

The UK long alcoholic drinks market – mature but evolving!



Agenda

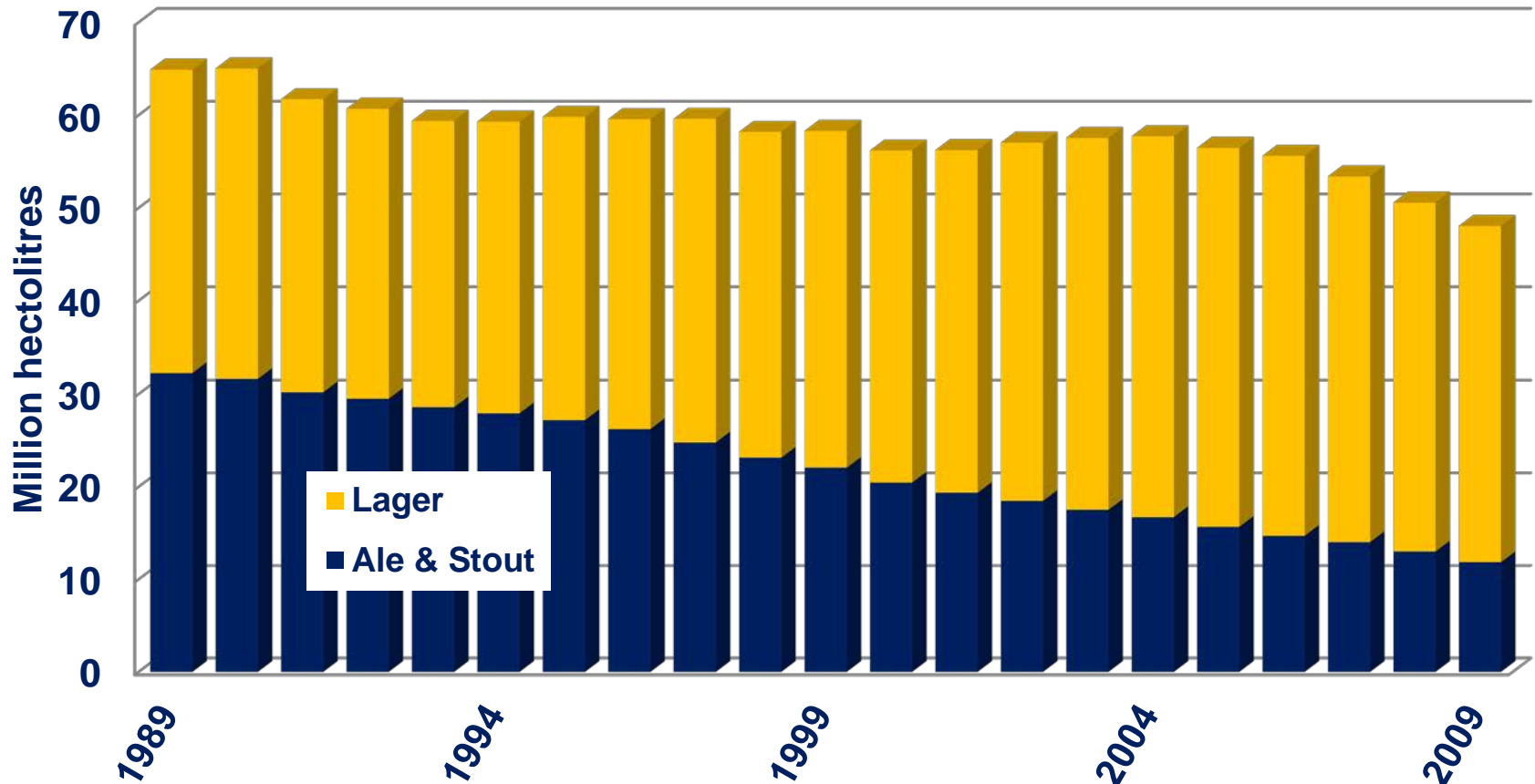
- The last thirty years
 - Volume trends
 - Why did this happen?
- The current market
 - What is new in a mature market?
 - The new consumer
- The future?



Changes in a Mature Market

Actual UK beer market: ale & lager

Lager has become the most popular beer type at the expense of ale and stout and now accounts for 74% of the UK market

