

SDEL/COORS—the industry background paper

The on-trade market/ the customers

1. There are two main distribution channels for beer and cider in Great Britain: on-trade outlets and off-trade outlets. On-trade outlets hold on-licences which allow alcohol to be consumed on the premises (public houses, hotels, clubs etc). Off-trade outlets hold off-licences which allow alcohol to be sold but only consumed off the premises (off-licences, supermarkets etc). About 113,000 outlets in England and Wales hold on-licences, with an additional 20,000 registered members' clubs holding a registration certificate, allowing them to supply alcohol to members and guests on their club premises. 46,000 outlets hold off-licences in England and Wales.¹ According to SDEL 84 per cent of on-trade outlets have cellar equipment and hence would have the need for technical services equipment (TSE) and technical services (TS).²
2. On-trade consumption accounts for the majority of the beer market by value (83 per cent in 2003) and volume (72 per cent). The differential between value and volume is in part explained by the relative price of on-trade beer in comparison with off-trade beer as customers pay for greater overhead costs³. Table 1 shows beer sales by on-trade and off-trade outlets.

¹http://www.culture.gov.uk/alcohol_and_entertainment/default.htm.

²The OFT's on decision the anticipated merger of the TS division of Scottish Courage Limited and Carlsberg-Tetley Brewery Limited on 24 March 2004.

³Breweries and the Beer Market—Key Note Ltd 2004.

TABLE 1 Beer sales by on-trade and off-trade outlets*

	<i>Value</i> £ million	<i>Market share</i> %	<i>Volume</i> '000 brls	<i>Market share</i> %
On-trade				
Leased/ ten. pubs	3,687	24	5,992	20
Nightclubs & venue bars	2,802	18	5,446	19
Managed pubs	2,292	15	3,572	12
Independent pubs	2,289	15	3,691	13
Hotels	725	5	1,045	4
Restricted	501	3	658	2
Other	389	3	632	2
On-trade total	12,683	83	21,035	72
Off-trade				
Multiple grocers	1,566	10	5,654	19
Independents	534	4	1,643	6
Multiple specialists	284	2	644	2
Convenience	226	1	676	2
Off-trade total	2,510	17	8,318	28
Total	15,193	100	29,353	100

Source: <http://www.interbrewmarketreport.co.uk/2004/iuk2004.pdf>. AC Nielsen Nov/Dec 2003.

* Volumes and values may be understated as they do not include all micro brewers (Source: Coors).

3. The British Beer and Pub Association estimate that there are approximately 60,000 public houses (pubs) in the UK including (6,500 in Northern Ireland and Scotland). These pubs accounted for 65 per cent of on-trade sales in 2003 by value and 62 per cent by volume.

4. The structure of pub ownership and beer distribution to pubs has changed significantly since the Beer Orders⁴ which were based on the 1989 MMC report⁵. Prior to the Beer Orders most pubs were owned by the brewers (see Table 2). By 2003 most pubs were owned by independent pub companies (pubcos) which generally have an arm's length relationship with the brewers. There are now approximately 70 pubcos (with >30 pubs) which operate 32,500 pubs;⁶ however, there are many smaller pubcos which can operate as few as two pubs.

⁴The Beer Orders consisted of two statutory instruments: The Supply of Beer (Tied Estate) Order and The Supply of Beer (Loan Ties, Licensed Premises and Wholesale Prices) Order.

- o The Tied Estate order capped the number of managed, tenant tied and loan tied premises. National brewers with pub estates in excess of 2,000 had to free from tie the excess above 2,000. These had to be sold by November 1992. There was also a 'guest beer provision', which allowed tenants and tied-loan clients of large brewers to buy one brand of cask-conditioned beer and (as of an amendment in 1997) one bottle-conditioned beer from any supplier they chose.
- o The Supply of Beer Order required brewers to publish wholesale prices, not to refuse to supply beer except in certain circumstances, not to sell pubs with covenants preventing their use as pubs in the future and to enable brewery tied loans to be repayable on not more than three months' notice without penalty. These orders were revoked in 2002.

Source: *The British Beer and Pub Association*

⁵The Supply of Beer: A report on the supply of beer for retail sale in the United Kingdom 1989.

