

# Local Brewing Industry Report 2009

Published by the Society of Independent Brewers



## Foreword from the Chairman


I am delighted to pen this preface to SIBA's seventh annual report into the local brewing industry. Particularly so, in fact, since much of what we are able to present speaks so positively of the achievements of micro and local brewers, in the midst of and in spite of dismal economic circumstances, destructive fiscal policies, and the continued unwarranted attention of a forceful anti-alcohol lobby.

With considerable pride as a brewer myself, I make no excuses for singling out my own brewery as a shining example of local brewing progress. We began as a micro in 1985 and, after a couple of enforced relocations to cope with expansion, we now find ourselves approaching the top end of HMRC's definition of a local brewer. We've even started to call ourselves a regional brewery on our website, and it might soon be necessary to extend the remit of this report just to keep us in it!

However, although there is much for many of us to celebrate, there is absolutely no room for complacency. And there is definitely no justification for government to congratulate itself on our success and tighten the screws further on our already grossly overtaxed industry. We are not smug about our achievements, for we recognise that the entire beer and pub industry must enjoy a measure of good health if we are to continue to prosper ourselves. That is why, as a political trade organisation, we seek to unite independent brewers who are both within and beyond the scope of this report.

Pubs are our lifeblood, and the on-trade is in severe crisis, with premises closing at the rate of six a day. Yes, cultural and leisure habits have evolved – the growth of our bottled beer business bears witness to that – but proper draught ale in a proper pub still makes for a compelling iconic statement of our nationality. I entreat our prime minister and his chancellor to take time to re-examine their commitment to policies that threaten a heritage cherished by so many of Her Majesty's loyal subjects – in much the same way as they apparently cherish and protect their own Scotch whisky heritage.

This report offers a 'joined-up' vision for a responsible British drinks industry, as espoused and championed by passionate, dedicated *and* successful local brewers, and I am proud to commend it.

  
**Peter Amor**  
**SIBA Chairman**

This report ' SIBA 2009

February 2009

# Industry Headlines

## • Sales That Speak Volumes...

- ✓ Further significant growth reported against beer market trends
- ✓ 7% year-on-year volume growth for local brewers in production throughout 2007 and 2008
- ✓ New companies brewing through 2008 add a further 3% to year-on-year volumes
- ✓ Local cask beer sales still rising in a shrinking and beleaguered on-trade market
- ✓ Local bottled beers in unprecedented growth
- ✓ Sales turnover up by an average 20%
- ✓ Local ales stay at the forefront of the quest for a quality future for the drinks industry

## • Building Business Success...

- ✓ Continued judicious and responsible use of Progressive Beer Duty savings
- ✓ No let-up in the drive to maintain progress through structured programmes of reinvestment
- ✓ Extra capacity, new equipment, trained staff and marketing seen as building blocks for success
- ✓ Commitment to quality adds value to premium ale sector
- ✓ The local ethic and local loyalty factors underpin sound commercial foundations

## • Weathering the Storm...

- ✓ Economic and inflationary pressures hit the beer industry before the “credit crunch”
- ✓ Duty *escalator* threatens to squeeze and squeeze again
- ✓ Harm reduction lobby and knee-jerk strategies continue their ill-considered and ill-targeted assaults
- ✓ Local brewers steeled for leaner times ahead as many more pubs close
- ✓ More profits stored for a “winter” of recession

## • Working Together...

- ✓ Unity and stakeholder partnerships hold the key to continued progress and prosperity
- ✓ Treasury support vital for local entrepreneurs
- ✓ SIBA commits to legislation that supports local communities
- ✓ Quality local beers offer a lifeline for pubs
- ✓ Meaningful and constructive consultation sought to tackle misuse and reduce harm
- ✓ Local ale and pub heritage shows the way forward to a responsible drinking culture





# Introduction

For a seventh year the Society of Independent Brewers is pleased to present its annual report on the state of the United Kingdom's local brewing industry. We focus on its progress, current health, challenges faced and yet to be met, and prospects for the future within the wider industry and the economic, political and evolving social climate.

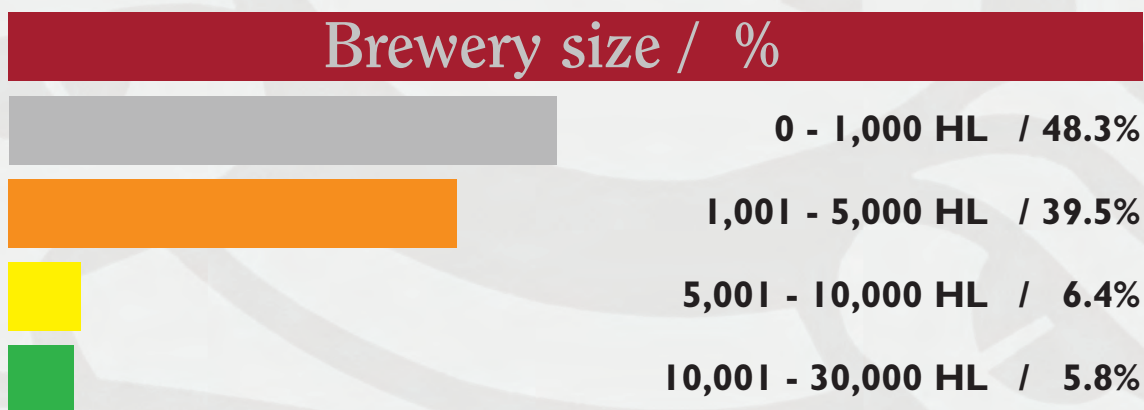
Out of a British industry of approximately 700 brewing companies, SIBA now represents close on 450 members. Of these, the vast majority (430-plus) are classed as "local" or "micro" and as such are the subject of this report.<sup>1</sup> When SIBA was founded in 1980 as the Small Independent Brewers Association, by twenty pioneering microbrewers who were too small to join the then Brewers Society, there were only sixty to seventy breweries that could have come within the scope of a report such as this.<sup>2</sup> Five years before that there were barely twenty.<sup>3</sup> Since then, the growth of such brewers has revolutionised, revitalised and enriched the cask and craft brewing industry, and they have become an integral part of – and significant contributors to – their immediate communities and local economies.

Hence our report, compiled at a time when the global economy is in deep and worsening crisis. When macro financial markets have so signally failed, the example set by the ongoing experiences of local brewers presents a compelling case for laying the foundations for recovery where foundations traditionally belong. Government has shown its capacity for positive action in support of small business, local economy and community through Progressive Beer Duty and the Sustainable Communities Act. Effective implementation of the latter promises so much that is in synergy with the business ethos of the local brewing industry, and SIBA is proud to give it its active support.