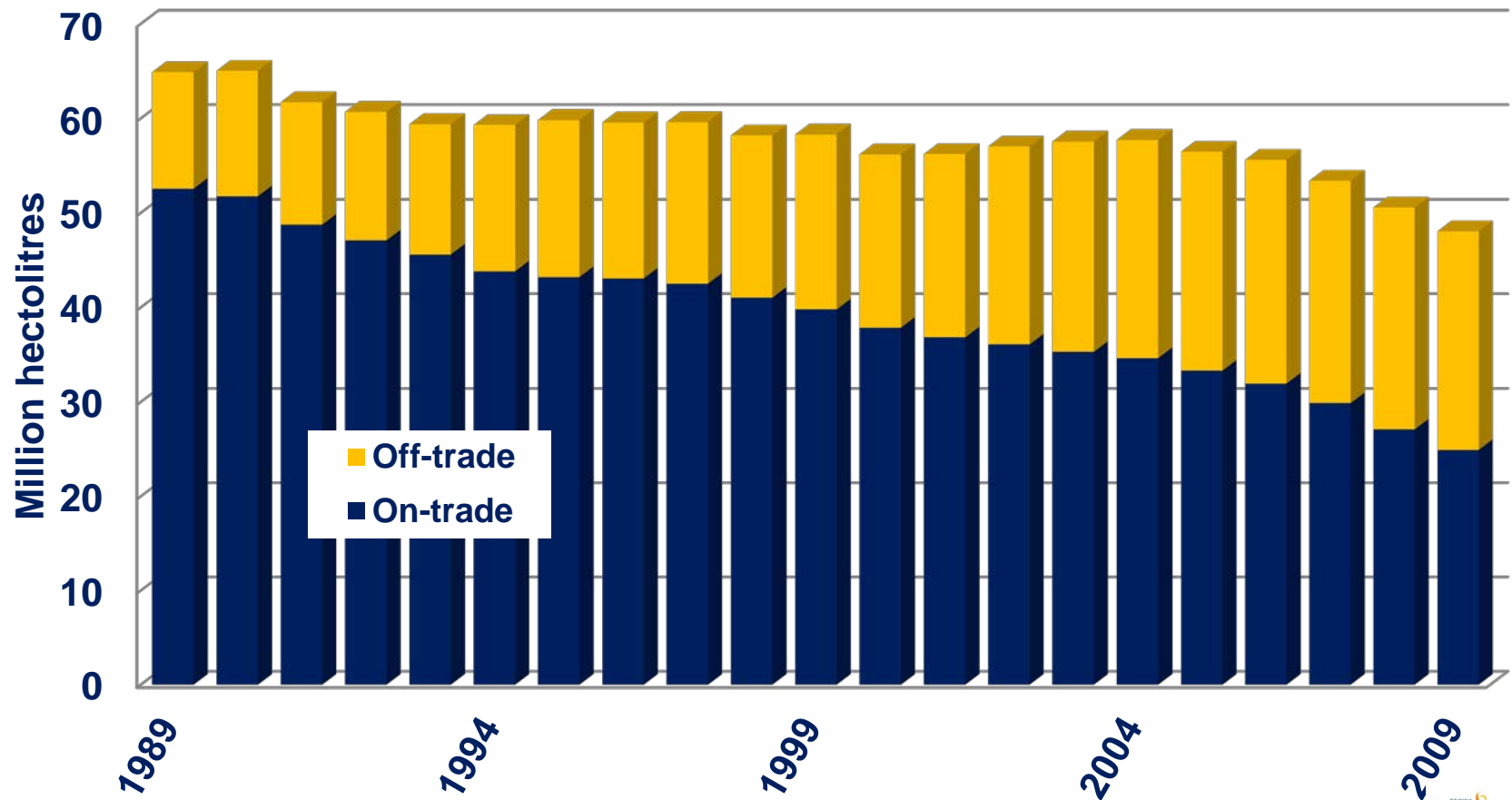


Source

Changes in a Mature Market

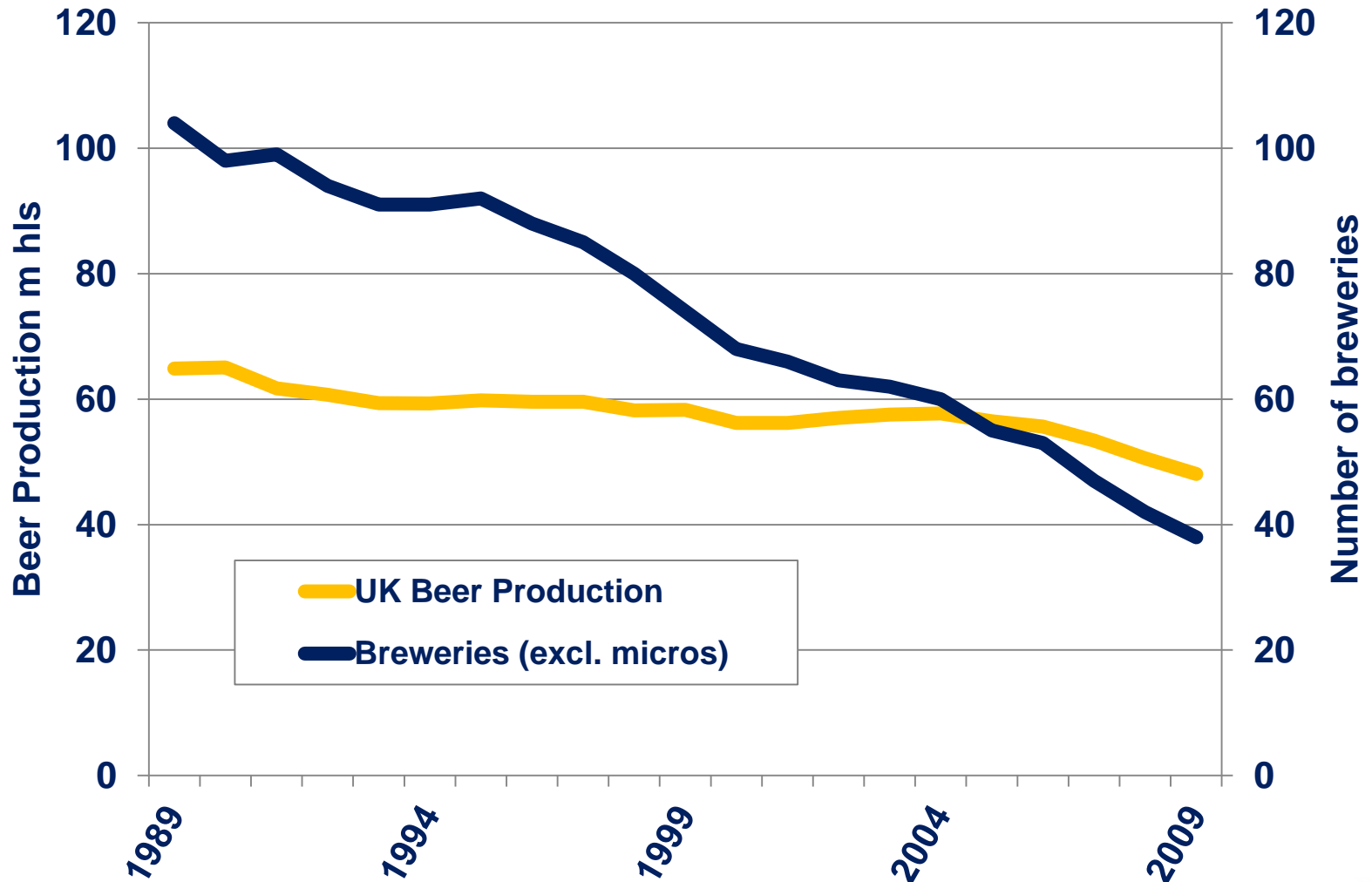
The UK beer market: on/off trade

On-trade - fallen by 50% as take-home consumption accelerates. Off-trade now account for 50% of UK beer sales



