and regionally produced food and drink was approximately double that of the total groceries market. In 2008 the grocery market is widely thought to be facing accelerated competitive intensity so innovative, premium local produce will offer respite from aggressive pricing on known value items and the opportunity to grow category value and profitability.

Premium bottled ales (PBAs) were a bright spot in the beer market as in the year to October PBAs grew 4% in a stagnant market, and underlining the importance of their category role, took a 37% share of the value in the ale sector from a quarter share of its volume.[36] Retailers should acknowledge this efficiency and consider whether PBAs and local beers in particular, which can command even higher prices, should be given greater shelf space.

Scottish & Newcastle (S&N), for example, believe that there are opportunities to grow the beer and cider category within the off-trade by a further £100 million by encouraging trade up to premium products and exploiting the trend to matching beer to food. Local premium beers with their exceptional breadth and diversity of flavour and taste have a major role to play in delivering these incremental sales. And the growing range of bottle conditioned beers offers a way to capture some of the further £68 million of sales S&N claim to be available from offering pub quality beers at home. Marks & Spencer recognised as much when last year they launched a range of BCBs clearly identified as sourced from local brewers.

Local brewers mainly compete in the 500ml PBA market, estimated to be worth some £135 million at retail, and the off-trade's ability to share in the growing demand for locally brewed beers is by no means constrained by choice of product or routes to market. Aware of market trends to at-home drinking 9 out of 10 local brewers either already market a bottled beer or will offer one by the end of 2008 so there is a wealth of beers available to maintain and build a strongly differentiated offering and to cater to consumer promiscuity. Business confidence is very high as nearly 9 out of 10 local brewers are as confident or even more confident about trading prospects with the off-trade in 2008.

They said it...

"Bottled ale sales continue to be strong. However the bulk of the growth is from new and emerging brands and suppliers, as consumers continue to expand their repertoire."[37]
Mark Cox, Wm. Morrison's trading manager

"There are some fantastic British ales available and this is backed up by the tremendous resurgence in demand for premium bottled ales."[38]
Steve Wallace, Waitrose beer buyer

"PBA sales are thriving. They continue to drive the otherwise relatively flat ale market."[39]
Ian Targett, Tesco buying manager ale and cider

Independents and Multiples Still Missing Out

In 2008 all off-trade retailers have an opportunity to further exploit the growth in consumer interest in provenance and to capitalise on the disruption in the on-trade caused by the smoking ban by improving ranging, merchandising and promotion of local beers and by offering beers from local brewers which drinkers may be familiar with from the pub scene.

Yet while the PBA market grew by 4% this was driven by multiples which increased sales by 9% implying that the independents and specialists are missing out.[40] In a survey of the top 50 independent grocery groups comprising nearly 4,000 outlets[41] nearly three-quarters of them acknowledged that their customers are interested in locally sourced products and 4 out of 5 independents agreed they will have to source more in the future. This recognition needs to filter down among all independent shops and taking advantage of local brewers' strong commitment to trading with like–minded independent businesses offers specialists a chance to redress their underperformance in the PBA market.

They said it...

"More women are drinking real ale. It is gradually appealing to a wider cross-section of people because there are a variety of styles to make it attractive to everyone. People are also looking for naturally wholesome products and to match drinks with food."[42]
Gareth Jones, founder and manager, The Beer Essentials, Horsham

Similarly multiple retailers are also missing out on category sales as they represent a much smaller share of local brewers' volumes than their dominant share of the bottled ale market warrants. Individual examples of multiples whose commitment to local beers has enabled them to exceed the already strong PBA market growth abound: Booths' impressive range helped them to grow by 13% last year;[43] Waitrose, which stocks local beers in all of its stores and identifies their local provenance with shelfcards, reported sales up by 28%; a leading multiple merchandised and promoted the provenance of its local beers within one region and grew sales by more than four times its own national rate.