Most of the facts and figures quoted herein have been drawn from our annual industry survey, which was conducted during the final eight weeks of 2008. Almost 200 SIBA brewers completed the questionnaire, providing results that we can confidently claim to be an accurate reflection of local brewing trends and statistics. It is worth noting, to bear out the changes to the brewing industry described above, that 97% of survey responses are from businesses that are not as old as their trade association.

From their replies, we are able to draw conclusions that, whilst recognising problems and challenges, give cautious *and* conditional grounds for continued confidence in local brewing.

## Figure 1: Brewery Participation in SIBA Survey



1. HM Revenue and Customs defines a microbrewer as producing up to 5,000 hectolitres per annum, and a local brewer between 5,000 and 30,000 HL. Above that, a regional brewer produces 30,000-2,000,000 HL, and a national brewer in excess of 2,000,000 HL.

2. 'Good Beer Guide 1981', published by CAMRA (The Campaign for Real Ale)

3. 'Good Beer Guide 1976'



# Local Beer

## Further Growth Against Market Trends

*"In recent years we have consistently broken all sales records year-on-year"*

David Grant, MD of Moorhouse's Brewery, announcing expansion plans, December 2008

*"Sales for Shropshire based Wood Brewery defied the economic gloom to hit record levels over Christmas with a 20 per cent year-on-year rise in profits."*

Report in The Publican, 12th January 2009

Compared with Beer Production Account records for 2007, calculations for 2008 by the same brewers – based on actual volumes for the first nine months plus estimates for the final quarter – indicate an average growth of 7%. Production figures for brewers who weren't operational throughout 2007 add a further 3% increase to the total.

Although it might be assumed that respondents to the annual survey would be likely to include a weighting towards those with the most encouraging results to report, it should be borne in mind that 19% of replies advised little or no change year-on-year, and 12% admitted to a fall in volume production.

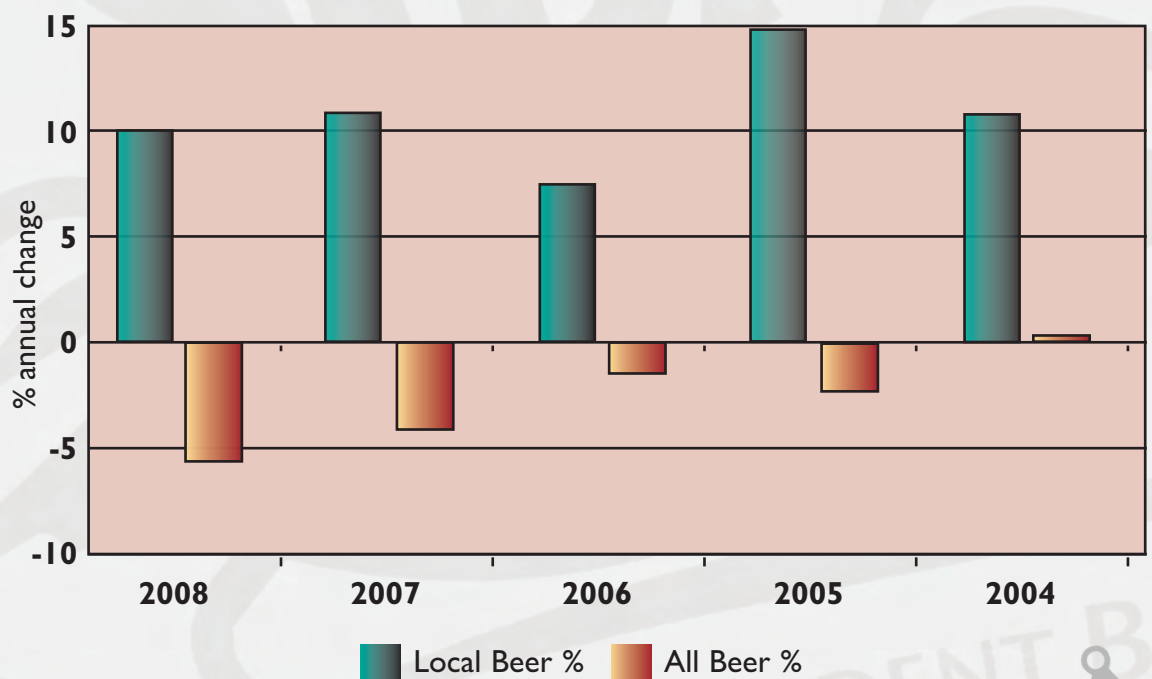
Similarly, beer sales turnover is up by an average 20%, but is made up of 74% of respondents with an improved top line, 17% recording no change, and 9% showing a decline. Leading brand selling prices have risen by a mean 5.3%, comprising 77% up, 19% the same, and 4% down.

Once again these spectacular results run counter to the picture for the wider brewing industry. The British Beer and Pub Association's quarterly "Beer Barometer"<sup>4</sup> has produced figures from its own members that show a fall in 2008 of 5.5%, compared with 2007. The figure for the fourth quarter alone was a drop of 8.3%. Worse still are sales in the on-trade, with a downturn of 9.3% for the year, equal to 1.3 million fewer pints per day sold in pubs, bars and restaurants.

BBPA statistics are drawn from the association's own members, claiming to represent 95% of all beer brewed in the UK. It is significant that very few local brewers are members of the BBPA (6.7% of respondents to the 2007 survey), and surely not flippant to suggest that the market-share quoted could be due for revision.

**Figure 2: Local Beer vs Total Beer – Annual % Change 2004-2008.**

(Sources: SIBA Annual Surveys, BBPA Beer Barometer)



4. The Beer Barometer is available on the BBPA website, [www.beerandpub.com](http://www.beerandpub.com)





# A Duty to Deliver

## Progressive Beer Duty and Business Investment

Smaller Brewers Relief (SBR) is now well into its seventh year. Since its introduction in June 2002 it has proved to be a major stimulus to the expansion of the local brewing industry. 61% of breweries responding to the survey were founded in the new millennium. Even more tellingly, almost half of them have joined SIBA since 2005, and it is reasonable to assume that the great majority of these are new to the industry.

PBD/SBR is a fiscal measure that SIBA is proud to have secured after a 20-year campaign, and the current government's commitment to its retention is warmly applauded. Originally introduced for micro and local brewers only (i.e. production up to 30,000 HL) tapered relief was extended in 2004 to an upper limit of 60,000HL. Although further extensions would be permitted under European law, to a maximum threshold of 200,000 HL, SIBA's number one concern is to defend PBD's continued existence at its current level.

