

Local Brewing Industry Report 2010

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Foreword from the Chairman

For my final time, as chairman of SIBA, I am pleased to introduce our annual report into the local brewing industry. For seven years we have been able to provide evidence and write about our impressive achievements and now, in 2010, it with some satisfaction that I am able to say that to a great extent it's been 'business as usual'.

Last year I noted our continued progress *'...in spite of dismal economic circumstances, destructive fiscal policies, and the continued unwarranted attention of a forceful anti-alcohol lobby...'* and in these respects not much has changed either. Genuine recession has bitten deep into the British economy; government has singled out our industry to be denied the benefit of a VAT cut and continues to push excise duty ever higher; and clumsy strategies to tackle the ill effects of irresponsible alcohol consumption are still ignoring the 'cheap booze' off-trade sector wherein lie the root causes of so many of our anti-social and health-concern problems.

On average performance our industry has managed to avoid the slide into recession, and this is testament to the resilience and entrepreneurial skill of local brewers – not to mention the exceptional quality of local ales, for which – we are delighted to report – demand continues to grow. We have continued to press for market access into pubs where we have hitherto been denied. The message may be starting to get through at last that genuine local beer is essential to the commercial armoury of a thriving community pub.

My colleagues at the helm of SIBA have been actively engaged in the ongoing debate about pubco ties and a constructive way forward for the pub industry, following damning reports, not-so-damning reports, and ineffectual mediation. We are certain that we can see a practical and pragmatic way forward, and we urge all our stakeholding colleagues to hasten this evolution, in the hope of staving off more radical and destructive upheaval, which the unintended consequences of legislative interference could bring about.

So, as I leave my position after three years as chairman, it is gratifying to know that my industry and its trade association have continued in the right direction. Local brewing is in a healthy state, and SIBA is increasingly professional as it establishes and consolidates its role as the voice of the quality independent brewing industry.

The themes of the most recent SIBA conferences: 'A Quality Future' in 2008, 'Let's Work Together!' in 2009, and 'The People Factor' – which will take place just after this report is published – neatly encapsulate what the local brewing industry is about, and sum up our challenges to government, health lobbyists, and industry partners, for constructive co-operation.

Please enjoy reading our report!

Peter Amor
Chairman

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February 2010

Headline Summary

• Another Upturn for the Books...

- ✓ Over one million hectolitres brewed by SIBA local brewers in 2008
- ✓ In 2009, through the worst of the recession, local brewers record volume growth of **3.75%**
- ✓ Those in production throughout 2008 and 2009 grow **3%** year-on-year
- ✓ New companies established in 2008 and brewing throughout 2009 add **0.75%**
- ✓ Pubs continue to close, but local cask ale volumes rise by **1.27%**
- ✓ Local bottled beer production up by **16%**
- ✓ **16.8%** average increase in individual brewers' sales turnover

• Ingredients of Success...

- ✓ Sound business-building underpins quality beer
- ✓ Progressive Beer Duty continues to be an essential foundation for viable enterprise
- ✓ Judicious reinvestment keeps the industry in growth
- ✓ PBD savings help fund capacity, equipment, employment and marketing
- ✓ Local brewing finds favour at the heart of community values
- ✓ Quality commitment reinforces the premium marketing message
- ✓ Commercial projects spearhead the quest for market access

• Brewing through the Storm...

- ✓ Local brewers show their business mettle in tough times
- ✓ Drinks industry singled out to gain no benefit from VAT cut
- ✓ Return to full VAT plus retained duty increase doubles the pain
- ✓ Ill-conceived duty policies continue to turn the screw and force pub closures
- ✓ Disorder strategies ignore cheap off-trade booze and aim at the easy on-trade target
- ✓ Harm-reduction campaigners continue indiscriminate vilification of all drinking

• The Fight for a Quality Future...

- ✓ Key engagement with stakeholders more important than ever
- ✓ Government urged to build on positive policies – not neutralise them
- ✓ SIBA works across divides within the industry to secure pragmatic solutions
- ✓ 'Anti' lobby must recognise the value of working with local beer and pubs
- ✓ The case for supporting good beer in good pubs cannot be denied
- ✓ Local brewers present their own manifesto for election year

✓ Local Brewing embodies the spirit of success!



Introduction: Why This Report?

This is SIBA's eighth annual report into the health of British local brewing. Each year to date we have presented an in-depth analysis of our members' businesses, which has consistently demonstrated the innate strength of an industry that has grown from roots firmly established in national heritage, culture and tradition, and flourished thanks to the collective innovation, imagination, investment and sustainable management of independent brewers.

1975:
eighty-seven brewers
2010:
approx 700 brewers

Thirty-five years ago there were eighty-seven brewing companies in Britain and the Isle of Man.¹ The United Kingdom now boasts more than 700. This country led the world in responding to the consumer backlash against the bland homogenisation of beer into a standardised, mass-produced, processed and ultimately global product. A determined but decimated rump of independent regional breweries was joined by a new wave of 'micro' businesses. Thus in many respects this was a new industry that was born, unique as such in

that it was founded, not on the back of the latest technological revolution, but thanks to the revival of pride and passion in an age-old craft.

The Society of Independent Brewers has almost 450 full brewing members.² The overwhelming majority of these (more than 98%) are officially designated as 'local brewers' or 'microbrewers' and therefore the subject of this report.³ Currently, 12% of SIBA's members are within the local classification, and 86% are microbrewers. In fact, more than half are in the Society's lowest membership band, brewing fewer than 1,000 hectolitres each per annum.

This is where SIBA's origins lie. Founded by twenty microbrewing 'pioneers' in 1980, as the Small Independent Brewers Association, SIBA has grown as its industry has grown. It has also seen some of its members achieve levels of business success that ultimately required redefinition of its constituency. After removing upper size limits altogether in the mid-1990s, at around the same time as it changed its name, the Society has now settled upon the official European threshold for a 'smaller brewer' of 200,000 HL as a cut-off point for full membership (although larger companies are welcome as associates).

Figure 1: SIBA industry survey participants, by size

SIBA membership	LEVEL 1	up to 999 HL / 50.3%
	LEVEL 2	1,000 - 4,999 HL / 35.0%
	LEVEL 3	5,000 - 29,999 HL / 14.7%

As in previous years, the core research for this report has been carried out in our annual industry survey, conducted during the closing weeks of 2009. A 40% response to the survey was achieved – the same as last year – providing facts and figures that we are confident give an accurate reflection of performance and trends across local brewing. Analysis has been thorough and extrapolation cautious: nothing is claimed on the basis of the occasional extraordinary or potentially anomalous response. Questions also targeted business practices, intentions, aspirations and opinions, to enable us to present an up-to-the-minute living portrait of a vibrant industry.