Table 2: Local brewers' 2007 weighted beer volume split by off-trade channel

Trade channel	Weighted % share of bottled volume
Farmers markets	1.5
Farm shops	2.5
Delis	2.9
Independent off-trade	11.7
Total Independent sector	*18.6*
Multiple off-trade	6.1
Supermarkets	47.9
Total Multiple sector	*54.0*
Direct	20.4
Other	7.0
Total	**100**

They said it...

"There's another encouraging sign in my local Morrisons. Customers – young men in particular – who a year ago would reach the checkout with four packs of canned lager are now increasingly buying quality ales from British brewers."
Roger Protz[44]

35. The Publican Beer Report November 2007
36. AC Nielsen quoted in 'Consumers flock to bottled ale' Off Licence News, 16 November 2007
37. Off Licence News 24 August 2007
38. Off Licence News 5 October 2007
39. Off Licence News 24 August 2007
40. 'Consumers flock to bottled ale' Off Licence News, 16 November 2007
41. The Grocer, 31 March 2007
42. The Grocer, 21 April 2007
43. What's Brewing, November 2007
44. Morning Advertiser 6 December 2007

Direct Delivery Scheme

What is it?

SIBA's Direct Delivery Scheme (DDS) is a supply chain initiative enabling a far wider availability of local beers in national retailers. Fast growing success means a selection within the range of 1500 beers from 300 brewers is now available in 4200 outlets owned by multiple on and off-trade retailers.

The scheme's simplicity and effectiveness were recognised in the latest annual BBC Radio Food and Farming Awards where DDS beat initiatives from two of the country's leading multiple grocers - Tesco and Sainsbury - to win the Best National Retail Initiative.

What are the restrictions on the availability of local beer?

The UK pub market is made up of multiple pub companies, pub-owning national and regional brewers as well as the independent trade. A major constraint is the pubcos' logistics practices, increasingly modelled on those of the giant supermarkets.

Multiple supermarkets account for two-thirds of all bottled ales sold in the off-trade. These retailers often find it difficult to access local suppliers, not least because their logistic arrangements are geared to generating efficiencies through centralised national sourcing.

What exactly is the problem?

Outsourcing beer deliveries to a multinational logistics company means brewers deliver to centralised distribution centres from where deliveries are made to pubs or shops around the country. So, if a local brewery can a get a listing with a national retailer, it means the beer may well be distributed hundreds of miles only to be sent back to a retail outlet a mere stone's throw from the original brewery. The length of this supply chain results in damaging, excessive beer miles and may compromise product freshness and quality.

Furthermore only 1 in 5 local brewers are able to trade through the on-trade's big 3 logistics companies because of concerns over the ability to supply threshold minimum volumes, the viability of price discounts demanded and the secure recovery of empty casks. Consequently 1 in 3 local brewers have lost a customer because of trading difficulties with these big logistics companies.

What is SIBA's solution?

SIBA has developed its Direct Delivery Scheme (DDS) to enable multiple retailers to trade cost-effectively with local suppliers to realise all the benefits of wider availability of local produce. With the retailer's agreement the scheme enables a local brewer to deliver beer directly to the local outlet owned by the retailer. Retailer HQs only deal with a single contact point within SIBA and so do not sacrifice administrative simplicity and efficiency.

How does it work?

SIBA DDS is able to receive consolidated orders from hundreds of locations, distribute the detail to individual brewers who then deliver direct to those locations. Confirmations of deliveries by brewers are returned and SIBA DDS consolidates the data for input to Head Office of the multiple retailer.

From summer 2007, SIBA DDS has developed its systems further to enable invoicing to individual retail outlets, instead of invoicing Head Office, to facilitate franchise operations in the off-trade and tenancies in the on-trade.

SIBA DDS systems have been completely upgraded to accommodate EDI to AS2 standards, full web server interaction with supplying brewers and for 2008 will be creating a web server catalogue for on-line ordering by licensees at the outlets. All such developments are in addition to a complete and personal telesales service.

What are the benefits?