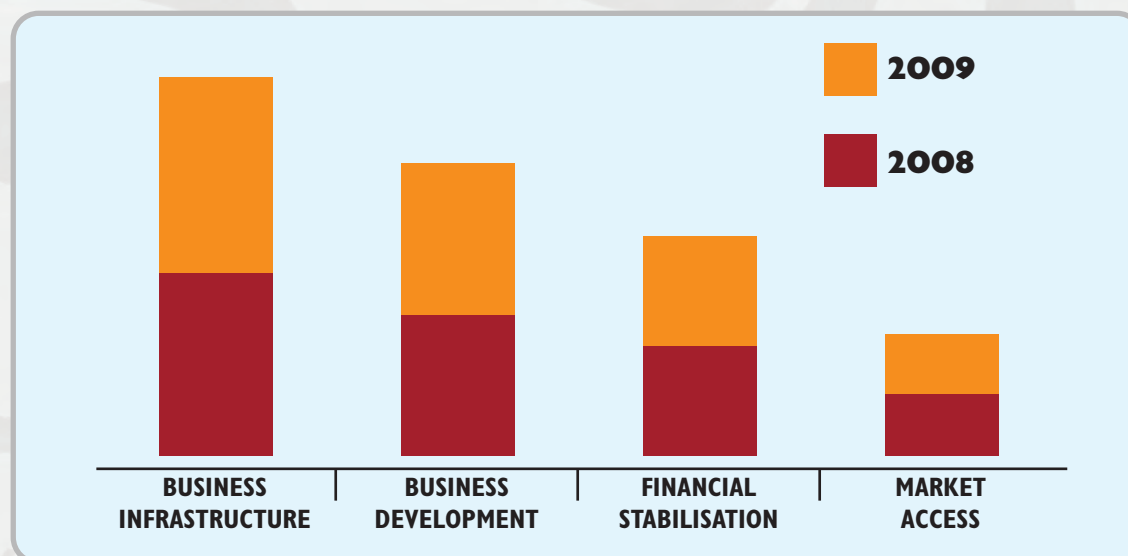
Of all SIBA activities and member services, 77% of survey respondents give defence of Progressive Beer Duty the highest priority rating.

That the benefits of PBD are crucial for business development – and therefore used for that purpose – is shown by local brewers' actual investment in 2008 and investment plans for 2009, continuing the evidence presented in previous reports. The highest commitment, once again, has been to the purchase of new equipment, central to the plans of 81% of respondents for both 2008 and 2009. Marketing is a very close second – 76% had it singled out for 2008, rising to 82% in the coming year. Understandably, in the light of rising volume performance, increasing capacity has also maintained its level of priority, essential to the continued progress of 69% of brewers this year and 75% in 2009.

Other areas of operational infrastructure, including staffing, training and internal systems, retain a level of importance for investment among 59% of brewers. Survey replies indicate that an average of eight people, six of whom are full-time, work in each local brewery.

Extrapolation of employment figures from survey replies indicates that the local brewing industry has taken on as many as 1,500 new staff (over 900 full-time) since the introduction of PBD in June 2002.

**Figure 3: SBR Saving Priorities**



More than 70% of reinvestment of SBR is targeted at brewing and marketing quality local ales, through business infrastructure (brewing capacity, equipment, staffing and admin.) and business development (products, marketing and staff training).



# A Duty to Deliver *Continued*

It should be noted, however, that it is possible to detect a shift towards an additional degree of judicious caution in spending plans, prompted no doubt by the threat of much more straitened circumstances to come. Financial stabilisation through profit retention and the servicing of debt has raised its allocated share of duty savings from 14.3% in last year's report to an average 18.8% now. More than 70% of survey respondents are now giving the same priority to profit retention as to marketing and new capacity, and 62% cite the use of cash savings for debt servicing as important this year.

As far as securing market access via estate development and price competition is concerned, well under half of local brewers mention pub acquisition as being driven by duty savings, and even then only with one of the lowest overall priority ratings – on a par with discount pricing, which survey results again confirm has never been a widespread policy among SBR recipients.

## Government's Vital Role

Progressive Beer Duty was introduced to enable smaller brewers to compete with their larger counterparts, generate profit, invest in product development, and thus secure better market penetration. In these respects, successive reports have been able to signal a marked measure of success. But PBD was not designed merely to preserve "subsistence viability", and there are signs that this may now be happening, due to the "perfect storm" of economic and political factors that have combined to threaten difficult times ahead.

It is true that, even though blame will inevitably be apportioned, some of these challenges are beyond direct control. Others, however, are not, and local brewers have to persuade our political masters that the progress that they themselves have done so much to enable must not now be allowed to unravel due to policies that look increasingly likely to counteract their duty reform of seven years ago.

With the honourable exception of SBR, this administration's current and ongoing taxation policy is nothing short of punitive. Since last year's Industry Report the full rate of duty has risen by 17.8%, and an escalator has been promised that will maintain increases in the next four Budgets at 2% above inflation. Marginal benefits from the reduction in VAT to 15% have less than a year to run, when the possible return to 17.5% will leave the brewing industry with the permanent "bonus" of the 8% duty hike imposed – supposedly to balance the books – in the Pre-Budget Report of November 2008.

76.5% of survey respondents rate SIBA's wider political lobbying second in importance only to PBD defence. The importance to the local brewing industry of positive and constructive government action cannot be over-emphasised. There are of course issues beyond the Treasury's fiscal regime, and they are covered elsewhere in this report. Here, though, at the top of the political agenda, it is the duty rate, the duty policy, and anomalies within the duty system that brewers need to see addressed.

For the creation of a supportive duty structure, local brewers seek a system that treats all long and relatively low alcohol drinks equally. Unlike beer, both cider and wine enjoy uniform rates of duty irrespective of strength, and it would be equitable to bring these three categories into line, with rates tied to alcohol content (with the added social and health benefit that this would encourage a move to lower strength cider and wine). As a counterbalance to support the smaller producer, the indigenous craft cider industry and emerging vineyards are deserving of a progressive duty system like SBR.

Current EU law makes no provision for a differential duty for draught beer – which would undoubtedly offer much needed support for the on-trade against the rising tide of packaged cut-price and below-cost supermarket alcohol. However, existing legislation can be changed, if the will to save jobs, benefit culture, strengthen community and preserve heritage is sufficient to generate the determination to change it.

Attention should also be drawn to the survey's finding that local brewers are increasingly victims of "bad debt": 57% reported a rise in such incidences over the past twelve months. It is surely reasonable to request duty relief on unpaid debts, rather than for government to insist on taking its share of income that the brewer will never receive.