Changes in a Mature Market

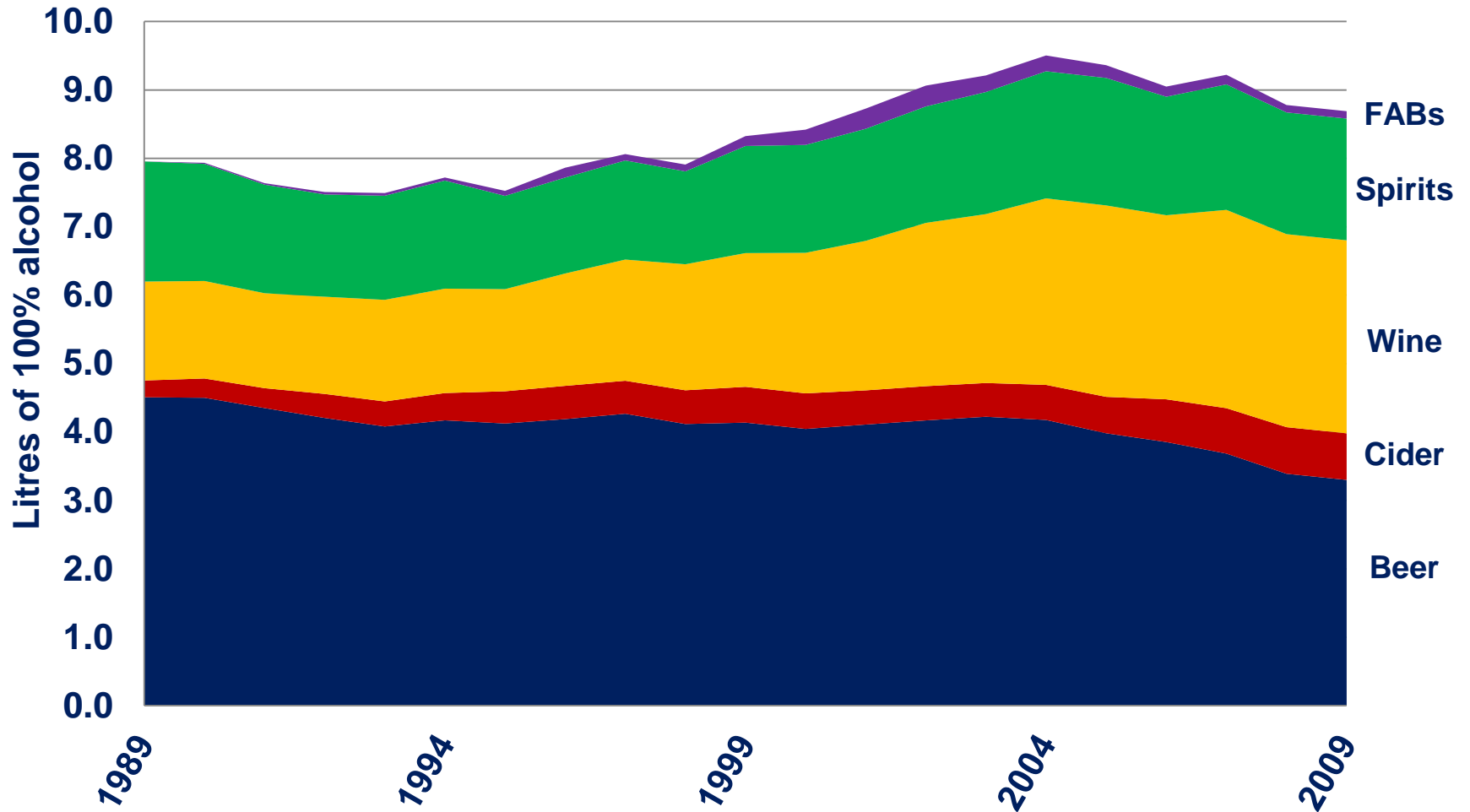
The UK beer market: brewery rationalisation



Source

Changes in a Mature Market

The UK beer market: the competition!



The winners

- Wine
- Cider
- Spirits
- FAB's – but already passé?
 - It took 10 years for Bacardi Breezer to be an overnight success!
 - It took 2 years to be marginalised
 - Brand life spans are now much shorter!
- And of course Coffee!



*Oh, for a cup
of coffee...*

Why did this happen

- The decline of beer can be explained by the multiple pressures on the category
 - Drink and Drive
 - Loss of heavy industry
 - Demographics
 - Social expectations
 - Increased excise
- But
 - Wine grew
 - Cider grew
 - Spirits grew

Why did beer suffer relative to other long drinks

- Beer in the UK is heavily taxed relative to cider
 - As of 28th March beer duty is £18.57 per Hl degree
 - Cider is £35.87 per Hl below 5.5% abv
 - So at average 4% abv cider has a £38.41 per Hl advantage
 - Small brewers (less than 5000 Hls) have a 50% reduction so also have an advantage of £37.14 per Hl at 4% abv
- Beer has not innovated
 - Very poor NPD
 - No development of image
 - Has not engaged with generation Y and not at all with women

At least every 2 decades, you can rely on the music world to produce a startling innovation....