Retailers benefit

Five major pubcos and two major off-trade retailers are enjoying strong commercial benefits with administrative simplicity and are able to stock local beer in 4200 outlets through DDS. Major account gains in 2007 included Orchid Pub Co, Laurel Pub Co, a nationwide deal with Thresher and the agreement to trial the scheme within another national off-trade retailer.

DDS has proved hugely popular among licensees with 75% of them judging it excellent or very good. Brewers and retailers are encouraged to develop local level relationships to maximise the unique selling points of local beer and excellent customer service enabling the ultimate responsiveness to consumer demand. Participation in the scheme enables retailers to promote it as an example of their actions to reduce food or rather beer miles, a key consumer interest in the growth of demand for local produce.

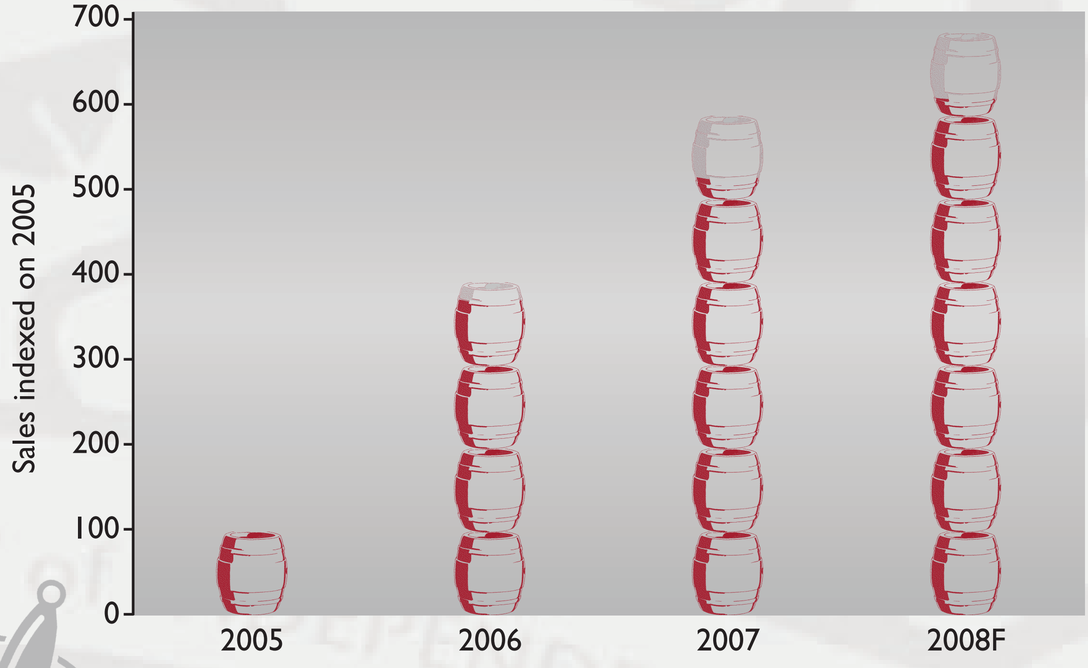
Consumers benefit

DDS brings improved market competitiveness through wider consumer choice, innovation and higher quality, fresher products thanks to a shortened supply chain.
The scheme promotes the sustainability of local communities by creating commercial opportunities for local businesses and helping them compete with larger firms.
A sense of local identity is reinforced by having a choice among vibrant independent and multiple outlets and being able to choose local beer in all of them.

Brewers benefit

Brewers benefit in being able to access the dominant multiple trade. In fact, while other routes-to-market exist, including wholesalers and direct negotiation, DDS is a very successful route for local beer in the multiple on-trade and has enabled over three-quarters of local brewers to trade with pub companies.