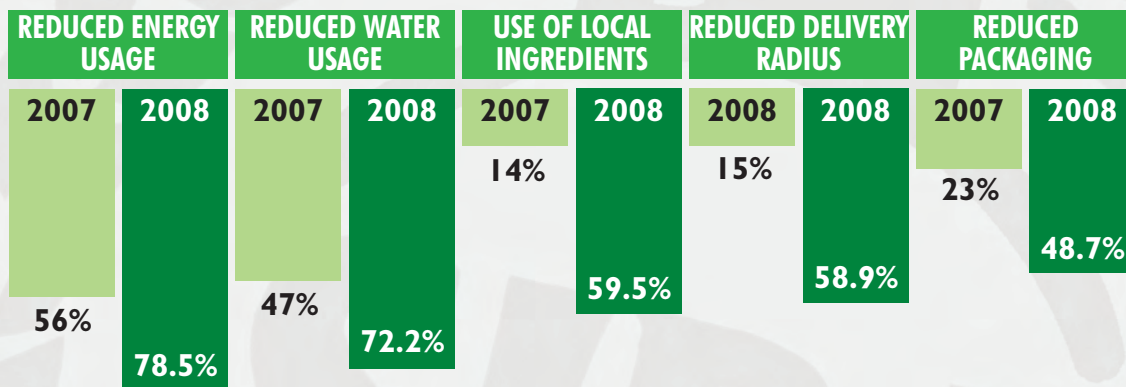


# Growing Local

## In Tune with the Ethics

Local brewers find a natural sense of identity in their generic title. They are passionate about brewing, but equally proud to be local, and are showing increasing levels of determination to reinforce their responsible business credentials through initiatives that reduce their environmental impact. Undoubtedly much of this has cost benefits, but that cannot detract from the genuine principles that drive dedication to sustainable operational standards.

**Figure 4: To which environmental initiatives are you committed?**



Around three-quarters of survey replies affirm a commitment to reduced utilities usage. Well over half seek to maximise use of local ingredients and keep deliveries as local as possible, and almost half are aiming to reduce packaging.

(Isolating the packaging response to those who produce bottled beer raises the percentage commitment to 62.6.)

The 2008 results show an outstanding improvement on 2007 scores.

Local produce continues to make impressive progress right across the retail world. Among the major supermarkets, Waitrose has led the way: *“A product is defined as ‘local’ if it is made within a 30-mile radius of the Waitrose branch where it is sold. Local products in Waitrose shops include fruit and vegetables, sausages, bacon, ice cream, wines, cheeses, sauces, and honey. At present more than 1200 local products from 450 local suppliers are available in nearby branches.”*<sup>5</sup> They fail to mention that they sell local beer too.

Consumer commitment to “ethical shopping” shows no sign of being a transient fad, and now appears sufficiently robust to withstand the belt-tightening of a recession. Principled purchasing decisions intrinsically involve an understanding and acceptance that there is likely to be a price premium to pay for quality, local provenance, organic, welfare, environmentally friendly and “Fair Trade”, and there is no evidence to suggest that such lifestyle choices could be reversed as a result of the current economic gloom.<sup>6</sup>

Local ale wins support on ethical grounds because of its perceived environmental and community benefits: reduced “food miles”, sustainable production, and contribution to local economies. There is also a particular strength in its genuine provenance, in an age when the use of brand names by larger breweries increasingly gives no guarantee of local origin. CAMRA’s “LocAle” accreditation scheme – *“to promote pubs that sell locally-brewed real ale, reducing the number of ‘beer miles’ and supporting your local breweries”* – recognises the value of this and offers some welcome customer orientation.<sup>7</sup>

Organic beers from local brewers are increasingly making their presence felt, to the extent that they will probably merit a question of their own in next year’s survey.

5. Information on the Waitrose website, [www.waitrose.com](http://www.waitrose.com)

6. “Ethical Consumerism Report 2008”, Co-operative Bank

7. Full details on the CAMRA website, [www.camra.org.uk](http://www.camra.org.uk)



# Growing Local *Continued*

## The Sustainable Communities Act

During 2008, the process began that will hopefully bring to fruition the aims of the Sustainable Communities Act. The bill became law in October 2007 – with full cross-party support – and one year later the campaign to encourage local authorities to opt in got under way. Long a member of the Local Works<sup>8</sup> coalition that fought to secure the passing of the legislation, SIBA is now represented on the steering committee set up to maximise its implementation.

The fundamental principle of the Act is a revolutionary “bottom-to-top” empowerment, whereby local communities in “opt-in” authority areas can drive central government policy and action to reverse community decline and to support, advance and strengthen local sustainability.

Of primary importance, therefore, is the need to persuade local authorities to agree to engage in the implementation process. At the end of January 2009 at least sixty councils – including six county councils – had committed themselves to participation.

Councils that do opt in must set up citizens’ panels and reach agreement with local people on their proposals to promote local sustainability. Local authorities will then submit these proposals to central government. In April central government must publish reports containing detailed accounts of local and central expenditure, broken down by local area. This timetabled procedure will recur on an annual basis.

SIBA is acutely aware of the potential importance of the Sustainable Communities Act for local brewers and community pubs. There is total synergy between the aims of the Act and the operational philosophies of the local brewing industry. It is a forward-looking and constructive piece of legislation that reinforces the worth of devolved decision-making, and enhances the prospects of reversing the decline of essential local services.

Therefore, the Sustainable Communities Act calls into question other areas of government policy which, by their destructive effect on the long-term viability of pubs and brewing, threaten to undermine its potential for restoring vitality to local economies and communities.

# Making Quality Count

## From Brewery...

SIBA’s role as the local brewing industry’s trade association includes a commitment to maximise consumer perception and appreciation of its members’ products by means of a support structure aiming to encourage and ensure best practice in every area of technical, commercial and administrative operation. The overwhelming majority of local brewers are of course aware of the standards that contribute to the marketing of a top quality product, and they strive to the best of their ability to implement those standards across every aspect of their business.

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8. Full updated information on the details and progress of the Act is available on [www.localworks.org](http://www.localworks.org)





# Making Quality Count

But they are honest enough to admit where improvements could be achieved and prepared to tick the “need support” box if they feel that they could benefit from some assistance.

## Figure 5: Quality Control Performance

OPERATIONAL AREA	% GOOD	% COULD DO BETTER	% NEED SUPPORT
general good practice	66	26	8
plant maintenance/investment	57	36	7
documentation and records	60	32	8
internal staff training	37	53	10
external staff training	20	60	20
audit of quality systems	33	52	15
customer cellar support	33	47	20
dispense equipment support	30	42	28

There is clearly overall satisfaction with general standards, maintenance and admin., and very little indication that external assistance is needed in these areas. However, the frank admission that staff training – in-house or industry-supported – is not good enough plainly justifies SIBA's commitment, in association with recognised industry training bodies, to improve and develop its in-service programme.

64% of survey respondents welcome SIBA's plans to introduce its own externally audited quality systems and good practice voluntary accreditation scheme, and affirm that they would be likely to seek accreditation. Fewer than 5% are opposed to the idea.