Telling insight into the background of the local brewing industry is provided by responses to the survey question about brewing company age. They show that only 5% pre-date the creation of SIBA thirty years ago, and almost two-thirds are under ten years old. Hence our contention that, although deeply rooted in proud British traditions, ours is a young industry at its core.

1. 'Good Beer Guide 1975', published by CAMRA (The Campaign for Real Ale)

2. At 1st October 2009, there were 443 full brewing members of SIBA

3. HMRC defines a microbrewer as producing up to 5,000 hectolitres per annum, and a local brewer between 5,000 and 30,000HL. A brewer is 'regional' at 30,000-200,000HL, and 'national' above that.

Introduction: Why This Report?

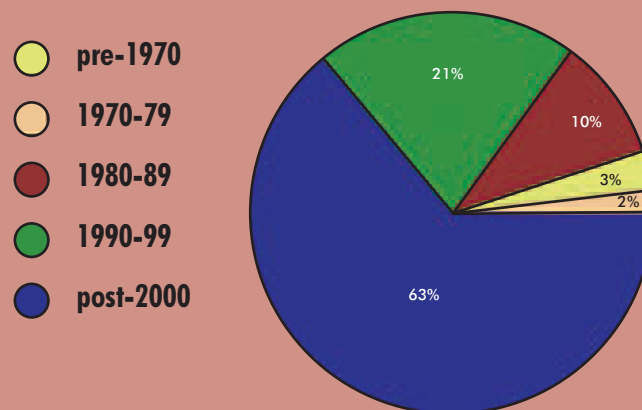
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Several factors have combined to create the climate in which local brewing has been able to flourish in recent years, including the continuing strength of the real ale movement, the boost given by Smaller Brewers Relief, the success of SIBA's affiliated commercial Access to Market operations, and the modern purchasing trends of an increasing proportion of consumers, who demand distinctive quality and the provenance of true local produce.

In spite of these 'growth-promoters', forces remain at work to inhibit our success and undermine our optimism that the local brewing industry is here to stay. Duty policy has failed to deliver infrastructure support to our most indispensable customer, the British pub – support which might have been expected as a logical progression following the fiscal stimulus of SBR. Pubs continue to close at an alarming rate, and it is a testament to the loyalty of the quality beer drinker that local brewers too have not been driven into a consequent decline. Anti-alcohol campaigners bend the ear of government with indiscriminate sledgehammer arguments that repeatedly fail to recognise our potential as an ally in the war against alcohol harm (and coincidentally keep themselves in gainful employment for longer than might otherwise be the case).

It is these conflicting factors that make this report so necessary. The unprecedented growth of the local brewing industry means that the livelihoods of far too many people are now at stake for us to acquiesce with resigned stoicism in whatever else fate, fortune or foe throw at us. We have to fight our corner with increased vigour and put our case and our cause at the forefront of debate.

Figure 2: SIBA industry survey participants, by age



Local Beer Production Volumes

Total hectolitres of beer brewed by SIBA local brewers in 2008
1,042,913

For the first time the Society of Independent Brewers is able to give a definitive statement of the total brewing volume of its membership. Following a decision at the 2009 SIBA Annual General Meeting, membership subscriptions are now calculated in part from each brewer's statutory Beer Production Account for the previous calendar year, supplied in confidence to the membership secretary. This means that we are able to give aggregate volumes for each level of brewing membership, as follows:

LEVEL 1	<i>up to 999hl</i>	85,008
LEVEL 2	<i>1,000-4,999</i>	367,809
LEVEL 3	<i>5,000-29,999</i>	590,096

The existence of these statistics will henceforth allow exact year-on-year comparisons to be made. However, survey results are able to give an early indication of production trends. Calculations for 2009, by participating brewers, based on actual volumes for the first nine months plus estimates for the final quarter, compared with their Beer Production Accounts for 2008, show an average growth of 3%. A further 0.75% is added to the annual increase by production figures for brewers who became operational and joined SIBA during 2008.

CASE NEWS REPORT 1
Acorn Brewery, Barnsley
"...a strong festive sales performance... a rise of 29% on 2008."



At least 75% of local brewers remain in growth

75% of brewers questioned confirmed a volume increase; 9% had lost some production; and 16% recorded level figures year-on-year. These statistics are almost identical to those reported last year (74; 9; 17). So even though the volume growth is significantly lower – as you would expect in 2009's economic climate – at least three-quarters of local brewers once again maintained a performance that did not slide into recession.

Average sales turnover for individual companies in 2009 rose by 16.8% – even after excluding results that showed enormous percentage increases from an all but standing start. If this looks high against volume performance, it is partly explained by price rises. In addition, some remarkable sales increases were recorded by relatively small producers that were not typical but have possibly skewed the overall figure. Nevertheless, 84% of survey respondents reported rising sales. Of the remainder, 3.5% were 'no change' and 12.5% had seen turnover fall.

The British Beer and Pub Association's 'UK Quarterly Beer Barometer' records moving total beer sales for the wider industry – figures which exclude the vast majority of local brewers, to whose production records the BBPA does not have access.⁴ Volumes given for 2009 show a fall against 2008 of 4.2%. This splits into a 3.1% fall in the off trade and a 5.2% drop in the on trade.

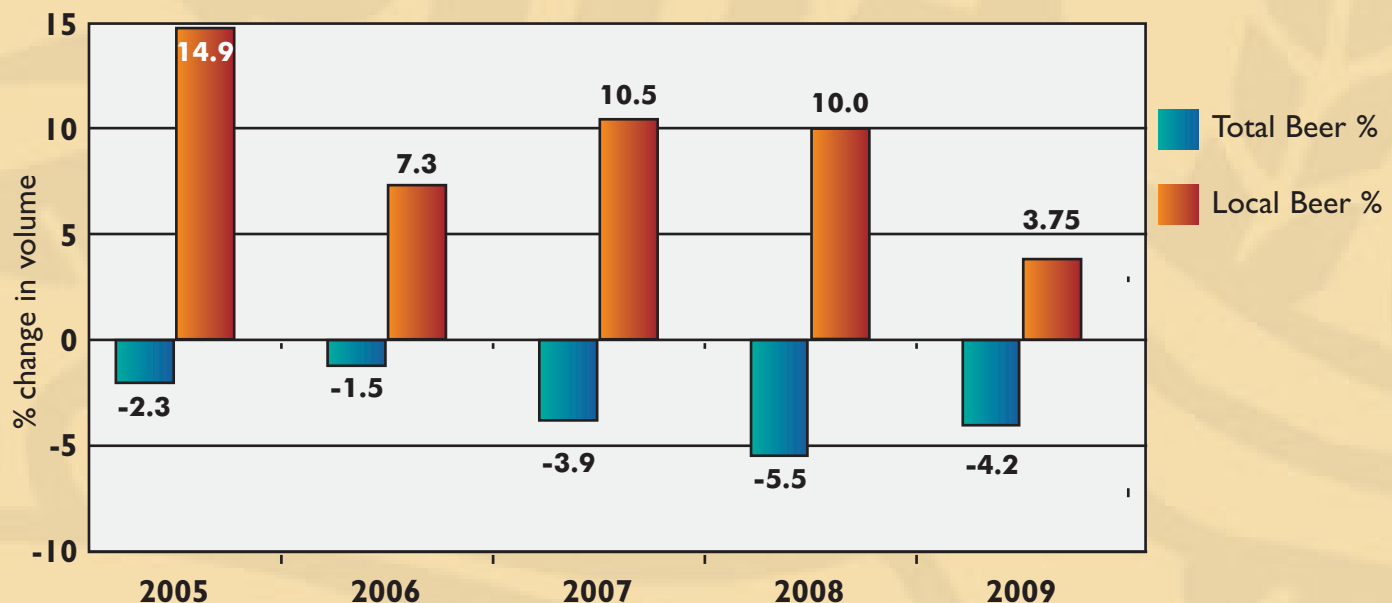
These figures offer an interesting comparison with local brewers' production reports for bottled and draught beer. Bottled beer has once again grown its share of total volume, from 13.9% to 15.6%; non-cask draught beer has remained static at 1.9%; and cask ale has fallen a little, from 84.2% to 82.5%. However, when the increase in total volumes is factored in, bottled production (mostly off-trade) is up by 16%, keg by 3.4%, and even cask has risen by 1.27%. This means that sales of all types of local draught beers, into a still-shrinking on trade, have grown by 1.32%.