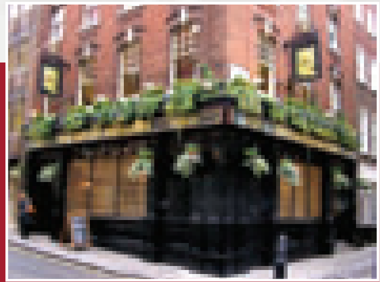
Figure 4: DDS sales growth 2005 – 2008



Direct Delivery Scheme

What do the experts say?

"The big national retailers are increasingly dependent on local suppliers in order to differentiate their ranges from their competitors. However, they don't really have the systems that enable them to do this because (instead of) dealing with thousands and thousands of small suppliers they deal with hundreds of big suppliers. What SIBA has done is actually solve that problem."
Robert Clark, Retail analyst and judge, BBC Radio Food & Farming Awards 2007



"I have been in the Scheme for nearly two years and have nothing but praise for the way it works. I would say that sales have doubled in the last two years, so I would recommend it to others."
Shane Feeney, landlord, The Edgar Wallace, London

"We bought in another real ale but it was a regional one and you'd see sales drop off as people could get it anywhere. So we approached our Business Development Manager and were told about SIBA's Direct Delivery Scheme. We joined about a year ago and now we offer four real ales, three of which come to us through the Scheme. It's really helped with building up the business and our good reputation for real ale and attracts all sorts of customers."
Layla Weston, licensee, Crown & Anchor, Thirsk

A Winner of the Year:
"DDS has led to a huge increase in local beers being served in local pubs."
The Publican 17 December 2007

"We can expect numbers (of pub using DDS) to grow as the trade responds to an undeniable desire for something local among their customers"
The Publican Beer Report 2007

"There is a huge demand for local products and this scheme gives Thresher another point of difference within the off-trade."
Roger Whiteside, CEO, Thresher, April 2007

"Distribution deals such as Thresher Group's team-up with SIBA DDS means PBAs are becoming more available to shoppers and adding much-needed interest to beer ranges."
Off Licence News 16/11/07

"A combination of social, economic and environmental forces is having an impact on prompting consumers and the food industry to reconsider what food is produced, where it comes from, how it's manufactured and how it's distributed."
IGD Senior Business Analyst Gerardine Padbury

"In terms of cutting transport-related emissions, it makes sense to source locally, but too much is still travelling around the country to central distribution centres."
Sandra Bell, supermarkets campaigner, Friends of the Earth, The Grocer 29 September 2007

Local Ales Boost Sales!

CHOICE

SIBA Direct Delivery Scheme
1500 local beers from 300 brewers

GROWTH

Majority of licensees say Scheme has grown total pub business*♦

PREMIUM

98% of pubs sell local beer at premium to or parity with usual ale*

SUCCESS

75% of licensees judged DDS excellent or good*

SALES

4,200 outlets, 5 major pubcos, 2 major off-trade retailers

WINNER

Best National Retail Initiative
BBC Radio Food and Farming awards

☎ 01765 640441   www.siba.co.uk/dds

*Independent survey of 200 pubs

♦57% of licensees felt SIBA's Direct Delivery Scheme had increased total pub business. The main reasons given were increased choice and range of local ales.

Barriers to the continued gro

Quality

SIBA members are audited by leading quality assurance body Cask Marque and the quality of local beer is affirmed by their dominance of awards won in leading brewing competitions.

Quality of beer dispensed in the dominant on-trade channel is generally acknowledged to be the biggest threat to the resurgence of drinker interest in real ale. Research by Cask Marque reveals that 34% of beer drinkers will go to a different outlet if quality is poor and 49% will not order the same drink is quality is poor.[45] Our membership survey revealed that local brewers believed 17 out of 20 pints were served well within their customers - clearly a further 3 out of 20 could do better. The problem may well lie with dispense equipment as only 7% of pubs had replaced it within the last 12 months. Assuming this is not untypical a regular replacement programme would mean that dispense equipment will have to serve 15 years before replacement.

Availability

Cask ale is only served in 4 out of every 10 on-trade premises. While SIBA believes a quality serve is vital and that consequently cask ale should not be offered where it is unsuitable, the growing interest, rejuvenating profile and business-generating capability of cask beer means outlets should review their beer offering and consider whether cask ale may be suitable for them.