Of significant interest is the high percentage seeking support with customer technical services, especially regarding dispense equipment. (See DDS section below)

## ...to Market

With a quality operational infrastructure in place, attention turns to the methods that the brewery employs to market itself and its beers. Of course, in the local industry this cannot involve vast advertising budgets – an average 4.5% of turnover is dedicated to the full range of marketing tools. Understandably, the highest priority is given by 88% of survey respondents to the “coal face” area of direct appeal to the drinking customer i.e. point-of-sale material such as pumpclips, glassware, beer mats, posters etc. Other activities aimed straight at consumers – beer festivals and advertising in local papers and CAMRA magazines – are also scored very highly by almost 80% of brewers.

Most brewers (64%) take a proactive approach to PR and publicity, and it is interesting to note the high level of involvement (61% of replies) in local sponsorship opportunities. Though less direct as a marketing device, this is a further shining example of synergies between local business and community.

Of far less importance, to those with their commercial base firmly and increasingly rooted in all elements of localism, are marketing initiatives targeted at a wider, more nationally focused audience. In this section of the survey, although trade exhibitions and national trade advertising have the attention of more than half the brewers polled, they gain a low priority rating. A similar relative lack of enthusiasm is expressed for trade price promotions and giveaways.

## Brewing Business Awards

All aspects of business operation and marketing are rewarded annually in SIBA's brewing business competition, which will be launched for its fourth successive year in March 2009. Entrepreneurial excellence is rewarded in categories including on- and off-trade support, promotion and PR, innovation and new launch, sponsorship, electronic media, and packaging and point-of-sale.

The standard of entry in all three competitions to date has been excellent and improving every year, and although the awards are also open to SIBA's better resourced regional brewing members, local and microbreweries consistently impress – and take the prizes – for imaginative and innovative marketing initiatives that in every case reinforce the local ethic upon which their businesses are founded. 2008's overall winner was a regional company but, fittingly, it took the accolade for an innovation of public house partnerships with local brewers.<sup>9</sup>

9. Brewing Business Award details are on the SIBA website, [www.siba.co.uk](http://www.siba.co.uk)



# The Pub's Natural Partner

## Cask Ale - "The Intelligent Choice"<sup>10</sup>

86% of beer brewed by local brewers is destined to be served on draught, and 95% of that is cask-conditioned "real ale."

Closer analysis of the industry survey reveals that 27% of brewers currently brew nothing but cask ale and less than 9% brew any draught beer other than cask (i.e. brewery-conditioned or "keg" beers). A few local brewers are dedicated solely to the production of admirable high quality craft beers that do not fit the accepted definition, but real ale remains the industry's core product.

Draught beer is sold almost exclusively in the on-trade and unfiltered, unpasteurised and unpressurised real ale is a pub speciality. Real beer in a real pub conjures up an icon of Britishness that is totally familiar and regularly sought out by foreign visitors to these shores. Nevertheless, together they can constitute something rather more commercially substantial than a nostalgic, sepia-tinted image.

Pubs are closing at the rate of six a day, but local cask ales still show volume growth. These apparently contradictory facts can only be explained by concluding that pubs eager to feature local beer with a leading role in their business portfolio are proving more resilient to the economic downturn and the price pressures inflicted on the on-trade by duty increases. Their sales and their beer volume throughput are holding up, and now is surely crunch time for the wider pub industry to maximise these potentially lifesaving advantages across as many outlets as possible.

Although local brewers seek increasingly to run pubs of their own, they have never (with very few exceptions) been established in the industry with the security of tied estate, and their prosperity in the on-trade continues to be dependent upon their ability to gain access to market via "foreign" accounts, i.e. the independent free trade, supply-tied "free houses" of major multiple pub companies, and with guest beers in the tied pubs of larger brewers. Among replies to the annual questionnaire, the average total number of regular foreign accounts per local brewer is 94, against 79 last year – an increase of 18.7%. 67.7% still control no pubs of their own – though that represents a fall from 71.4% in 2007.

The trends, therefore, are in the right direction, and certain enlightened multiple retailers have recognised and seized the opportunity to develop a policy of "local beer in the local" as a lucrative market move. Some pubcos themselves are currently under enormous economic pressure, which makes it a particularly unpromising time for their hard-pressed lessees and tenants to expect positive responses to their own political campaign for more trading freedom – at least pending the findings of the Business and Enterprise Select Committee.

In the meantime, although no one expects their fundamental differences to disappear, all stakeholders in the pub sector still have to find ways in which they can unite against the external forces that threaten their viability. Whatever their respective economic and political agendas, they share problems that require a constructive partnership in their *de facto* business relationships.

The response to this from local brewers' is the firm and sincerely held belief that for many pubs their local ales represent at least part of the solution. "*Britain's national drink comes to the rescue of the British pub,*" proclaims the cover of *The Intelligent Choice*, and this is surely no exaggerated claim when coupled with the rising production figures of the local brewing industry.

83.2% of local brewers have established some trade with non-brewery pubcos, either independently, via wholesalers, or through SIBA's Direct Delivery Scheme. Most pubco traders (57.5%) do so independently, which suggests that the direct business relationships have been forged that can be built on further if the will is there among the pubco decision-makers.

Increasing recognition of the value of local beers in pubs could lead to the loss of fewer regular accounts as a consequence of pubco or brewery control. Last year, only 6.1% local brewers lost more than twenty, but almost a quarter (22.3%) lost between six and twenty, and 39.2% lost up to five. 32.4% are able to report no losses, and hopefully more will be able to say the same in a year's time.

10. "The Intelligent Choice" is the title of the annual report into the cask ale market, written by Pete Brown and published with the support of CAMRA, Cask Marque, Independent Family Brewers of Britain (IFBB), Why Handpull? and SIBA





# The Loyalty Factor

Real ale drinkers do not readily switch to alternative drinks. Furthermore, their preferred tippale is virtually exclusive to the on-trade – in pubs primarily (though mention should be made of the increasing number of clubs that are realising and exploiting the business value of local beer). Bargain prices are available in supermarkets on virtually every type of alcoholic drink you could ask for – but not cask beer, because it's not there. Premium bottled versions of the same ales might be available in the off-trade, but they are carbonated and thus unlikely to satisfy the true draught aficionado.

In contrast, lagers in can, bottle or keg are mostly pretty much the same as far as technological processing is concerned. So it's the big lager brands whose fans are more and more reluctant to pay inflated pub prices for when they can drink the same products at home for a fraction of the cost. Real ale drinkers have no such choice. This goes a long way to explaining the divergence between BBPA and SIBA on-trade statistics.

It is also true that those who opt for local cask ales are consumers who have made a principled lifestyle decision that counts the traditional pub as the right place for social activity, of which drinking beer is an important – but not the only – element. Herein lies the social cohesion that has been so casually dismissed both by short-sighted government policies and anti-alcohol lobbyists. So the high prices demanded and imposed as a weapon to reduce harm are being paid more than anyone else by the wrong people.