Overall, survey replies recorded an average price increase of 2.8%. 65.5% have raised prices in 2009 by 4.7%; a mere 5% cut prices, but by a quite sharp average of 6.2%; and 29.5% held their prices steady. Not surprisingly, therefore, the average gross profit has remained virtually static (+0.09%).

CASE NEWS REPORT 2
Moorhouse's, Burnley
"...a 13% increase in turnover on 2008 during October and November..."

Figure 3: Local Beer / Total Beer – Annual % Change 2005-2009.

(Sources: SIBA Annual Surveys, BBPA Beer Barometer)



Optimism across the industry remains very much in evidence. In fact, there appears to be some confidence that a corner has been turned. Although 35.5% of brewers surveyed anticipate little or no volume growth in 2010, only 4.5% expect production to fall. This compares favourably with the 6.4% a year ago who thought their volume would decline in 2009. The average for all replies is a rise of 12.8% – over-confident in some quarters, maybe, but once again this is a testament to the local brewer's determination to build success.

4. The Beer Barometer is available on the BBPA website, www.beerandpub.com

Foundations for Growth

Progressive Beer Duty

In 2002 SIBA had 235 brewing members. Four years later membership had risen by almost 60% to 373. It has already been noted that a large majority of survey respondents were founded in the new millennium, and clearly this early-to-middle part of the decade saw a considerable surge in the number of new independent breweries.

One of the major reasons for this level of expansion was undoubtedly the introduction, in June 2002, of a system of progressive duty relief for smaller producers. Various called Smaller Brewers Relief (SBR) or Progressive Beer Duty (PBD), it has proved to be a remarkable stimulus that has given wings to a fledgling industry.

SIBA MEMBERS...

2002: 235

2006: 373

SIBA fought a twenty-year campaign for the introduction of PBD. There had been no shortage of budding independent brewers, including both professionals from within larger conglomerates and enthusiastic amateurs whose appetite had been whetted either by home-brewing or CAMRA activism, but the struggle to establish commercial viability – with economies of scale impossible and market access to many pubs foreclosed by the rigid application and enforcement of tied supply agreements – proved too much for many to overcome. Even when beer quality was exceptional and consumer demand guaranteed, survival could never be taken for granted.

PBD has sought to level the field by reducing duty at lower production volumes to offset the higher proportional input costs to small brewers of ingredients, labour and logistics. A 50% cut in the full rate is allowed to qualifying brewers on production up to 5,000 hectolitres per annum. The total value of relief is then capped but continues to be paid to all brewers producing up to 30,000 hl/pa. This was the original threshold for qualification, but the scheme was extended in 2004 to allow the relief to taper and then discontinue at 60,000 hl/pa, so that nothing is received by any brewer with total volumes in excess of that amount.

PBD defence is top priority

86% of SIBA's current full brewing membership are in receipt of the full 50% relief on production; only five members qualify for nothing at all. It is small wonder, then, that survey respondents overall rate the defence of PBD as the most important activity undertaken on their behalf by their trade association. 75% gave it a top rating of 5, when scoring 0-5 on the value of all

SIBA's member services and activities. The average for PBD defence of all replies was 4.4, significantly ahead of the second highest score of 3.8 (for broader political representation and lobbying).

Of course, Smaller Brewers Relief has not been universally welcomed. There is no formula that can guarantee to satisfy all brewers that the system is equitable. But the positive results of what has been done are plain to see – and the potentially devastating consequences of abolition or ill-considered tinkering cannot be exaggerated. SIBA therefore demands support for duty relief from all of its members, and looks to the government of the day to give assurances that it will be maintained.

Support for the existence of PBD does not preclude proposals that it should be reviewed and possibly amended. European law would allow the threshold for qualification to be extended to 200,000 hl, which would provide some benefit to every SIBA full brewing member. But perhaps a more persuasive counter to its critics would be for it to be restructured along 'tax threshold' lines, so that brewers of all sizes could receive relief for lower bands of production, reducing in stages with full duty payable from a fixed level onwards. This would still provide the greatest proportional savings for smaller brewers with all or most of their production qualifying for the top rate of relief, but at the same time it would neutralise the arguments of those who claim they suffer most by being just above qualification and consequently receiving nothing. Furthermore, thresholds at any level that entail the disappearance of some or all of the benefit below them are a serious disincentive for growth, and this model would prevent that.

Should PBD be revised?

The European Excise Directives, which govern the regulatory parameters that each member state must abide by when formulating its own duty regime, are currently under review. Changes to the rules for duty relief schemes are not anticipated but SIBA, in a joint submission with the BBPA and CAMRA, has proposed consideration of a revised threshold structure.

Business Investment

Progressive Beer Duty was never intended to be a mechanism for cheap beer. It was formulated for business-building and the evidence overwhelmingly proves that this has been and continues to be the case. Although it would be foolish to claim that local brewers have never engaged in rash price-cutting, the vast majority of them have shown determination to establish and maintain sustainable companies, which means investment for the long-term rather than the fleeting benefit of some quick low-margin sales. When asked each year about their priorities for utilising duty relief savings, survey respondents consistently place discount pricing at the bottom of the list – this time averaging 0.9 on a 0-5 scale of importance. 56% of replies give it a zero score and only two brewers say it is among their most important strategies for 2010.