Limited availability has traditionally been the biggest threat to the continued progress of local beer. The high concentration of ownership of the UK on-trade has long meant that market access is our members' biggest issue. 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. While DDS in particular is helping multiple pub estates to offer their drinkers local beer, penetration within estates is generally low.[46] In our membership surveys:

- Two-thirds of local breweries do not own or operate a pub
- Less than 2% of the UK's pubs are owned or operated by local brewers
- More than half (55%) of local breweries do not count a pub-owning brewer among their customer base
- Local brewers lose on average 6-8 customers each year to their acquisition by a multiple pub operator
- 4 out of 5 local brewers do not deal with any of the big 3 outsourced logistics operators
- 1 in 3 local brewers have lost a customer because of trading difficulties with these big logistics companies
- 1 in 5 local brewers do not trade with clubs

Within the off-trade, as seen, supermarkets undertrade with local brewers and general availability and presentation of local food and drink is restricting overall sector growth for, as shown, 40% of consumers would like to buy more local produce and a further 9% would like to begin buying it. Wholesalers have their own role to play as they underestimate the demand for local produce.[47]

They Said It...

"Not only can wholesalers benefit from introducing local ranges but it's a wonderful opportunity to demonstrate their green credentials. We need to convince the silent majority of retailers that this is valuable for them."[48]
Cash & Carry operator

45. Morning Advertiser 27 September 2007
46. Of the 650 pubs surveyed by The Publican for their November 2007 Beer Report only 15% of tenancies and 31% of leased pubs stocked a local micro's beer, compared to 56% of freehouses. 9% of pubs were using DDS.
47. 57% of wholesaler respondents felt they could not benefit from local produce. The Grocer 12 May 2007
48. The Grocer 12 May 2007

wth of local beer

Pricing and Profitability

Real ale is generally sold too cheaply and local brewers' negotiating power is inadequate. In our survey only 1 in 8 local brewers managed to improve their cash margin per firkin, down from nearly 4 in 10 who improved profitability in last year's corresponding report. This obviously suggests price increases last year were inadequate to cover raw material, and other inputs' inflation as well as losses due to the high level of cask theft. Unless significant price increases can be implemented in 2008 the incidence of lower profitability will only exacerbate as the cost of malting barley and hops have doubled over the course of the year. Cost inflation is now our members' biggest concern among those feeling less confident about trading prospects in the dominant on-trade.

In the immediate term due to high prices available for non-malting crops, the general demand for biofuels and poor global crop harvests, the regular supply of raw materials is threatened, risking business continuity and an ability to satisfy demand.

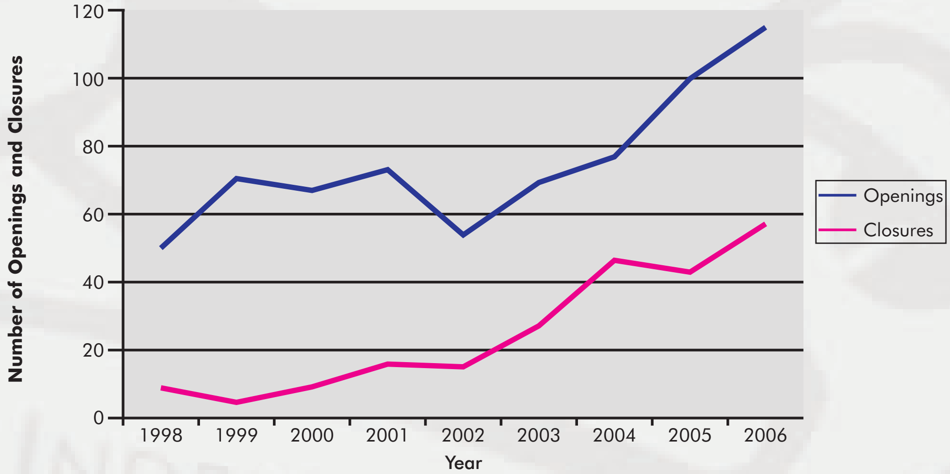
In the more medium term profitability is forsaken because the price positioning of local beer is low and below that of lager. Across two surveys by the Morning Advertiser real ale was priced 2% below standard lager and 10% below premium lager.[49] This is due to the traditional but increasingly erroneous poor image of real ale which now runs counter to the reality of product quality and despite an expectation that, in many product categories, local natural products can command a price premium. Similarly there is evidence that more than half of pub customers will pay more for a good quality product.[50]