The loyalty of real ale drinkers should not be underestimated. Nor should their enthusiasm for new beers – which is what makes the success of the local brewing industry so important to them, and therefore such a golden commercial opportunity for the pub trade. What also matters, however, especially to attract more drinkers to cask, is the guaranteed quality of the product at dispense.

# The Perfect Pint

Cask beer is perishable and therefore requires a degree of stocking intelligence and cellarcraft to ensure optimum throughput and therefore quality. This should not be seen as a barrier to taking advantage of its potential business value; it's a fairly straightforward challenge that is easy to get to grips with, that instils a sense of pride and achievement in the cellar practitioner, and that consequently reaps its financial rewards.

Every local brewer is keen to see the maximisation of the quality and consistency of real ale – one bad experience through a traditional handpull can have repercussive ill effects. The industry is actively engaged in the challenges thus presented, and the SIBA survey is able to report a 66% “generally very good” response to the question about quality at dispense. 7% think it's even better than that, and fewer than 2% find quality to be “frequently disappointing”.



# A Quality Off-Trade

## A Price Worth Paying

It has become customary to cast the off-trade as the villain when bemoaning the problems that beset the brewing industry. This is a gross oversimplification. Local brewers are as keen – and in some cases more keen – to target and secure take-home markets with their growing array of packaged beers as they are to maintain their more traditional draught ale presence in pubs. Local bottled beer is growing at a phenomenal rate:

- Bottled beer's share of volume production has risen from 9.9% in 2007's survey to 13.9% in 2008
- Taking into account the year-on-year total volume increase, these figures suggest an actual volume growth from 2007 to 2008 in excess of 50%
- 73% of survey respondents produce bottled beers and a further 16% plan to start bottling in the coming year

There is significantly more confidence in the off-trade than the on-trade for commercial prospects for 2009 in comparison with 2008. More than half of brewers express optimism that their off-sales businesses will do better this year, against only 34% expecting their pub trade to improve. 34% also expect an on-trade downturn, but only 16% see things worsening in the off-trade.

The bottled ale shelves in supermarkets are an impressive sight these days, showcasing a wealth of choice, flavours and styles behind seriously innovative and competitive labels and packaging. Local brewers have made inroads into these stores, mostly as direct localised supply agreements have been implemented, although a few have secured national contracts. However, larger regional and national companies still dominate supermarket bottle stocks. Half of the survey respondents who produce bottled beer supply to supermarkets. An average 33.5% of their total bottle sales follow this route, which suggests that the deals are substantial. Margins are tight however – and getting tighter – and the comment quoted here indicates that they are threatening to become uneconomically so.

*“Supermarkets are squeezing suppliers' costs leading us to re-evaluate our relationship.”*  
Survey comment

Three-quarters of brewers secure a quarter of their sales via direct means e.g. brewery shop or website. 77% sell 23% of their output to independent off licences. These are by far the most popular routes to market, although 56% have their products in farm shops – albeit only 12% of their production. Multiple off licences take 19% from just under half of local brewers, and smaller numbers supply to farmers' markets, delicatessens and via other less common speciality channels.

Thus it is clear that bottled beers from local brewers are finding their way to discerning customers. They compete mainly in the 500ml Premium Bottled Ale (PBA) market, a thriving category that attracts more “promiscuous” (i.e. adventurous) drinking than brand loyalty – competition is fierce but PBA customers are always eager to try something new.

*“Bottle-conditioned beer sales are going well and will continue to be a focus for our business in a declining pub market.”*  
Survey comment

A great many packaged beers from local brewers are “bottle-conditioned” i.e. bottled with yeast sediment that allows the ale to mature naturally – with no filtration or pasteurisation process. This is the equivalent of draught real ale, and is increasingly finding favour. There is much “cross-fertilisation” between on- and off-trades, as the draught ales of local brewers, enjoyed with appreciation in local pubs, stimulate the purchase of the same company's products – even the same brands – in packaged form (and vice versa, of course). And if the packaged beer is “real ale in a bottle”, it is yet another incentive for principled consumers seeking local products at their most traditional and least processed.

There are signs that the entire off-trade retail industry is responding to the rising demand for local produce whose appeal is enhanced by genuine provenance and low food miles. Yet it remains true in some retail sectors that the response is more passive than proactive. Local brewers themselves have done much of the legwork to get their bottles on to shelves.

Furthermore, there is no scope for local brewers' beers to be driven into the cut-price end of major retailers' drinks offer. Higher production costs mean that increasing percentages of packaged against draught are already squeezing bottom lines, in an industry where economies of scale that might allow sufficient volumes to justify reduced margins plainly and by definition do not exist.

Besides, this industry has no desire to see any alcoholic drinks retailed at such low prices. SIBA has recently given its support to the “Make it the Minimum” campaign that is being co-ordinated by The Publican newspaper, which calls for a minimum price of 50p per unit of alcohol.<sup>11</sup> Obviously this primarily targets the off-trade, and calls for one example of government intervention that would be judiciously targeted for both industry and social benefit.

Local brewers' bottled beers are quite categorically premium products, and all the evidence this year suggests that their turnover has not been inhibited by the premium price that they command. For all the right reasons it is a price worth paying.

11. [www.thepublican.com/makeittheminimum](http://www.thepublican.com/makeittheminimum)





# Access to Market and SIBA DDS

## A Direct Approach

Local brewers have always looked to SIBA to pursue its original mission:

To campaign on behalf of independent brewers to ensure that they have the best possible opportunity to bring their goods to market.

Thus "Access to Market" (ATM) was developed as a project to explore every possible avenue that could in any way facilitate attainment of its self-explanatory objective.

SIBA's Direct Delivery Scheme (DDS) grew out of ATM to enable cost-effective trade between multiple retailers and local suppliers. The scheme allows a local brewer to deliver direct to a local outlet owned by a participating retailer. Orders from hundreds of locations are received online and passed to individual brewers for delivery. Following confirmation of delivery by brewers, DDS consolidates the data for input to the multiple retailer's head office. Because retailer HQs only deal with a single contact point within SIBA, the simplicity and efficiency of their administrative systems is not sacrificed. For some customers, DDS systems have been developed further to enable direct invoicing to individual outlets, to meet the requirements of on-trade tenancies and off-trade franchise operations.