GRAMOPHONE
1880

HI FIDELITY
1927



45 RPM 'SINGLES'
1949

CASSETTES
1962



THE SONY WALKMAN
1980

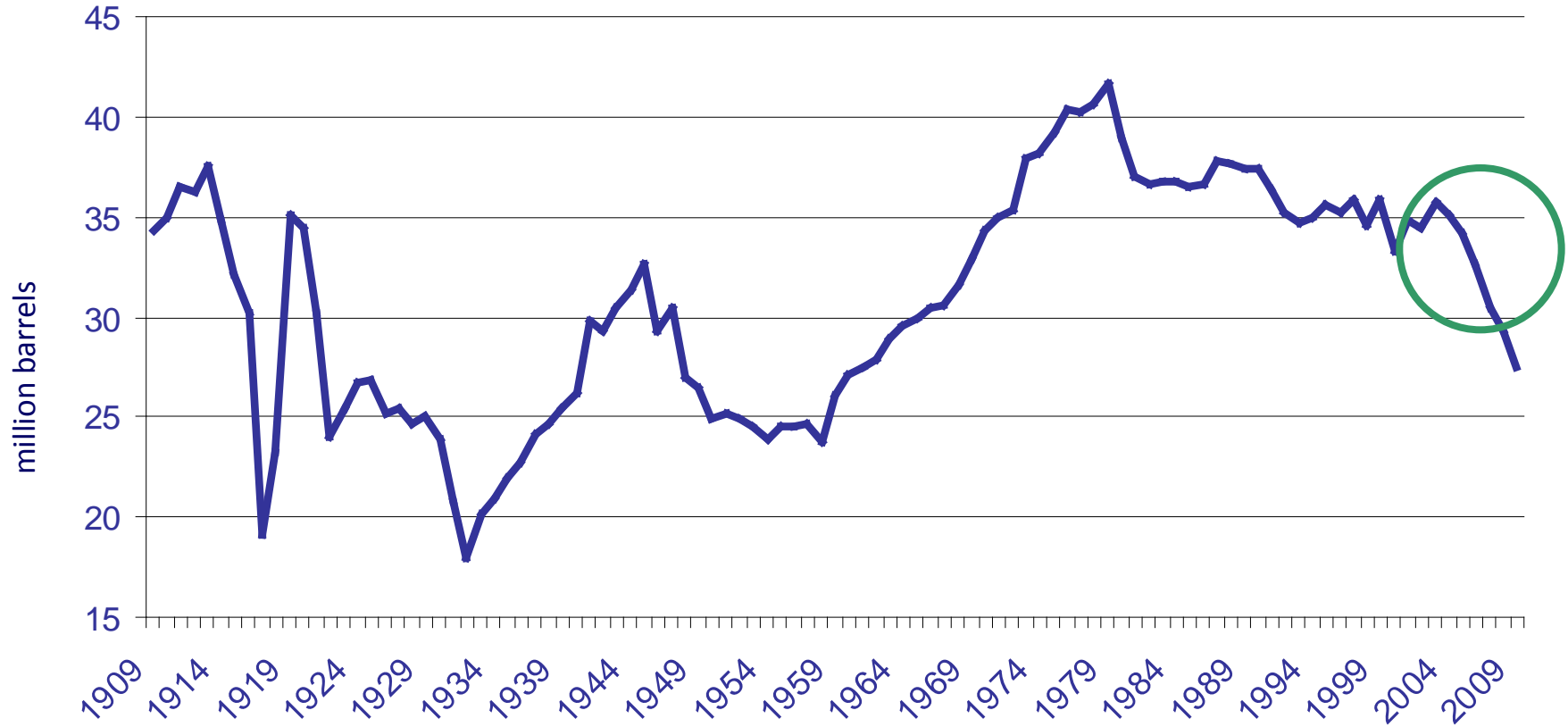
CDs popularised



THE I-POD
2000

Where are beer's iconic, game-changing innovations?

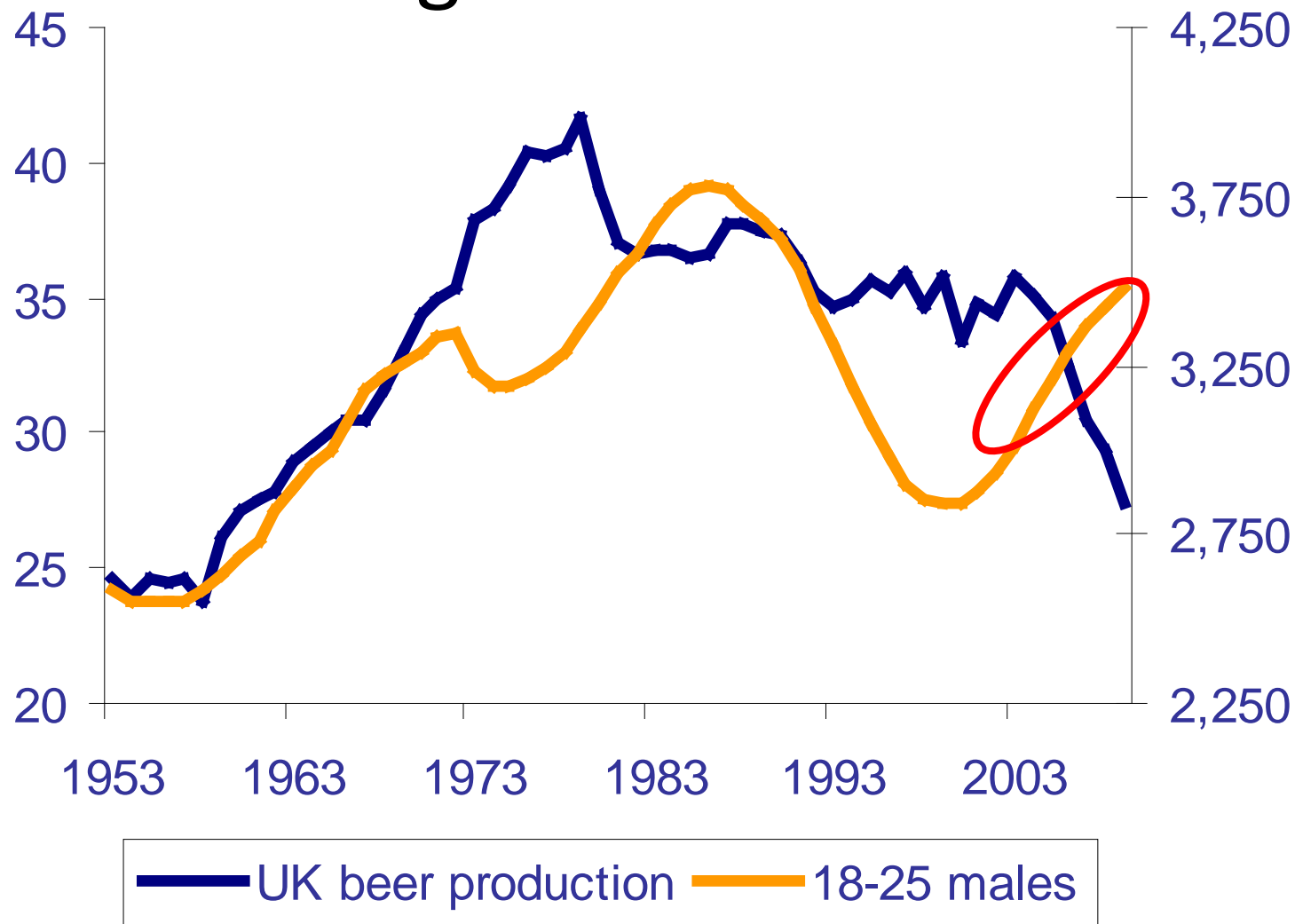
Why has beer consumption fallen so dramatically in recent years ...



