In the Spotlight

The Changing Landscape of the Brewing Industry

Event Report

Development, Alumni & External Engagement
The Changing Landscape of the Brewing Industry

Held in the ICMA Centre at Henley Business School in Reading, this event featured Claire Hewitt, Head of Learning Design, in the chair, with a panel of representatives from the brewing industry.

They had been gathered to talk about the huge changes currently unfolding in the sector and the importance and role of the craft brewer, and how these factors are impacting on firms of all sizes.

Professor Ginny Gibson, the Business School's Deputy Dean, introduced the panel, which consisted of: Simon Lewis, CEO of West Berkshire Brewery; Andy Moffat, Director of Redemption Brewing and ICMA Centre alumnus (Class of 1997) and David Sheen, Policy Manager at the British Beer and Pub Association.

Left to right: Professor Ginny Gibson; Andy Moffat; Claire Hewitt; Simon Lewis; David Sheen.
Introduction by Professor Ginny Gibson, Deputy Dean

Ginny introduced the panel and the overall aim of the event, which was to provide an insight into how industries such as the brewing industry restructure and reform after a major merger, as demonstrated following the recent merger of brewers SABMiller and AB InBev.

- David would provide a general look at how economic, tax and environmental legislation would be likely to change
- Andy would give the viewpoint of someone who has set up his own microbrewery, Redemption Brewing Company
- Simon would offer insight, having joined a small craft brewer with the aim of growing the business to £10m turnover in the next five years
Industry profile: An explosion of new entrants

The panel discussed what mergers, such as the SABMiller and AB InBev merger, meant for the industry in terms of consolidation and sustainability. Profiling the industry shows that:

- there has been a dramatic consolidation over the past 15–20 years
- at the top end, just five or six companies produce 70% of global beer
- at the lower end, however, there’s been an explosion of new companies with 1,900 new breweries opening in the last 16 years
- changes have resulted in much more variety, quality and innovation, with new beers coming back that had disappeared
- lots of small independent breweries are also now springing up
- a new customer base is evolving
- in the US, many big brewers are buying up craft brewers and starting new divisions
- in the UK, consolidation is more about acquiring brands than reducing competition
- there have been some high-profile buyouts in the craft sector
- it’s still too early to tell whether it will translate over here in the UK as it has in the US
- Discussing the effects of consolidation further, the panel noted that many brewers face a conflict if they are small and have a niche market, e.g. BrewDog, which has an aggressive, anti-corporate marketing campaign, as consolidation can mean that they lose their brand values and their demand, but they can’t make money for investors if they won’t ‘sell out’.
How pubs are raising the bar

On consolidation

From a pub perspective, industry consolidation is cyclical:

- legislation in the early 1990s forced the break-up of big brewers
- large pub companies bought up the pieces and are still in existence today
- individual entrepreneurs have reversed that trend in the last six years, by coming into pub sector and providing rejuvenation
- one-third of pubs in the UK now owned by small companies or individual licensees
- some change is down to government intervention, as new legislation now rebalances the profitability of a pub business between the landlord and individual licensee

Addressing the myths about pub closures

An often-quoted figure is that 30–50 pubs shut down each week. Groups such as CAMRA (the Campaign for Real Ale) drive this idea, as they still want classic British ‘boozers’, but the problem is they may be run in an outdated way. Based on his experience at West Berkshire Brewery, Simon argued that:

- outdated pubs should close in order to offer a better choice of places to eat and drink
- if too many pubs are kept open, it can be to the detriment of the quality of the beer served
- the types of pubs shutting are those that were always going to shut anyway
- more high street businesses are opening, which are managed better and offer an improved range of beer and food
Craft brewing and the next generation of drinkers

Discussing the younger generation of consumers, the panel reported that:

- while students prefer to go to Wetherspoons rather than have a craft beer, as that’s all they can afford, even Wetherspoons recognises that it needs to have an offering
- people are more beer curious, but craft brewers only make up 10% of the UK beer market; in contrast, the market is twice the size in the US
- younger people are interested, but more in quantity over quality
- in London, there has been a craft beer renaissance among East End hipsters; there were only six craft breweries in London in 2010 and now there are 90
- London craft brewers, however, are all aiming at the same market, so it has become more trend focused, especially in design of the cans etc
- beer is having its day at the moment but growth might slow down in 10 years
- social media is huge for small breweries, who use it if they have no marketing budget to create brand loyalty, and younger people engage much more this way
- from a pub perspective, in London, there’s been a move towards bars with 20 brands or more on the bar
- the craft beer movement in the UK has been driven by a 25–to 40-year-old audience
- this consumer group have disposable income, so the craft beer market must remain relevant to them
Questions from the audience

How supportive are the large retailers, such as John Lewis and Waitrose, for craft brewers?

Simon explained that:

- the West Berkshire Brewery, which is 21 years old, makes 125 barrels of beer per week. 20% is sold in bottles and 10% sold into the grocery sector; their exposure is mainly with Waitrose, Tesco etc
- when he first started working in the East End, the ratio was 60/40 between on trade/off trade; now it’s switched and more is sold off trade but not in cask beer, which is still strong for smaller brewers
- there is still a proliferation of large brewers, such as Marston’s, that get the shelf space
- Waitrose loves smaller brewers; Simon’s brewery is 16th in the UK with ‘Good Old Boy’ selling on Waitrose shelves

Andy reported that:

- off trade sales are a growing sector for all supermarkets; Tesco are putting big fridges into their Express and Metro stores, dedicated to craft beer
- Marks & Spencer is also supportive of smaller breweries; they are at the more price-premium end of the market
- given their size, Redemption Brewing can’t deal with Tesco, but Waitrose, which sells beer at £2.25 or £2.49, tend to go more upmarket with the brands they stock
What is the relationship between on trade and off trade?

- independent bottle shops don’t like it if brewers have their beer available in bigger outlets, as they are an important part of the branding for people who want to see something different in smaller outlets
- the trade-off might be higher volumes and wider availability versus losing a bit of the niche side of the brand among ‘beer geeks’
- it’s also based on output: to sell more, brewers have to reduce their prices, so they need to try to use capacity in the best way, which may mean not selling to Tesco, which involves selling a larger percentage at a cheaper price

Redemption Brewery has always focused on margins, so it can grow in a sustainable way, but some breweries have gone for large contracts and then been unable to deliver to traditional freehold customers

- if a brewery doesn’t have capacity and messes up an order, they will lose out – it’s quite unforgiving out there
- even Aldi and Lidl want beer-interested consumers in their stores now, so are changing the types of beer they order – a sign of the changing beer market in the UK
What was the motivation for Guinness to release their Hop House 13 lager?

- this beer has been produced with a secret weapon: a hop called Galaxy, which has an incredible tropical fruit flavour!
- Guinness have bought all supplies of Galaxy hops, so other brewers can’t get it unless they order it two years in advance
- in the UK, some brewers put the word ‘craft’ on a beer they have made, thus allowing themselves to sound smaller and more artisanal and try out new hops and flavours
- big breweries have been buying smaller breweries in order to say that they now have a ‘craft brewing house’, allowing them to enter that market
- the British beer and Pub Association represents big brewers and they have seen the huge growth in the craft market; Guinness have picked up on that trend with this brand extension – and they can then put a big marketing spend behind it
Would the brewers consider selling online?

In answering the question, it was noted that China is way ahead of the UK when it comes to selling beer online. The panel went on to point out various pros and cons of online alcohol sales:

**Pros**

- it’s a direct market for brewers to sell via their own or an affiliated webshop
- as delivery charges have to be incorporated, most breweries sell mixed cases of 12
- Deliveroo also sell in London, combined with a food offering

**Cons**

- there are difficulties with drivers verifying people’s ages when delivering alcohol that has been ordered online
- delivery charges can be an issue; it’s best for people to buy directly from the shop
- looking at companies such as Beer52, the online retailer, pricing is not that different from selling to Tesco

How does the industry deal with taste and flavour and the volatility of pricing?