⁶Source: The British Beer and Pub Association.

TABLE 2 **Pubcos 2004**

<i>PubCo</i>	<i>Outlets</i>	<i>Managed</i>	<i>Tenanted</i>
Punch Taverns	7,400		7,400
Enterprise Inns	5,050		5,050
Unique Pub Company*	4,043		4,043
Spirit Group	2,470	2,470	
Mitchells & Butlers	2,077	2,077	
Scottish & Newcastle/ RBS†	1,119		1,119
Innspired Pubs‡	1,066		1,066
Wellington Pub Co	835		835
Avebury Taverns	750		750

Source: Pub Industry Handbook 2004

*Acquired by Enterprise Inns in 2004.

†Pubs owned by Royal Bank of Scotland and operated on their behalf by S&N.

‡ Acquired by Punch in 2004.

5. Types of ownership can be further broken down into managed outlets, tenanted pubs and independents. Managed pubs are owned and managed on a day-to-day basis by either the brewer or pubco, normally with the publican employed by the brewer or pubco. Tenanted pubs are managed on a day-to-day basis by the local publican who leases the pub from the brewer or pubco. Both managed and tenanted pubs are tied to either the pubco or the brewer for the majority of their alcohol purchases (especially beer).

TABLE 3 **Brewers and Pub Ownership in the UK, 1988 and 2003**

	<i>1988</i>	<i>2003</i>
Brewers (total)	45,200	8,400
<i>Managed</i>		2,600
<i>Tenanted</i>		5,800
PubCos (total)	Negligible	32,900
<i>Managed</i>		9,100
<i>Tenanted</i>		23,800
Independents	~20,000	18,700

Source: British Beer and Pub Association (1988 from the submission to the Trade and Industry Committee and 2003 from the web site).

6. Brewers can be broken down into the large national brewers—Scotco, Coors, Interbrew and Carlsberg—which sell 78 per cent of total beer volume (See Table 4 and 5 for brands and sales) but no longer own pubs (Scotco does manage 1,100 pubs on behalf of the Royal Bank of Scotland), and around 40 regional brewers, including, for example, Greene King and Wolverhampton and Dudley Breweries, which continue to own pubs and hence remain vertically integrated. Coors has

indicated there are also a number (5 to 500) micro breweries mainly producing draught beer for the on-trade, for example Refresh.

TABLE 4 **Brand ownership**

<i>ScotCo</i>	<i>Carlsberg</i>	<i>Coors</i>	<i>Interbrew</i>
Fosters (L)†	Carlsberg	Carling	Stella Artois
John Smith's	Calder's	Allbright	Tennent's
Kronenbourg	Carlsberg Export	Arc	Bass
Miller (L)	Holsten Pils	Caffreys	Becks (Global Ownership)
Becks (L)	Skol	Coors Fine Light Beer	Boddingtons
Woodpecker (cider)	Tetley's	Grolsch (L)	Castlemaine (L)
Strongbow (cider)		Korenwolf (L)	Hoegaarden
		M & B Brew	Murphy's (L)
		Stones Bitter	Wadworth 6X
		Worthington	Whitbread

Sources: Company web sites and the parties.

*Bolted brands are in the top ten in terms of beer on-trade sales.

†(L) Licensed in the UK.

Table 5 **Top ten brand sales for on-trade in the UK**

<i>Brand</i>	<i>Brewer</i>	<i>Value £ million</i>	<i>Volume '000 brls</i>
Carling	Coors	1,589	2,828
Fosters	Scotco	1,333	2,232
Stella Artois	Interbrew	984	1,394
Carlsberg	Carlsberg	821	1,412
Guinness	Diageo	805	1,239
John Smith's	Scotco	485	932
Kronenbourg	Scotco	367	538
Budweiser	Anheuser-Busch	352	334
Heineken	Heineken UK	308	527
Tennent's	Interbrew	295	525
Other		5,344	11,961
Total		12,683	21,035

Source: Interbrew Market Report 2004 (AC Nielsen Nov/Dec 2003).