**Figure 6:  
Brewer's DDS  
Sales**

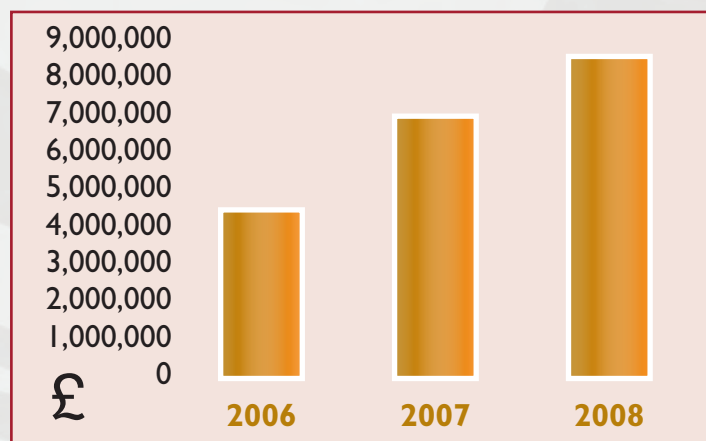
SALES via DDS	% of BREWERS
Less than 5%	48.9
5-10%	27.9
10-20%	14.7
More than 20%	8.5

77% of survey respondents are members of SIBA's Direct Delivery Scheme, and a further 7% intend to join in 2009.

Most participating local brewers are keen to use DDS as an additional means of access to market, rather than as the core of their business, upon which they would consequently be totally reliant. Over three-quarters estimate that sales through DDS make up less than 10% of their total turnover, and only 8.5% record DDS as the route for more than a fifth of their sales.

The figures returned indicate that 9.3% of DDS local brewers' total sales are through the scheme.

**Figure 7:  
DDS  
Total Beer Sales,  
last three  
calendar years**



The sales growth of DDS has been driven by the acquisition of new customers – on-trade outlets are up by 50% from 2006. But it is also noteworthy, especially in the current economic and political climate, that average throughput of local ales per pub has also risen, by approximately 9% over the same two-year period. The increase has slowed recently, but has not reversed. Overall, DDS pubs do not appear to have been hit by the same declining sales as the wider industry, and this in itself is a remarkable testament to the commercial value of local beer.



# Access to Market and SIBA DDS

*Continued*

## The Total Package

The success of DDS has allowed SIBA's Access to Market campaign to broaden the scope of its support for the local brewing industry.

It was noted earlier in the report that 70% of survey respondents are not happy with the level of dispense equipment service they are able to provide for their pub customers, and that two-fifths of these brewers seek help in this vital area.

Plans are now well advanced for the setting up of SIBA Technical Services. This will provide a tailored and totally flexible response service that is geared to all customers' requirements, costed and charged according to whatever ownership circumstances are in place and whatever work is necessary. Utilising the resources and expertise of Innserve, the UK's largest and leading independent drinks dispense service company, SIBA TS aims to create a standard of co-ordinated and wide-ranging cask ale "handpump" dispense support that would be impossible for 400-plus independent micro and local brewers to achieve individually.

The desired goal of a benchmark quality of dispense service clearly demonstrates how much ATM is a responsibly driven and holistic concept, about much more than merely having goods to sell. It emphasises the sustainability of the local brewing industry, and will hopefully further enhance confidence in local ales among on-trade customers – from individual pub operators to major multiple retailers – who are essential for brewing business success.

Of potentially similar benefit is the Cyclops scheme.<sup>12</sup> This innovative system of simplified flavour profile assessment allows effective communication of a cask beer's principal flavour characteristics, and is therefore of immense value both to bar staff and their pub customers.

ATM is now offering to organise and part-fund Cyclops analysis and accreditation for all SIBA members. This is once again making available to individuals a share of the unified resources generated by local brewers working together.

Survey replies indicate that currently only 7.7% of local brewers have had their beers Cyclops-assessed, although a further 36.3% announce their intention to be within the scheme within a year. It is virtually certain that, as greater publicity is given to the ATM offer, even more brewers will take advantage of it. Thus an increased element of professional consistency will have been achieved by an industry of many individual parts, and the appeal of local beers will have been underscored once more.

That there is an underlying rationale to SIBA DDS and other Access to Market initiatives should be evident from the range of work being undertaken. Efforts don't stop at "Stage One" when nothing more than a sales opportunity has been established. Business relationships once forged are continually being strengthened and consolidated, to the benefit of retailers, consumers, local communities, and local brewers.



## A Traditional Responsibility

## The Cultural Inheritance

Beer is still the dominant sector within the UK alcohol market, but it has faced an interminable succession of challenges over the last fifty years. The indigenous styles have had to fight against the threat of extinction from within the brewing industry itself; social evolution and aspiration have broadened the drinks portfolio and increased leisure choices; the decline of heavy industry has reduced the demographic that once sought the thirst-slaking qualities of several pints of low strength mild and bitter ales; and a chorus of voices has arisen to vilify all alcoholic drinks without distinction and press the case for a prohibitionist future.

<sup>12</sup> Details of the scheme are available at [www.cyclopsbeer.co.uk](http://www.cyclopsbeer.co.uk)





# A Traditional Responsibility

And yet local beer is not only surviving – it is performing remarkably well. It has survived thanks to the entrenched loyalty that has made the Campaign for Real Ale the most successful consumer movement ever<sup>13</sup> – local brewers have grown to their current numbers through the years of the “real ale revival”. There is a cultural integrity in local beer that assures it of passionate support from its champions. For them, it is much more than just an alcoholic drink: it is integral to a culture that embodies a relaxed yet responsible and cohesive society.

Traditional British brewing itself has evolved over the last thirty years without becoming detached from these cultural roots. In fact it has reaffirmed its positive role in a modern society beset by “modern” problems that are too well known and widespread to need citing again here. What does need to be stated and restated, however, is the affirmation – borne out by the contents of this report – that the local brewing industry should not be held to account as a contributor to these social ills.

## An Essential Social Role

There are indeed “alcohol issues” in Britain today. There is misuse and harm; there is violence, crime and disorder; there is a trend to underage drinking in uncontrolled “monocultural” situations; there is irresponsibility within the drinks industry. Many of these problems have always existed and it has always been the duty of legislators and industry stakeholders to respond and to work together to minimise any ill effects brought about by the nation's drinking habits.

**The local brewing industry fully endorses any strategy that will effectively counter alcohol problems.**

It is entirely in the interests of local brewers that the United Kingdom should enjoy a “*Safe. Sensible. Social.*” drinking culture.<sup>14</sup> But it is also entirely erroneous for government to pursue policies that undermine the benefits of a responsible cultural heritage that includes drinking local beer in the local pub.

Local beers were not formulated by marketing men to appeal to as broad a range of the population as possible – including underage drinkers. It cannot be pretended that they have never been tried by those not of legal age, but they are generally distinctive and uncompromising in flavour, and require a maturity of palate to be appreciated. Draught beer is virtually exclusive to the monitored surroundings of an on-trade already subject to sufficient regulation, which requires nothing more than the will and the resources to enforce it. Local beers in bottle are not among the cut-price offers found stacked high in off-trade retail stores. Young people congregating in groups that create no-go-areas for adults are never found to be swilling pints of local beer.