- most small breweries contract for their hops at least one year in advance; if they don’t, they won’t get the good hops, such as those from New Zealand and specialty US varieties
- malt is harvested every year; if it’s a bad harvest, the yield will be low and prices go up
- Brexit will push the price of hops up because of currency factors, so it will be a tough time for smaller breweries in particular, who don’t have same ability to hedge costs in advance
- most breweries use British grown malt, but for hops Brexit will be an issue for craft brewers who use US hops
In 10 years, what will be the ratio between craft beer and mass-produced lager?

The panel pointed to the fact that what happens in the US gets mirrored in the UK:

- currently 10% of the UK beer market is craft beer, while in the US it’s 20%
- lager remains at around 85% of the market, and lager brewers see themselves as part of the craft industry rather than the brewing industry

- as a result, 20% of a smaller beer market as a craft industry is a bigger win than the beer market growing by 2% and craft industry’s market share then growing by only 2%
- as an example of breweries attacking the mainstream lager market, Camden have done a really good job with Camden House, taking the big breweries on head on
- small breweries are competing for space among the big brands
Are there examples of recent craft beer marketing campaigns?

- West Berkshire Brewery are about to build a new brewery to futureproof the business; in 21 years, it’s been rebuilt four times, which is quite common
- most small breweries don’t have big marketing spends
- many small breweries rely on their teams to be their marketeers, acting as the face and voice of the brewery
- social media is used heavily
- collaborations are the way forward:
  - West Berkshire Brewery is collaborating with a brewery called Farmageddon in Belfast, which is a cool brand, giving them a chance to get into Northern Ireland
  - in the early days, Redemption Brewing didn’t do bottles and collaborated with another brewery that didn’t do cask; it allowed their beer to get to a new market of customers through bottling

Is craft brewing as well understood in the UK as in the US?

The panel argued that the UK is getting there, but the definition of a craft beer is a difficult one and that holds the sector back:

- it makes it difficult for supermarkets to display craft beer, e.g. is it a 500ml or a 330ml bottle?
- how do you define a craft beer by size or style? The debate continues, but you know it when you taste it!
- SIBA (Society of Independent Brewers) tried to come up with a definition recently
- packaging in 330ml bottles or cans with funky designs are usually a sign of craft beer
What would make us buy a craft beer rather than our regular beer?

- craft beers use interesting ingredients to make unusual flavours
- consumers need to think about which beer to drink with which food
- it could be seen as a lifestyle choice versus a classic British pint, in that way craft beers are expanding the taste repertoire
- the local angle is important as people like to drink a local product, and that’s behind the growth of a lot of breweries as well as design of bottles, cans and labelling (breweries now have design directors)
- expanding the market to include and appeal to more women is important too, not just making floral flavours, but making sure all beers also appeal to women

Where do you see flavours going in craft beer?

The panel agreed that this really could go anywhere:

- squid ink beer and gherkin beer (not recommended!) were among the more unusual flavours available
- sour beer is capturing a new audience
- some brewers are using tea leaves, making coffee beer and others use ginger, lemon and honey
- there are beers that use a lot of fruit, e.g. the Belgian beers
- the ‘Beeriodic Table’ is worth Googling, it lists 20 styles of beer with 65 different types in each style
- the development of hops plays a part as well; some of the US and New World hops are more aromatic and citrusy, whereas, UK hops are more earthy and subtle
- restaurants now have beer lists like wine lists, to match beer with food
Post-event feedback

To bring the event to a close, Ginny thanked the speakers and everyone was then invited to try the beers that the speakers had brought along! Audience feedback on the event included:

‘I knew a bit about craft beers before, but now I have a better understanding of the market.’

‘Very good. Lovely to hear from industry practitioners.’

‘Good event. I work in property, but it's very interesting to hear how the sector is evolving.’

‘Interesting to hear about the thought that goes into the production of beer.’

‘I come from a background where drinking is not my culture, but I came to find out about craft beer and experimenting with taste. That’s what I took from it.’

‘Really interesting. I learned about selling to bigger markets.’

‘Good insight into how to grow businesses.’