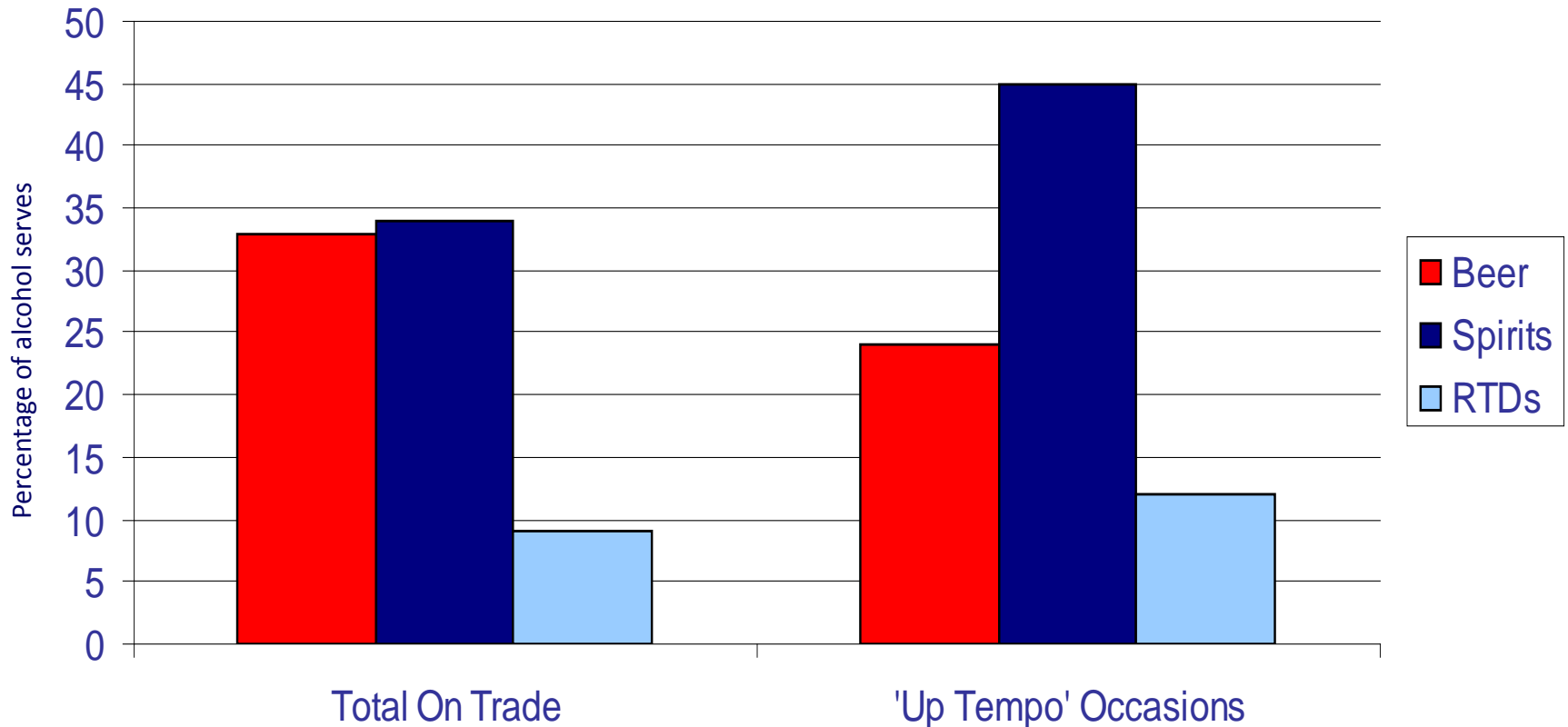
... here and in other mature markets



Have brewers lost touch with this generation?