The pricing of real ale below lager in pubs is the opposite of the off-trade which, acknowledging the category profitability role ale plays, frequently prices local beer above all other PBAs, which in turn, even when promoted, can retail at a 100% premium to leading lager brands. Local beers should be the means to deliver premium growth for pubs and shops and the true benchmark for pricing local beer could be speciality beers whose play on quality, authenticity, handcrafting and heritage is closest to the potential - but all too infrequently actual - market positioning for local beers.

SIBA encourages retailers and brewers to experiment more with pricing in order to explore drinker price sensitivity. Consider the missed opportunity for pubs and brewers who underprice their beers as revealed in one of the leading pub guides*

Market pressures, restricted market access, sub-optimum price positioning, poor pricing power, cost inflation, continued duty hikes and the general rough and tumble of commercial reality consequently mean that while there have been record new brewery openings recently, the number of brewery closures are also at a high level.

Figure 5:
Total UK Brewery openings and closures 1998-2006 (Source: HMRC)



* "Around one-third of the main entries now qualify for our Beer Award, because of their superb cellarmanship. Often they have particularly interesting beers, changing frequently – sometimes, an exceptional range. Happily this is one time where top quality doesn't cost you any extra. In fact, on average these Beer Award pubs charge 10p a pint less than pubs whose beer didn't qualify for the award."
The Good Pub Guide 2008

49. Quality Tracker, Morning Advertiser 9 August & 18 October 2007
50. Morning Advertiser 27 September 2007

Barriers to the continued growth of local beer

Alcohol Lobby

SIBA is a co-signatory to the industry-wide 'Social Responsibility Standards for the Production and Sale of Alcoholic Drinks in the UK' and believes that, responsibly consumed, alcohol plays an important, enjoyable and positive part in the social life of the nation.

SIBA notes that the vast majority of people hold individuals or families as the most to blame for the problems of alcoholism and alcohol related crime in this country and that fewer than 1 in 10 (8%) feel that the drinks industry holds most responsibility.[51] Last year, however, saw unprecedented lobbying against the alcohol industry.

Cask ale is one of the lower alcohol content products consumed (local brewers' best selling beer is typically 4.2% ABV) and mostly consumed in pubs under close supervision by trained and licensed managers whose commercial livelihood depends on their responsible retailing. SIBA is extremely alarmed by the vociferous and now relentless demonising of drinks producers and retailers and by the calls for significant duty increases which threaten the viability of its members and their customers.

Business Confidence

Unsurprisingly there is a growing and now significant minority of local brewers who are less confident about next year's trading prospects, particularly in the on-trade. There is a distinct pattern of concern over inter-connected factors whereby the consumption of beer through a declining on-trade is affected by inflating beer prices due to cost inflation, especially raw materials, and exacerbated by a declining macro-economic outlook to the benefit of a strengthening off-trade.

Nonetheless, despite the not-so distant rumblings of a perfect storm brewing for local beer, the majority of brewers are geared up to meet and indeed drive the continuing strong growth in consumer demand and awakening trade interest in their award-winning products which continue to celebrate the diversity and highest quality of indigenous British beer.

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51. Independent poll conducted among 1,015 adults for BBC Newsnight
http://news.bbc.co.uk/go/pr/fr/-/1/hi/programmes/newsnight/7141998.stm