CASE NEWS REPORT 3

Moorhouse's, Burnley
"...the new brewing complex will treble production capacity and include a training school and visitor centre to create 17 new jobs..."

Other results from the same survey question show clearly where investment priorities do lie. As always it is encouraging to note – and indicative of local brewers' volume performance already reported – that new equipment (average score 3.1) and the creation of extra capacity (2.8) are at the forefront of plans for the coming year. Marketing maintains a high level of importance (2.8), and the development of new products is not far behind (2.3).

Of lower average importance across the board for plans for 2010, but scoring a 4 or 5 for 20% of respondents, are areas of operational infrastructure, including staffing, training and internal systems. Investment in people is central to the local brewing industry. A significant

number of respondents are able to report the taking on of new employees, both full-time and part-time, during 2009.

Conservative estimates based on survey replies confirm last year's conclusions about employment creation following the introduction of PBD: approximately 1,500 new staff, with as many as 1,000 in full-time work. This is only direct employment, of course, and takes no account of substantial job creation in supply industries.

There is less enthusiasm for reducing debt this year. (Continued tiny interest rates may well be contributing to this.) But profit retention is still important, as part of the continued impetus for financial stabilisation prompted no doubt by caution during uncertain economic times.

As reported in 2009, local brewers in general do not appear to be targeting their PBD savings at pub acquisition. But this is a strategy that divides them: 60% give it a zero on the importance scale, but a score of 4 or 5 from half of the other respondents places it very firmly in their plans for 2010.

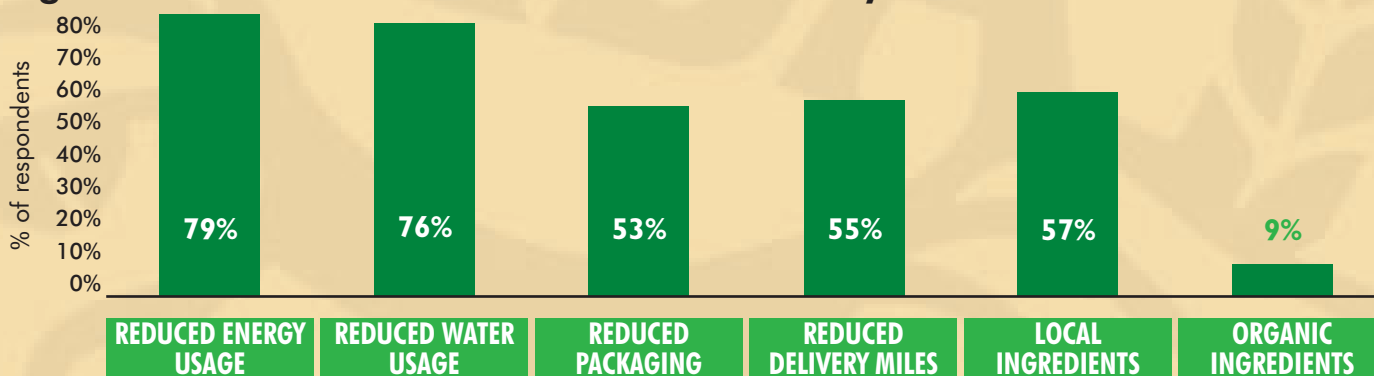
CASE NEWS REPORT 4

Purity Brewing, Warwickshire
"...Purity has topped off an amazing 2009 by moving into a brand new, purpose built office building...."

Community Commitment

Once again we are pleased to report the strength of local brewers' environmental responsibility. They have maintained the encouraging levels of commitment to 'green' initiatives that were reported last year. Reductions in utilities usage still lead the way, with close on 80% of support from those questioned, but all mainstream areas of responsible business are cited as important by more than half. Fewer than 10% are sourcing organic ingredients for their beers, but this is notwithstanding quite a significant area of specialist growth. 16% of survey respondents either already brew organic beers or plan to do so.

Figure 4: To which environmental initiatives are you committed?



For the 2009 Brewing Business Awards, SIBA introduced an award for Best Environmental Initiative. Winner was new micro Mill Green, of Edwardstone, near Sudbury, Suffolk, for its comprehensively ecological approach to business, including the brewery building and the use of local and organic ingredients. Also highly commended was Keystone, of Wiltshire – another new brewery that has reduced its hot water requirements by 15-20% through the installation of solar thermal systems.

To some extent it has ceased to be news – but no less important for that – that Britain today is experiencing a social and cultural shift towards a much broader embracing of local priorities and community values, towards a greater appreciation of commercial ethics, and towards principled purchasing habits. It is these trends, of course, that the local brewing industry is so well placed to be at the heart of.

CASE NEWS REPORT 5

Mill Green, Suffolk
"...built using only low embodied energy and local building materials and...designed to use renewable energy from solar and coppice wood from nearby woodlands..."

Foundations for Growth

Continued

The Co-operative Bank has recently produced its annual report into Ethical Consumerism.⁵ This is able to highlight a decade of progress, during which UK spending on “ethical” food and drink has increased more than threefold, to over £6 billion in 2008. And there is no doubt that, while Fairtrade, organic, free range and Freedom Food have made huge strides forward, the simplest expression of a principled approach to consumerism is to buy local produce. The Co-op reports that trade through farmers’ markets has increased from £131m to £220m (1999-2008).

Efforts continue to secure maximum benefit for the revival of communities through effective implementation of the Sustainable Communities Act – more than two years since the bill became law, in October 2007. SIBA continues to give active support through its membership of the Local Works coalition of more than ninety national organisations, which campaigns to promote the use of the Act.⁶

The first wave of SCA projects, submitted at the end of July 2009, included 300 proposals from 100 councils – far more than were anticipated. Yet in spite of receiving full cross-party support when it went through Parliament, and regardless of this impressive initial period of activity, there is concern that the Act may run out of steam. A degree of inertia, in corridors far removed from the declining communities that need help, is threatening to slow down, or even halt, the momentum for proactive engagement.

It is because of this that the Sustainable Communities Act Amendment Bill has been drafted and will hopefully be introduced to Parliament at the end of February 2010. This seeks to strengthen the Act by creating an ongoing programme for communities and councils to submit proposals to government, by facilitating greater democratic grass roots involvement, and by requiring the Act’s original stipulations about fully detailed Local Spending Reports to be carried out.

At the time of writing, close to half of all MPs have signed the Early Day Motion to get the bill put forward. With the backing of key ministers – as yet to be secured – the Amendment Bill could be law by May.

SIBA has undertaken to continue its support for this process of community empowerment and local revival.

The Local Quality Message

The growth in sales of local ales underscores their claim as a natural constituent of the ethics-driven marketplace. Consumers identify with their environmental and community credentials: they offer sustainable production, genuine provenance, reduced food miles, and contribution to local economy.