7. The change in pub ownership structure is reflected in an increasingly free retailing market. As on-trade outlets have split off from the brewers, they have had more choice as to which brands they stock. However, some on-trade outlets have had 'legacy contracts' for beer supply as well as TS and TSE provision with the brewers. The Interbrew 2004 report states that these contracts were signed as the brewers exited retailing and were often designed to protect the brewers' weaker beer brands.⁷ It has also been suggested that many of the pubcos were initially run by ex brewers. The legacy contracts are slowly coming to an end and it is estimated that four million

⁷Market Report 2004 Interbrew UK Ltd.

barrels of on-trade business (approximately 20 per cent of on-trade sales) will be coming up in the next couple of years.⁸

8. The freer market does not seem to have resulted in lower prices to the end consumer. Prices per pint have increased more in on-trade outlets than in off-trade outlets.⁹

Product

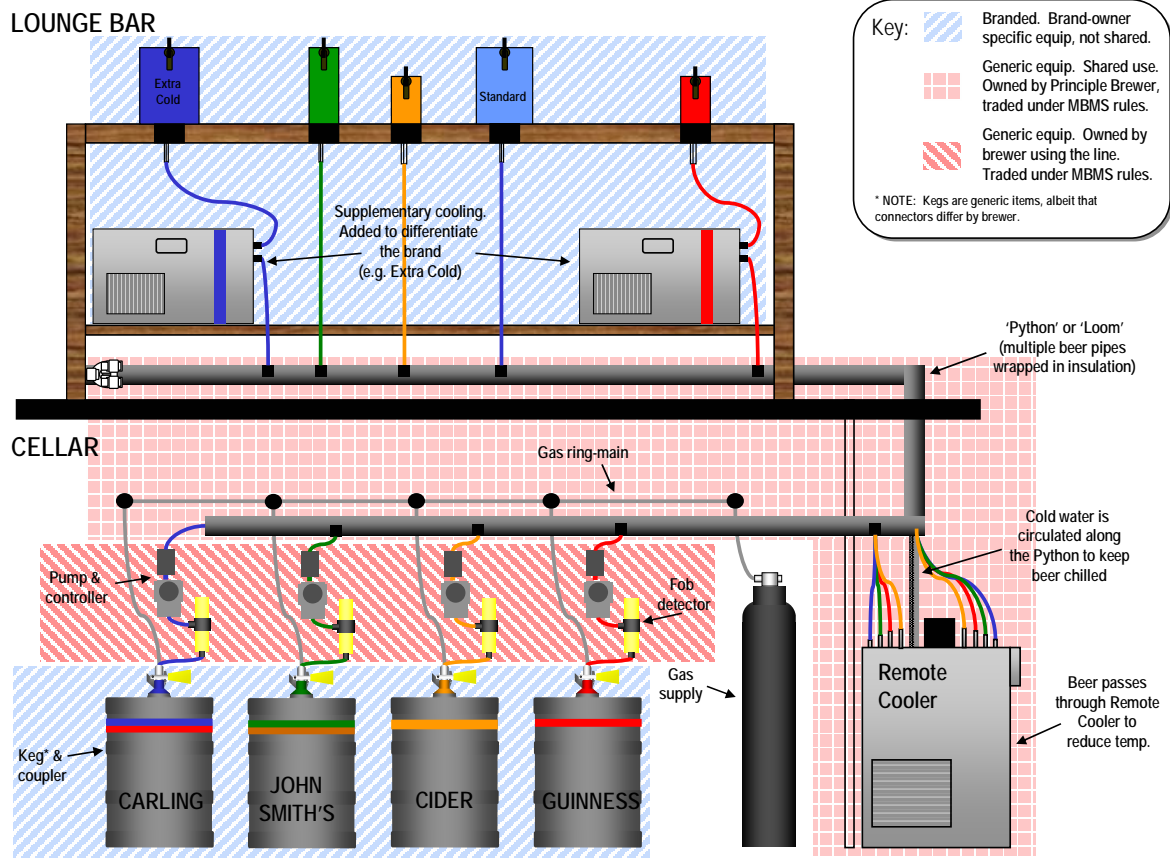
9. TSE is the equipment used to dispense draught beer and cider at on-trade outlets (See Figure 1). TS comprise installation and servicing (including repair, refurbishing and removal) of TSE.

⁸Market Report 2004 Interbrew UK Ltd.

⁹Breweries and the Beer Market—Key Note Ltd 2004.