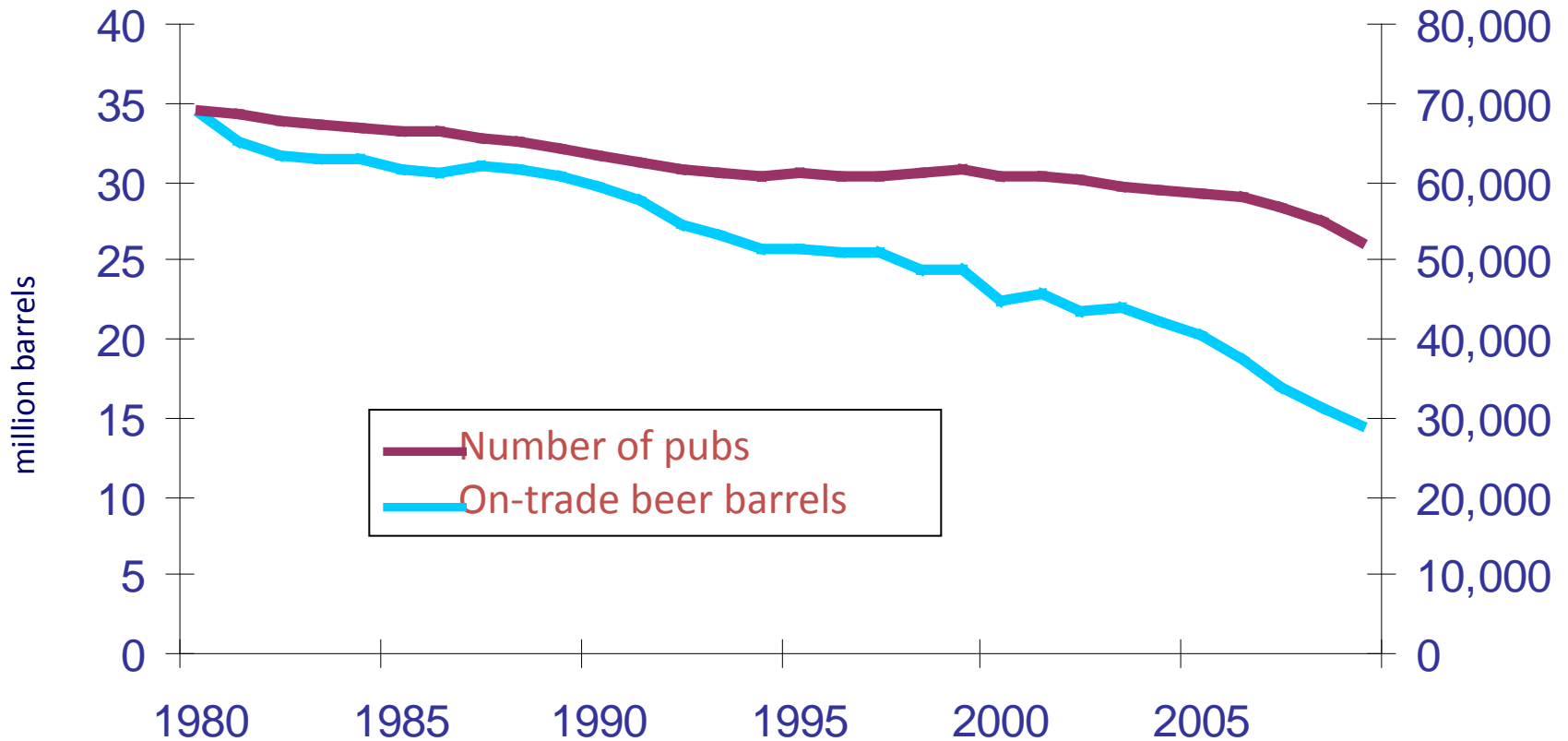


... who now favour spirits

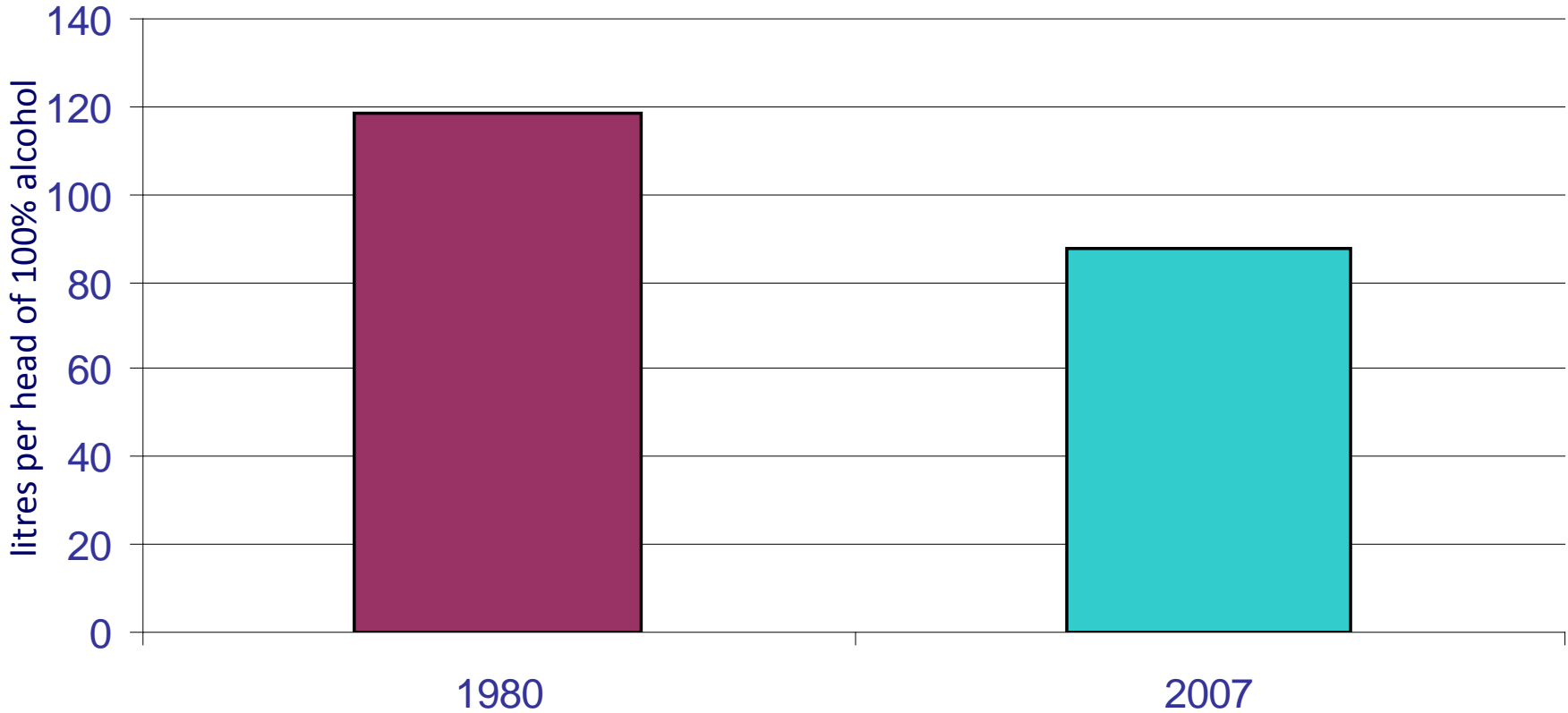


On a 'big night out', spirits are now the drink of choice for 18 to 24 year olds

...and made life very difficult for pubs

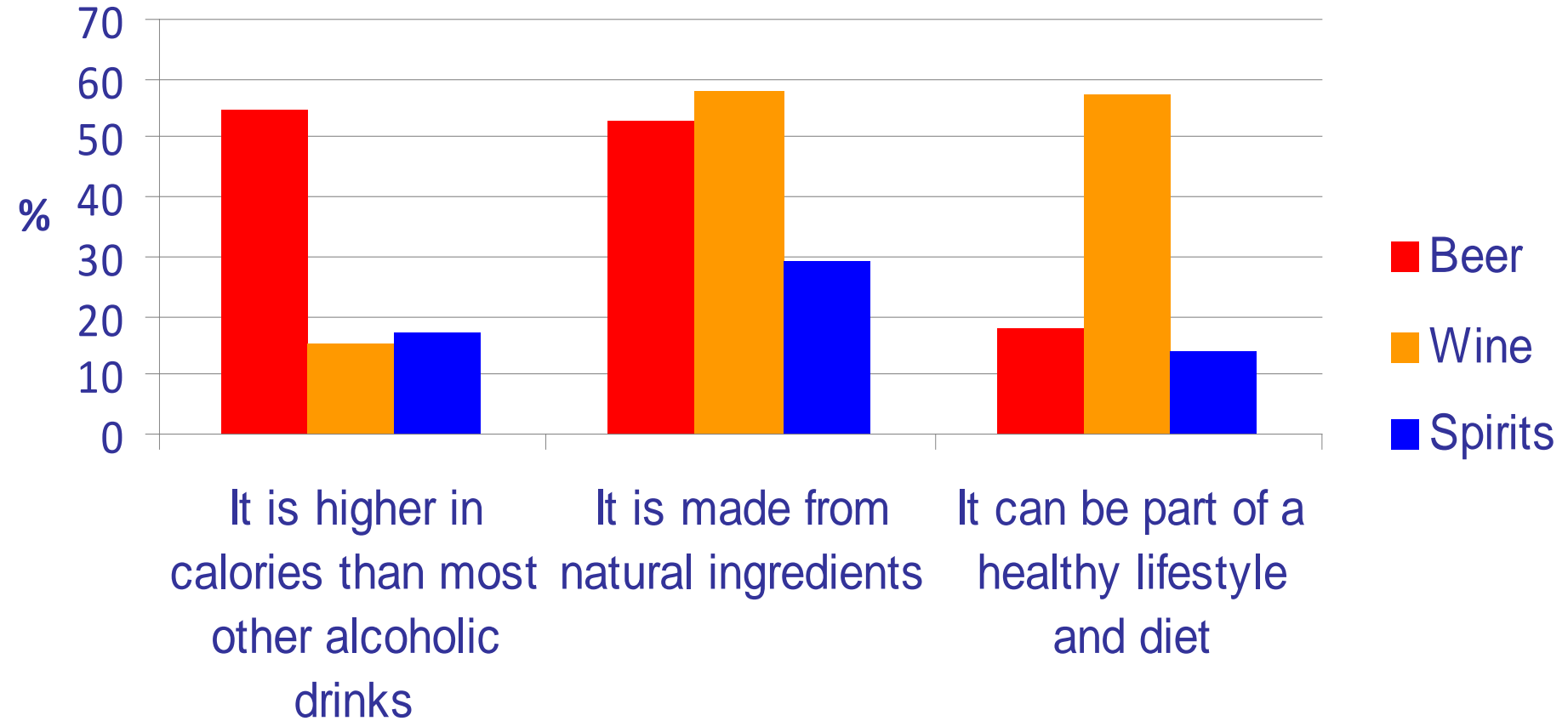