CAMRA’s ‘Locale’ scheme has given a welcome endorsement to local cask beers. It was created in 2007 by the organisation’s Nottingham branch, following the demise of the county’s last historic regional brewery. Accredited participating pubs must ensure that at least one local⁷ real ale is on sale at all times.

Local brewers must demonstrate their ability to respond to the challenges of supplying their beers to market and ensuring their appreciation when they get there. This puts several key factors into the spotlight: how well they run their businesses, how well they market their beers, how good their beers actually are, and how well their beers are looked after and served.

There is unquestionably a growing demand for local produce that is not just about ticking ‘feel-good’ environmental or ethical boxes. It is about quality.



"...the scheme builds on a growing consumer demand for quality local produce and an increased awareness of 'green' issues..."

5. Co-operative reports are available to download at www.goodwithmoney.co.uk

6. Keep up with the progress of the Sustainable Communities Act at www.localworks.org

7. 'Local' is defined by each CAMRA branch. Visit www.camra.org.uk for more information.



Taking Local Beer to Market

Brewing Business

It has been noted that a driving passion for good beer has encouraged a great many people into the local brewing industry. And as a result the choice and variety of high quality, distinctive and innovative craft beers have never been better. This alone, however, does not automatically make for a sound and sustainable foundation for business. The early microbrewers had to prove their entrepreneurial credentials, often in the face of barely concealed and dismissive derision. In fact SIBA was set up because they were debarred from the Brewers Society for being too small.

Part of SIBA's role as a trade association is to enable and ensure the highest professional standards from its members, beyond the brewing of exceptional beer. Our industry survey asks about standards of operational infrastructure within their businesses. Results are generally high – with sufficient honesty about shortcomings to suggest that they are accurate.

Figure 5: Quality control performance

OPERATIONAL AREA	% GOOD	% IMPROVING	% COULD DO BETTER	% NEED SUPPORT
plant maintenance/investment	51	25	20	4
general good practice	45	35	17	3
documentation and records	49	28	18	5
internal staff training	24	31	39	6
external staff training	17	24	48	11
internal audit of quality systems	31	26	37	6
customer cellar support	24	21	44	11
dispense equipment support	21	25	38	16

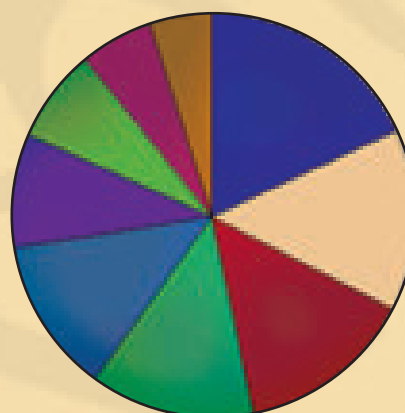
It is noticeable that training is still an area of perceived weakness, but plans are now well advanced for the introduction of a much better structured programme of external industry training, which through dissemination should also have a beneficial knock-on effect on internal standards. There is also some indication that customer technical support requires attention – proving the potential worth of SIBA TS (see below).

Marketing

Three-quarters of brewers questioned say they spend less than 5% of their sales turnover on marketing. The average local brewer (who, it must be remembered, is running a very small operation) cannot dedicate huge budgets to marketing and sales teams. Nevertheless, resources are targeted judiciously across the full range of marketing methods.

**Figure 6:
Marketing spend
priorities**

- sales promotions
- website & online
- point-of-sale
- advertising
- beer festivals
- PR activities
- cask ale week
- sponsorship
- trade exhibitions



Taking Local Beer to Market

Continued

Direct appeal to the drinking customer is understandably a priority area of support, with point-of-sale material taking 14.3% of allocated resources. Rather more surprising, especially since it was omitted as a question in last year's survey, is the evidence that the same effort and budget are going into website development (and other online activity – 32% of those asked confirm that they are now utilising social networking sites such as Facebook and Twitter as a marketing tool.)

CASE NEWS REPORT 6

Purity, Warwickshire

"...a Facebook competition challenged entrants to share the charms of their ugly dogs, with prizes including a tour of the brewery plus lunch and beer and merchandise..."

Beer festivals gain significantly more attention (12.4%) than trade exhibitions (5.1%) – again it's getting to the drinker that counts. Advertising commands a 13.4% piece of the marketing pie, but when split between trade and consumer targeting the total divides into 3.7% and 9.7% respectively. It should also be noted that the promotions slice includes trade discounts (6.5%), trade buying offers (3.7%), and consumer promotions (7.8%).

SIBA's Brewing Business Awards continue to recognise and reward business skills and achievement – especially for the imaginative and innovative means employed to promote both the brewery and its beers.⁸

On Trade & Off Trade

The heritage of quality British beer and the traditional culture of its enjoyment are rooted very firmly in the British pub. It was after all the threat to proper draught beer that prompted the most successful consumer movement ever.⁹ Thus it follows naturally that the local brewing industry should look to the on trade as its primary target market: even in evolving market circumstances 28% of survey respondents only brew beer to be served on draught in cask-conditioned form. (This is in fact one per cent more than the survey recorded last year.)

For these local brewers that means exclusively on-trade custom (apart perhaps from a small amount of brewery-gate 'party sales'). Of the rest, all but a handful have cask ale as the core of their production – only two brewers who answered the relevant question brew none at all. 9.8% of replies include some non-cask draught (i.e. brewery-conditioned or 'keg') in their production figures, and virtually 70% are sending some beer out in bottle.

Pub closures have steadied a little, but are continuing, and a total of 2,365 ceased trading during 2009.¹⁰ It is indicative, therefore, of the entrenched loyalty and growing support for local cask beer that production has continued to increase. (In fact, cask ale production across the entire brewing industry is showing signs of returning to growth, according to the latest Cask Report.¹¹)

Control of their own pubs is a gradual process for local brewers. Two years ago 71.7% of survey respondents had no outlets of their own; last year it was 67.7%; and this year shows another slight fall to 66.9%. Almost half of those with pubs (15% of the total) have one only. So market access continues to be predominantly via 'foreign' accounts: the independent free trade, supply-tied 'free houses' of major pubcos, and guest beer programmes in larger brewers' tied pubs.

We are pleased to report further expansion of this market, from an average of 94 outlets per brewer in 2008, to 112 last year. Furthermore, the higher proportional rise is in supply access to tied pubs (up 30%) rather than into the genuine free trade (up 16%). This may indicate an ongoing gradual relaxation of a once strictly foreclosed market (as discussed below).

The continued rise in bottled beer's share of total production emphasises the growing importance of the off-trade market. Craft brewers are increasingly seeing the value of packaging their beers as a specialist category. This has always been the case in the developing microbrewing industries in the USA and in European nations without such a strong beer heritage (e.g. Italy). It is now a trend in Britain that goes hand-in-hand with a need to be less dependent on pubs.