There are some enlightened voices within the harm-reduction lobby with whom local brewers believe they can forge constructive alliances to promulgate the virtues of a responsible drinking culture. One has written, in his regular column in a local CAMRA branch magazine: “*Let's be clear that responsible drinking in well-run public houses is not something that worries us at all.*”<sup>15</sup> He adds, in a later article: “*Why would we discourage people from using pubs by enabling supermarkets to sell drink cheaper than water? Why is the price differential between on and off trade increasing? Why do we raise taxes on beer but not on the problematic products that are aimed at dependent drinkers...?*”<sup>16</sup>

These views have to be acknowledged by the broader lobby and taken into account by the Government. They are not the bleating of a vested commercial interest. An increasingly articulate coalition is coming together – politicians, national and trade media, industry organisations, brewers, publicans, consumer groups and ordinary customers – united by the realisation that they have a vested *social* interest in the wellbeing of a vibrant, sustainable and responsible beer and pub industry, essential to the fabric of community and cohesion.

## Heritage with a Future

In spite of its rich history, the local brewing industry in no way seeks to epitomise a nostalgic “opt-out” from the sometimes harsh realities of the modern world. It is entirely geared to today's commercial realities, and the effect of its heritage, if anything, is to strengthen it as it moves forward. There is nothing ephemeral or faddish about its current progress. It has healthy roots that give it every chance of flourishing into the far distant future. The judicious husbandry of local brewers, both as individual entrepreneurs and as a harmonious whole, potentially stands their businesses in good stead for years to come.

**In addition to this, all that is required – and requested – is an economic, political and social environment that encourages rather than inhibits local brewing's remarkable success.**

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13. Now in existence for almost thirty-eight years, CAMRA currently has a record 97,000 members, and it is expected that the 100,000 mark will be passed this year.

14. “Safe. Sensible. Social” is the title of the Department of Health's National Alcohol Strategy document, available to download at [http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyandGuidance/DH\\_075218](http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyandGuidance/DH_075218)

15. Nick Tegerdine, executive director of the Alcohol Problems Advisory Service, in “Nottingham Drinker”, issue 83, December 2007/January 2008. APAS website, [www.apas.org.uk](http://www.apas.org.uk)

16. “Nottingham Drinker”, issue 85, April/May 2008. Download from [www.nottinghamcamra.org](http://www.nottinghamcamra.org)





# The Way Forward

## Challenges...

45% of local brewers have seen their gross profit for beer production fall over the past year by an average of 5.8%. Only one in eight – the same number as last year – have managed to improve their margin. To a degree they have had to absorb both rising ingredient costs and duty hikes, and moves into more bottled beer production have entailed an increase in lower-margin sales. Bottom-line operational profits have then been hit further by bigger fuel and utilities bills and other rising overheads. Smaller enterprises cannot secure long-term financial stability under these circumstances.

A change of direction in Treasury duty rate policy is urgently sought and, through SIBA, local brewers actively support the “Axe The Beer Tax!” campaign.<sup>17</sup> Enforced price inflation across the board is a wholly inadequate tool for reducing consumption and alcohol-related problems, and equally ineffective in raising revenue.<sup>18</sup> (To cite both as objectives of a single policy is in any case irrational: it is not possible to drive down drink purchases and increase revenue from them simultaneously.) As long as supermarkets retain the market power to hold prices down – and even below cost – problem drinkers will be able to afford their problem drinks.

Local brewers will continue vigorously to resist the demonising of their industry by anti-alcohol lobbyists. The average ABV (alcohol by volume) of best-selling local ales is 4.1%. These are relatively low strength products almost always consumed in moderated surroundings as a component of wider adult social activity. The same cannot be said of many spirits and spirit-based strong drinks, and the Government’s apparent inclination to make these relatively cheaper compared with beer, through progressive moves towards “equivalence” across all alcohol, is considered short-sighted with potentially disastrous social consequences.

The British pub continues to be at the commercial heart of the local brewing industry. It is surely an iconic institution worth preserving and therefore deserves positive action to level the field against a cut-price off-trade. SIBA also urges publicans and pubco bosses to take full advantage of local cask ale brewers and the role they are ready to play in helping to revive on-trade fortunes. Furthermore, less than half of local brewers (48.8%) count a larger pub-owning brewery among their customers, and the local guest ale market potentially has much to offer in adding value to their businesses.

## ...vs. Confidence

Local brewers know that they will periodically face challenging times. Confidence has taken a knock over the past two years but the industry’s innate resilience and character look strong enough to see it through. There is a feeling that arguments for a more mutually supportive approach are being understood and accepted by the wider industry, by the public, by much of the media, and by some politicians. It is to be hoped that those with the real power to deliver that support will recognise the benefits of doing so.

Recognition for the quality and variety of local ales continues to inspire both experienced brewers and those new to the industry – it is difficult to keep pace with the wealth of beers and beer styles, and brewing creativity, imagination and innovation. The local brewing industry is rich in talent and regularly wins competition prizes and beer festival awards, including CAMRA’s Champion Beer of Britain at the Great British Beer Festival, won by a SIBA member for the ninth consecutive year. SIBA’s own Beer Competition grows in stature and, through its seven regional heats and national final, has become a showcase for local brewing excellence across the country.

Volume production estimates for 2009 are undoubtedly an indicator of business confidence. Of course their attainment is entirely unguaranteed, and there may be overly buoyant optimism in some quarters e.g. those newly in production. Nevertheless, a few crazy expectations of world conquest cannot by themselves explain an anticipated growth of 15%. Only 6.4% of survey respondents expect production to fall. That says much about the determined mindset of the local brewer.

Local brewing continues to grow – that much is certain. As an industry, it is registering success in volume production, even in draught ale for the on-trade, and especially in the thriving bottled beer market. It embodies and combines the ethics of local enterprise, micro-economic investment, environmental sustainability, community focus, principled consumerism, and social responsibility. It also represents the evolution of a traditional craft heritage to remain relevant and indeed essential to British culture and its enrichment in the new millennium.

As the British Government searches, in the midst of the current recession, for signs of the “green shoots of recovery”, it is worth pointing out, with the benefit of local brewing experience, that green shoots grow from grass roots.

17. [www.axethebeertax.com](http://www.axethebeertax.com)

18. The BBPA estimates that tax income from duty and VAT is down £181 million since the March 2008 Budget, compared with the same period in 2007. ([http://www.beerandpub.com/newsList\\_detail.aspx?newsId=266](http://www.beerandpub.com/newsList_detail.aspx?newsId=266))