And UK beer consumption per capita has fallen by 26% ...



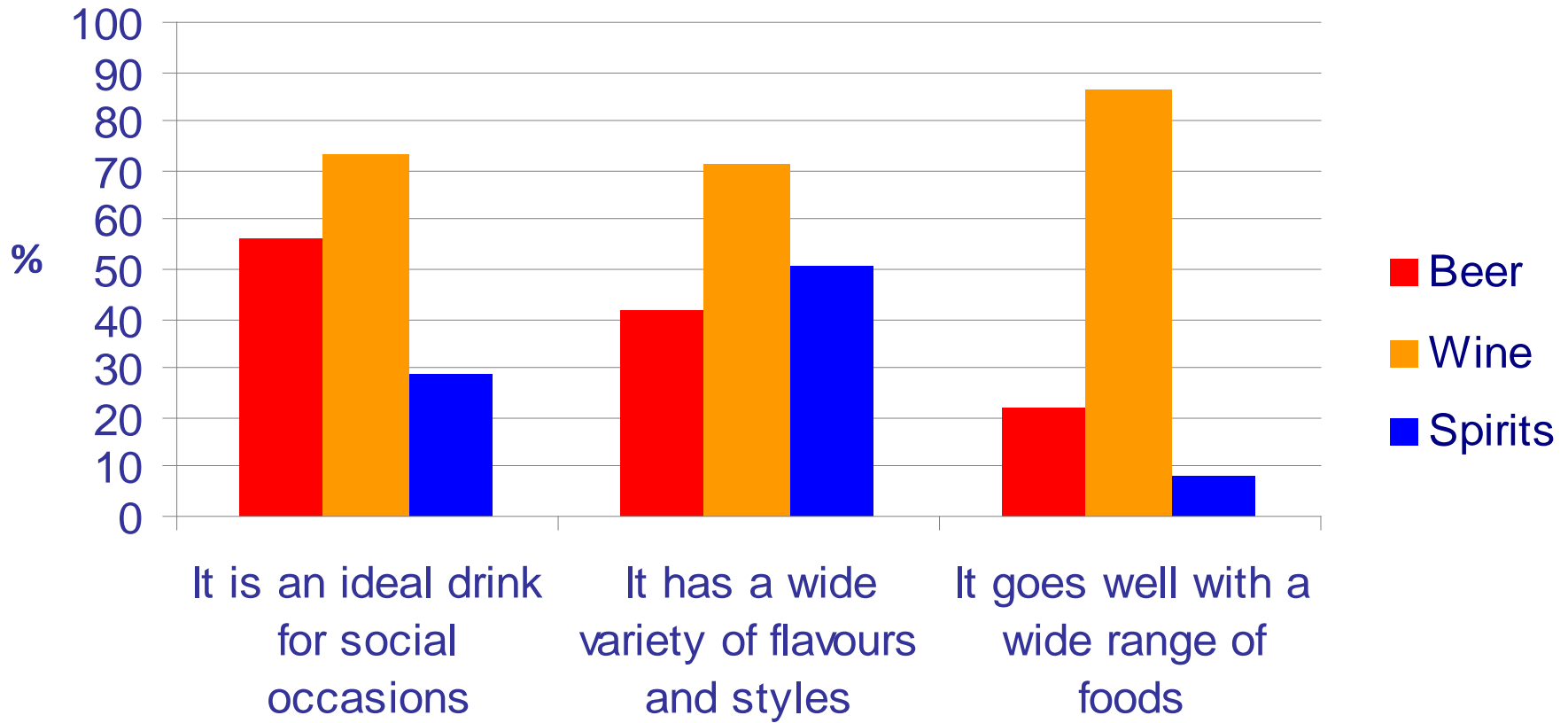
We have failed to communicate the wholesomeness of beer ...

Beer and Wholesomeness



... in a social occasion ...

Beer and Sociability



Good work has started, but we still
have a long way to go ...