Bottled beers will always include packaged versions of local brewers' flagship draught brands. But there is undoubtedly a demand growing for – and a desire to produce – specialist and innovative styles that are unsuitable for retailing in bulk. These are often strong, and powerful, distinctive and perhaps even uncompromising in flavour – to be savoured in small amounts and at a premium price, and therefore unlikely to sell quickly enough to be served on draught.

The survey asked brewers about routes to market for their bottled beers. Extrapolation of their answers suggests that direct supply – via brewery shop or website – is just ahead of supermarket and independent off-licence sales. Multiple off-licence sales are down significantly following the collapse of First Quench Retailing (Threshers). Farm shops and farmers' markets together account for 14% of turnover. Other off-trade customers include delicatessens and speciality retail such as National Trust shops and gift hampers.

8. Brewing Business Awards details are on the SIBA website, www.siba.co.uk

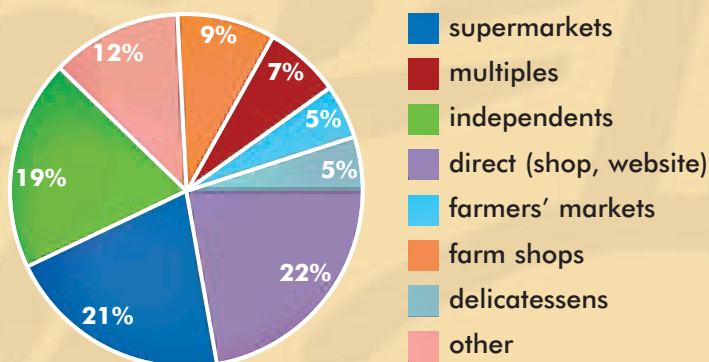
9. CAMRA – the Campaign for Real Ale – will celebrate its 40th birthday next year and, with its membership now approaching 110,000, has never been more widely supported.

10. Latest BBPA figures. Pub closures are now running at the rate of 39 per week (www.beerandpub.com).

11. 'Britain's National Drink', available to download at www.caskreport.co.uk



Figure 7: Off-trade routes to market



SIBA DDS

The eighty-seven companies that made up the British brewing industry in 1975 were not faced with problems of market access. Over the previous 100 years or so the tied house system had created a vertically integrated structure, whereby almost every brewery owned at least one pub. Only the major lager plants and one of two of the pioneering microbrewers had no outlets of their own.

The appearance of new breweries grew with the success of CAMRA and the revival of interest in cask beer. There was no shortage of demand for craft beers, therefore, but there were difficulties finding pubs that were able – or willing – to stock them. Even access to many free houses was effectively closed or severely restricted by “loan-tie” agreements made with national or large regional brewers.

So when SIBA was founded its original mission was clear:

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

Following the Beer Orders in 1989, and the consequent break-up of the huge tied estates of the biggest brewers, it was hoped that guest beer provisions and the ownership of many more pubs by non-brewing companies would open up the market much more. However, tie-deals persisted: the brewing giants still had to make use of their capacity and had the market muscle to do so, and the new pubcos demanded huge supply contracts at maximum discounts. The new small brewers had to struggle on, hardly any better off than before.

Out of this situation, SIBA developed its Access to Market project, to explore every possible avenue that could assist and grow its members' sales. And from ATM, in turn, came the Direct Delivery Scheme. DDS operates as a sales agency to facilitate trade between multiple retailers and local suppliers. Large pubco macro-business systems are handled by DDS so that they cease to be a barrier to trade with micro-businesses. A local brewer can thus deliver direct into a local outlet owned by a participating retailer without complication. Electronic data and paperwork are consolidated by DDS, so retailer HQs deal with a single contact for transactions with a multitude of brewers.

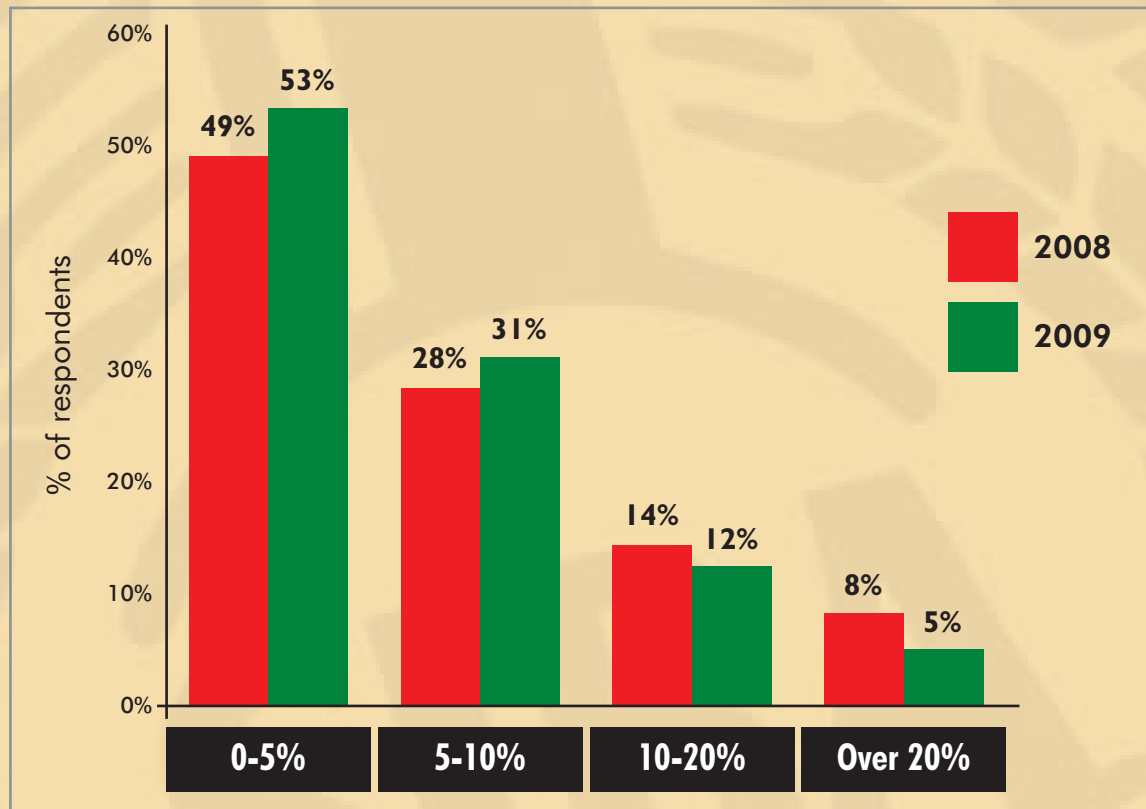
The latest industry survey indicates that more than 80% of SIBA local brewers are now members of the Direct Delivery Scheme, and a further 2% are planning to join in the coming year.