FIGURE 1

TSE



Source: Main party submission.

- There are various pieces of TSE that are required to transfer draught beers, cider and wine (dispense products) along the lines from the cellar to the bar. For keg dispense products a gas system is required to drive the dispense products along lines and this may be supplemented by additional devices (for example, an electric pump or gas pump) to aid the speed of delivery or cope with long runs from the cellar to the bar. Keg dispense products are generally stored in their container in a cellar, at a constant temperature of 12°C, and most are also passed through a cooler in the cellar to reduce the temperature further (to around 6°C) before serving. Some dispense products are also passed through a flash cooler, under the bar, to reduce temperature to 'extra cold' levels. At the dispense point the dispense product is measured either by a metering device in the dispense system or by filling a glass

which itself forms the measure. The dispense points at the bar are either points on a t-bar or individual founts. For cask-conditioned ales the beer is drawn through the lines from cellar to bar by operation of a hand-pull device, and again this may be supplemented by an additional device in the form of a gas pump. In order to 'condition' correctly before serving, cask beers must be kept at a constant cool temperature, usually 12°C in containers in the cellar.

11. TSE consists of generic equipment, which can be used to dispense most beers and ciders, and brand-specific equipment, which is solely for the use of a nominated brand of beer or cider. In addition there is shared generic equipment such as the python and the lines which are used by more than one nominated brand.

12. The parties have estimated that the current annual value of purchases in the UK of TSE is in the range of £65 million to £75 million (the current JV accounts for 25 per cent of these purchases).¹⁰ Branded equipment is normally replaced in five-year cycles and generic equipment lasts between seven and ten years depending on refurbishment. This indicates that the replacement cost for TSE in the UK would be between £500 million and £650 million in the UK. The BFBi estimates that the market for the installed base of TSE is approximately £350 million.¹¹

13. Generally the installing supplier will also provide the on-going technical servicing and the provider of TS will need to have some of the TSE on hand to do repairs etc. In outlets which have an FBI principal supplier, the FBI principal supplier usually services the shared generic TSE (ie the remote cooler and the python), and the branded and brand-specific generic TSE are usually serviced by the brand suppliers. The parties have said that the TS needed for draught beer and cider is similar to the

¹⁰The OFT's decision on the anticipated merger of the TS division of Scottish Courage Limited and Carlsberg-Tetley Brewery Limited on 24 March 2004.

¹¹BFBi submission to the CC.

services required for soft drinks,¹² but that the TSE needed for draught beer and cider is different to the equipment required for soft drinks.¹³

Other providers of technical service equipment and technical services

14. The main parties have provided a list of the five largest providers or potential providers of TS or TSE in the UK:
- (a) Interbrew provides TS and technical service equipment to outlets for which they are the principal brewer or for their own brands.
 - (b) Diageo Great Britain, provide TS and technical service equipment to outlets with its brands (Guinness etc) and according to the parties for Heineken UK.
 - (c) City Refrigeration Holdings []. The company provides facilities management, refrigeration and TS for the licensed trade throughout Great Britain¹⁴ as well as non-licensed outlets. City Refrigeration Holdings customers include Asda, The Spirit Group, Anheuser-Busch, Mitchells & Butlers, Interbrew, Scottish Gas and Shell.
 - (d) Total Cellar Systems provides both TS and technical service equipment to soft drinks and draught beer and cider suppliers.
 - (e) Wolverhampton and Dudley Breweries is an independent brewing and pub retailing business. It operates two breweries and 1630 pubs¹⁵ (1,035 tenancies and 472 directly managed).
15. Potential providers of TSE or technical services include other industry suppliers to on-trade outlets, such as IMI Cornelius, regional brewers and wholesalers (Matthew Clark who is a member of the FBI) and soft drink suppliers.

¹²The OFT's decision on the anticipated merger of the TS division of Scottish Courage Limited and Carlsberg-Tetley Brewery Limited on 24 March 2004.

¹³The OFT's decision on the anticipated merger of the TS division of Scottish Courage Limited and Carlsberg-Tetley Brewery Limited on 24 March 2004.

¹⁴<http://www.city-holdings.co.uk/>

¹⁵<http://www.fullpint.co.uk/about/>