Beer is
healthy

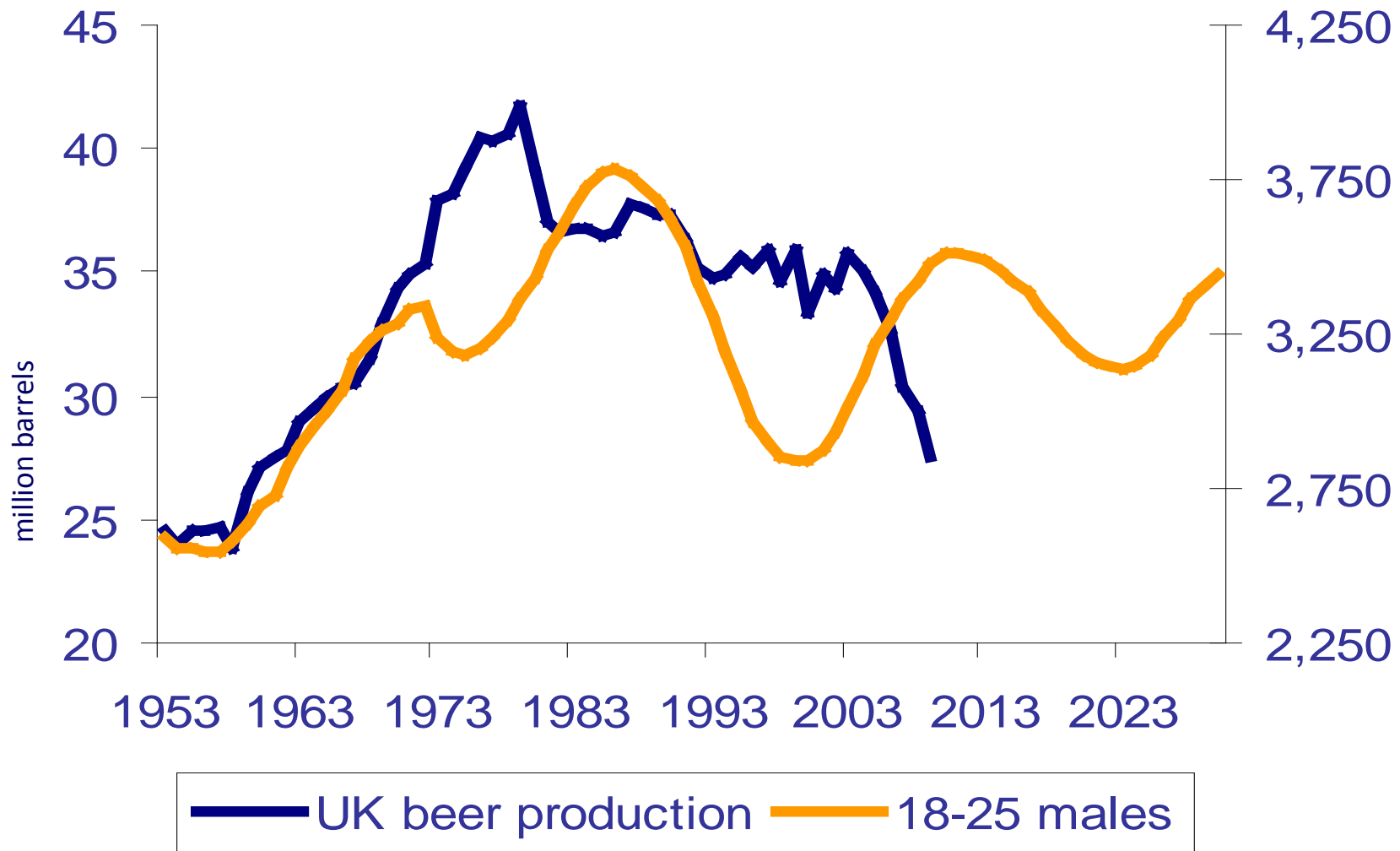
Cheers!
Beer can
help you
get slim

**Beer 'better for
you than wine'**

Alcohol linked to lower risk of arthritis

A pint of beer is better for you after a
workout than water, say scientists

Key Q: - Will the next generation enjoy beer and pubs?



Why Wine and Cider

- The Wine Industry has spent 20 years grafting on image and access for all groups and both sexes
 - It has also convinced the consumer that ‘wine is good for you’ , that ‘wine is sophisticated’, and that ‘wine is healthy’
- Cider
 - Modern, cool, refreshing, great value, ‘local’, ‘real’, ‘light’, unisex, etc....
- In general
 - Perhaps beer lost its way due to its dependency on traditional pubs
 - Consumers have favoured more contemporary retail offers

When will this end?

- Although main stream brewers continue to shed volume there are clear signs of a strong new opportunity
 - Cask ale brewed by craft brewers!
 - In the UK there are now over 700 small breweries
 - and some of these now look like the regional brewers of the past
 - The UK craft brewers now produce just over 1.7M Hls, 4% of the market

Is the UK alone?

- Well as you know - no!
- There are vibrant craft brewing scenes in all mature beer markets
 - USA
 - Japan
 - Aus/NZ
 - France
 - Scandinavia

USA Craft Brewers

- Over 1700 breweries now operating – 1000 of these are pub breweries but a growing number of them are regional's and indeed nationals
 - Some have grown to over 1.5M Hls and some to over 3M Hls
- Total USA beer market in 2010, – 2.7%
 - Craft Brewers +11% to 16M Hls, now 5% share
 - And they claim 7.4% value share

Will UK Craft Beer continue to grow?

- Yes – but at a slower rate
- The excise duty rate has attracted many new players but there are signs of cannibalism between them
- Growth will come from those that have the muscle to break through the 5000 HIs financial barrier
- Mainstream brewers will not sit and watch –
Sharpes purchased for £20M - 12 times earnings!
 - And this week AB InBev buy the remaining 54% of
Goose Island in the USA for \$22M

And what are is the IBD doing?

- Through our Beer Academy we are working with the industry on beer image and education
 - ‘Beer – The Natural Choice?’
 - This publication was well received by the press and gained some useful headlines
 - Training
 - The Beer Academy trained over 2000 retailers and consumers last year
 - It has just recently launched a ‘Beer Sommelier’ scheme which will recognise those that achieve minimum retailing and knowledge standards

The next five years

- Rate of pub closures and mainstream volume loss will slow but not stop
- There will finally be an industry wide push to improve the image of beer
- Off trade pricing will harden
- Innovation will be critical – mainly in package design and glassware

Thanks to...

- I have used slides presented by Jonathan Neame and Mark Hunter (CEO Molson Coors UK) at the International Brewing Convention
- I have used some slides used by Peter Ward (IBD Past President) at the IBD Asia Pacific Convention 2010
- Various stats from BBPA, BA and SIBA

Q and A

- I may not have the answers – but I will try!