This shows further expansion from the 77% reported last year. However, it is interesting to note that the economic climate, which has undermined the financial stability of some of the pubcos (and seen one major off-trade multiple retailer cease trading in 2009), appears to be encouraging greater caution among DDS members regarding their scale of participation. Significantly fewer brewers participating in this year's survey are relying on the scheme for more than 10% of their overall trade (17% compared with 22% last year), and only just over 5% now record more than a fifth of their sales through DDS.

Taking Local Beer to Market

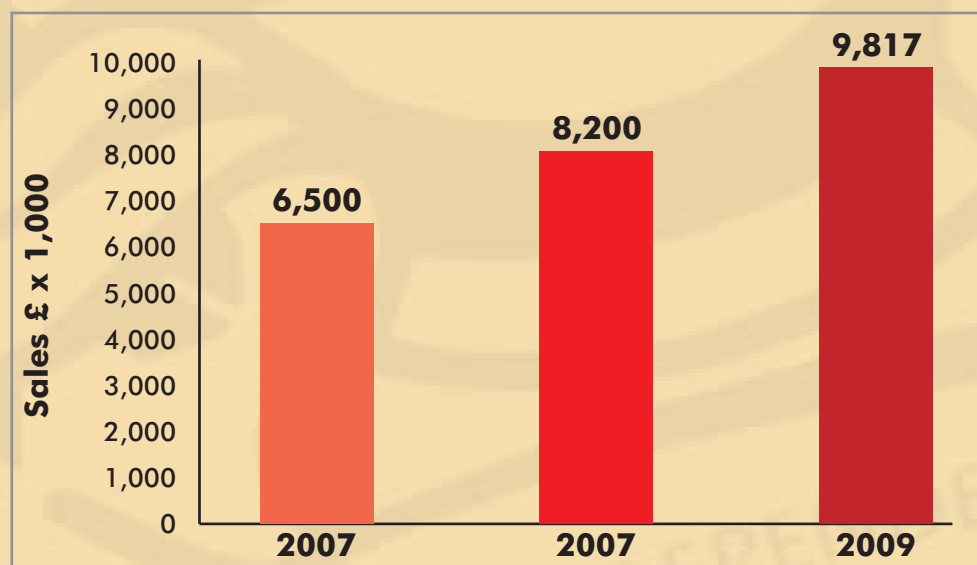
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FIGURE 8: Local brewers' DDS sales as a percentage of total sales



Nevertheless, total DDS turnover continues to rise year-on-year, as both brewers and customers continue to join the scheme. Participating outlets rose by 12.4% – over 2,000 pubs took delivery of SIBA members' ales via DDS during 2009, although the regular supply figure is around 1,800. Furthermore, indication of the growing commercial value of local beer is given by the fact that throughput per DDS outlet is also up – by 1.8% in a recessionary year.

FIGURE 9: Total DDS sales, last three years



Commercial Support

SIBA's commercial operations increasingly embrace more than the Direct Delivery Scheme. We reported last year on the setting up of SIBA Technical Services, which was in its infancy when the 2009 report was published. SIBA TS provides access to the services of fully trained engineers, supplied by industry leader Innserve, and to the most cost-effective equipment through bulk purchasing.

DDS administers and pays for dispense service work for beers that are DDS-supplied. Otherwise brewers pay competitive rates to use SIBA TS. It is estimated that cask ale equipment in use in the UK has a value of £130m. By their volume of sales, local brewers are responsible for £30m of this. SIBA TS has thus been created to enable them to meet their in-trade obligations. What their trade association has been able to do is make available to individuals a share of the unified resources generated by local brewers working together.

SIBA TS has made steady progress to date, and it is pleasing to note that virtually half of survey respondents are keen to make use of the service when the need arises. Three-quarters of brewers questioned say they are responsible for fewer than ten handpulls in trade, but major brewers responsible for so many of the original pub installations in many cases now have little or no interest in cask beer, so SIBA's commitment to quality dispense for local brewers' cask beers should increasingly be utilised to satisfy market requirements.

SIBA continues to work actively with the Cyclops beer-classification scheme¹², which is becoming used more and more by pub operators as a tool to educate staff and consumers about their beers. The innovative system of simplified flavour profile assessment allows effective communication of a cask beer's principal flavour characteristics, and there is growing familiarity with its trademark uncomplicated presentational style. SIBA has committed to fund 60% of the Cyclops accreditation fee for members, meaning that a brewer has to find just £100 to have up to five beers accredited.




As a consequence, we are able to report this year that 34.4% of local brewers surveyed now have their beers Cyclops-assessed (only 7.7% last year), and a further 35.1% are already on the waiting list or have announced their intention to be in the scheme within a year. That's an impressive 70% of all respondents.











It is looking more and more likely that before long major retailers in both the on and off trades will expect Cyclops classification as a matter of course for their suppliers' beers.

**SIBA is backing
National Cask Ale Week
with a support package
worth £40,000**

Over the past six months SIBA has been restructured to make more effective use of commercial and marketing opportunities for its members. These will include involvement in National Cask Ale Week, the Great British Beer Festival, the Pub Retailing Conference, plus our own National Beer Competition, Brewing Business Awards and Annual Conference.

Locally grown Target and Styrian Goldings hops play an important part in making this such a distinctive beer. With Maris Otter pale malt and malted wheat also being used, this is very much a pale ale with all the right ingredients. 4.0% ABV.

SEE		YELLOW STRAW
SMELL		GRAPEFRUIT, ZESTY, SWEET
TASTE		HONEY, CITRUS, TROPICAL FRUIT

BITTER					
SWEET					

¹² Details at www.cyclopsbeer.co.uk

The Politics of Local Beer

Backing the British Pub

Local brewers must reiterate their case for a reappraisal by government of policies that offer a decidedly 'mixed message' to the beer and pub industries. The role that Progressive Beer Duty has played in the microbrewing revolution – creating new breweries, new beers and new jobs – is irrefutable. It has to be remembered too, however, that brewing is a link in a commercial chain. In one direction, PBD has had considerable knock-on benefits for myriad supply industries – from raw ingredients to bespoke software systems – such as are to be found in SIBA's 100-plus supplier-associate members. That means more economic growth and employment.

In the other direction – down the supply chain – local breweries have their own customer base, which for well over 80% of their beer still means the pub trade. But is it not also certain that current excise policies, including the promise of annual escalation of duty by 2% above the rate of inflation, are having repercussions for pubs that are threatening to undermine the viability of those new breweries and beers, and could lead to job losses all the way back up the chain?

'Mixed Message' Duty Policies

It is argued vociferously that ways must be found to stem the tide of pub closures. Duty hikes have served to widen the price differential between on and off trades, as supermarkets have been able to absorb the hit and continue to use cases of beer and other cheap booze as a loss-leader. It is also almost certainly true that regular increases are consistently failing to deliver revenue targets.

Among ideas considered as a possible tool to redress this imbalance is minimum pricing, whereby no drink could be sold at a retail price lower than a fixed minimum per unit of alcohol. (The figure most often suggested is 50p, although the Scottish Government, which has taken this idea much further, is looking at 40p.) SIBA has given cautious support to this principle, and 68% of survey respondents are broadly in favour. But recent suggestions that there should be a higher unit price in the on trade negates the potential efficacy of this as a measure to support pubs, and SIBA will not call for it in its manifesto at the end of this report. It is rather more straightforward to support the policy of other organisations within the industry, for below-cost selling to be outlawed.

Consideration has also been given to the introduction of a lower duty rate for draught beer, strongly supported in principle by 59% of survey replies, with a further 25% tending to be in favour. This is not straightforward as a Europe-wide issue, however, because of the much higher proportion of packaged beers produced by foreign small brewers.

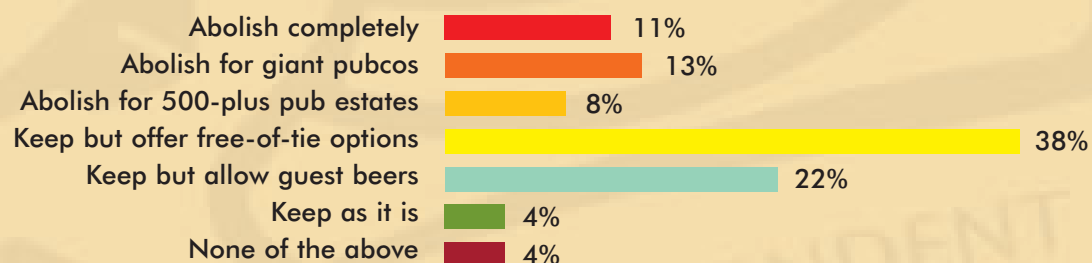
SIBA has joined with the BBPA as a partner in the 'I'm Backing the Pub!' campaign¹³, and is engaged in a concerted effort to secure the support of parliamentary candidates in the forthcoming election.

It has not been forgotten that there are also internal issues in the on trade that have contributed to difficulties faced by pub operators. The past year has been one of much political activity revolving around the tied-lease business models of the giant non-brewing pubcos – BEC report, industry mediation, OFT response to CAMRA's super-complaint, framework code-of-practice, Independent Pub Confederation, etc. – all has been reported in detail elsewhere and it is unnecessary to repeat it here.

Suffice it to say that, through their trade association, local brewers have been proactively represented as industry stakeholders at all stages and in all arenas of the ongoing debate. It has already been explained that issues of market foreclosure have exerted their influence throughout recent brewing history. However, significant numbers of young brewing companies have themselves begun to acquire pub estates: virtually a third of survey respondents now operate at least one pub of their own.

Figure 10: Local brewers and the Tie

Which of the following most closely matches your view on the Tie for lease and tenancy agreements?



¹³. www.backthepub.com



While there is of course as wide a divergence of opinion as you would expect from 440 independent brewers, SIBA's moderate standpoint – against abolition of the Tie but in favour of its reform towards embracing optional tie freedoms – has been quite impressively endorsed by survey answers to the relevant question.

Responsible Choices

Attacks by harm-reduction campaigners on the 'evils' of drink are scarcely ever targeted with any attempt at accuracy. Broadside are fired that fail to distinguish between different types of alcoholic drink and the respective circumstances and culture of their consumption. Consequently, a pint of craft beer in the pub is portrayed as no better than a spirit-based, pop-flavoured concoction in the park – a perception reinforced by lazy editors and TV news producers who persistently illustrate the latest anti-alcohol story with archive shots of pints being pulled for responsible adults to drink.

It is becoming urgently necessary for brewers and the pub industry to counter this attitude with renewed determination. According to the industry survey, the importance of dealing with alcohol issues is one of the most important roles for SIBA (behind only PBD, political work and DDS). Respondents go on to rate their trade association's performance in this area as second only to DDS, but plainly more must be done to get the message across.

Local brewers are stakeholders in a responsible drinking culture.

It has been said before but it needs to be said again. And if the 'anti' campaigners are not prohibitionists, they must acknowledge the positives of beer and pubs, and undertake to work with local brewers rather than against them.

One voice from 'the other side' continues to echo this call. He writes, '*...problems...are not directly attributable to the offerings of the smaller breweries...*' and goes on to say, '*...the imperative is for the local drinks industry to take the moral high ground, to associate themselves with responsibility in all aspects of the trade...*'¹⁴

Campaign for Quality

The Society of Independent Brewers firmly believes that the local brewing industry embodies a microcosm of much that is desired – and desirable – within twenty-first century British society. Herein lie the qualities of individualism, independence and enterprise that drive so much positive economic and commercial achievement. Powerful though these are, however, they are further enhanced by the principles of effective co-operation and communication, and of community and social cohesion. Moreover, the issues of the times – be they environmental or ethical, of health or harm, or of harmony within our industry – are addressed directly with resolve and pragmatism.

In this General Election year, therefore, we offer our own manifesto. We are oblivious to the political hue of those at the Westminster helm; it is policies that we must seek to influence and to which we must respond.

The driving force of the independent spirit is the compulsion to own a degree of mastery over one's own destiny. Some brewers are so resolutely independent even belonging to a trade association is a compromise too far. But SIBA's Industry Report is produced on behalf of every local brewer, presenting a case not just for survival, or remission from a lingering demise, but for vitality as part of a vital industry. Ours is an industry at the heart of the fabric of modern Britain that has far too much to offer as a stakeholder in the wealth and welfare of society and local community to be allowed to decline through a failure to appreciate the issues that shape our future.

14. Nick Tegerdine, executive director of the Alcohol Problems Advisory Service, writing in 'Nottingham Drinker', magazine of the local CAMRA branch (Issue 96, February 2010).



Local Brewers' Manifesto

'A stake in a quality future'

Government has played a pivotal role in providing a stable foundation on which so many local brewers have been able to build viable businesses and thus make a substantial contribution to local economy and community. Our trust is in the continuance of small brewers' duty relief, and our plea is that it might be reinforced by strategies that progress rationally from PBD's supportive starting point.

- ➔ **affirm commitment to Progressive Beer Duty**
- ➔ **cancel the beer duty escalator**
- ➔ **freeze beer duty**
- ➔ **consider lower duty rates for lower strength beers**
- ➔ **equalise duty regimes for beer, cider and wine**
- ➔ **reverse moves to beer duty equivalence with spirits and strong drinks**
- ➔ **back the British Pub**
- ➔ **recognise the pub's key role in a responsible drinking culture**
- ➔ **take positive steps to support the community pub**
- ➔ **target the off-trade causes of alcohol misuse**
- ➔ **ban all loss-leading of alcoholic drinks**

VOTE



FOR YOUR LOCAL BREWER

