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THE DECLINE AND FALL OF THE BIG SIX U.K. BREWERS

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When the Brewery History Society was formed in 1972 the U.K. brewing industry was dominated by six large vertically integrated British owned brewing companies: Allied Breweries, Bass Charrington, Courage, Scottish & Newcastle Breweries, Watney Mann, and Whitbread. Today these companies have either ceased to exist, or in Whitbread's case no longer have any involvement in the drinks trade, and the four national brewers: A.B. InBev U.K. Ltd., Carlsberg UK Brewing Ltd., Heineken U.K. Ltd. and Molson Coors Brewing Company (U.K.) Ltd., are all subsidiaries of foreign giants. This essay examines how and why such a dramatic change in the industry's structure came about.[1]

The brewing industry in the U.K. ended the 1970s as it had begun them; on the crest of a wave. From 1959 to 1979 there had been an unbroken rise in the output of beer by the country's brewers and to put the icing on the cake a Conservative government was returned to power determined to put the unions in their place. In 1979 Margaret Thatcher had arrived to round off a politically dysfunctional decade which had culminated in Labour's winter of discontent. What could go wrong? Well, just about everything so far as the U.K. brewing industry was concerned. Mrs Thatcher's policies did indeed neuter the unions and, in time, brought a temporary boost to the economy. But this was accompanied by record unemployment, the decimation of manufacturing industry, an associated fall in beer sales - and to cap it all, in 1989 along came Lord Young and his 'Beer Orders'.

In the four year recession which followed Mrs Thatcher coming to power - the deepest in terms of the fall in G.D.P. since that of the early thirties - output of beer in the U.K. fell by over 12% from its 1979 peak. But to judge the magnitude of the problem the U.K. beer industry faced, it is necessary to compute not just the actual fall in volume in the first half of the 1980s, but also to look at what the predicted volumes were for that period; for it is on the latter that companies had based their production strategies in the seventies. A most useful publically available source in this context is a paper delivered in October 1976 to an A.B.T.A. symposium 'Delivering the Goods', by P.H.T. Evans, previously editor of *Brewing Review*.[2] In his paper Evans presents a forecast of the total U.K. beer market up to 1985 produced by the Brewers' Society in 1974. The forecast "represented the combined view of people in the Industry who possess an expert view of the beer market". The figures given in Evans paper are compared below with what turned out to be the actual volumes released for home consumption:[3]

Year	Forecast (million brls)	Actual (million brls)
1975	40.7	40.7
1979	42.7	42.4
1985	49.0	38.1

Thus the forecast gives a good fit up to 1979, but goes haywire when actual volumes decline after 1979. A projected growth in the U.K. beer market between 1975 and 1985 of 20.4% actually turned out to be a fall of 6.4%. Assuming breweries were brewing to capacity in

1974 and companies increased capacity in line with the forecast above, then they would be approaching 30% overcapacity by 1985.[4] Little wonder then that breweries were closed and redundancies followed throughout the eighties. The market stabilised in the second half of the eighties but the recession of 1990-1993 brought renewed contraction, with more amalgamations and job losses. This affected many countries, not just the U.K., but the latter also had to cope with a rise in beer tax of 31% in real terms - 52% including VAT - in the years 1979-1993.[5] In addition the U.K.'s brewers had their own particular cause for alarm in the shape of regulatory interference through the infamous 'Beer Orders'. This piece of legislation would come to be blamed by many in the trade for all the ills that befell the U.K. brewing industry thereafter.[6]

The Department of Trade and Industry Beer Orders of 1989 were the catalyst for a restructuring of the big battalions of the brewing trade in the U.K., eventually leading to a new dichotomy of pub-owning companies and foreign-owned wholesale brewers. Intended to weaken the tie between the big brewers and public houses by the enforced disposal of a proportion of outlets, the outcome was much more far-reaching, touching all layers of the trade.[7]

In 1989, the brewing industry provided employment for nearly half a million people in the U.K. Just six companies produced around 80% of the beer and the total turnover of the industry was £23 billion a year.[8] Decades of official concern over the tied-house system, coupled with disquiet at the increase in beer prices above the rate of inflation for much of the 1980s, culminated in the Monopolies and Mergers Commission report on the Supply of Beer delivered on 21 March 1989.[9] The Commission found that the brewing industry operated as a "complex monopoly" which worked against the public interest and made various recommendations for rectifying the situation. In a weakened form the major proposals in this report were given force through two statutory Instruments, which became known as the Beer Orders, issued in December 1989. The prime requirement of the Beer Orders was that brewers owning more than 2,000 pubs must dispose of half of the on-licenses in excess of this number or dispose of their breweries. Tenants of national brewers were also to be allowed to stock one 'guest' cask-conditioned beer from another brewer. The industry was given three years to implement the Orders, with a deadline of 31 October 1992. Initially the big brewers responded in different ways. Some major players quit brewing and retained their pubs. These included the national brewer Grand Metropolitan (which swapped breweries for pubs with Courage) and the major regional brewers Greenalls and Boddingtons.[10] Similarly, Allied-Lyons prepared the way for its exit by merging its brewing interests with those of Carlsberg in the U.K. to form Carlsberg-Tetley Brewing Ltd.[11] On the other hand Bass, Whitbread and Scottish & Newcastle complied with the orders by selling off the requisite number of pubs in large blocks to emerging independent retailing groups (pubcos) and stayed in brewing. In both cases the deals were accompanied by long-term (5-7 year) supply agreements between pub chains and brewers. National brewers also continued to have substantial purchases tied to them through loan ties, which actually increased following the Beer Orders. Thus although by November 1992 some 12,000 pubs had new owners, almost invariably they remained effectively tied to a brewer. It was estimated that the five national brewers which remained in November 1992 actually had a 5% greater share of total U.K. beer production than the Big Six had in 1989.[12] There had also been a continued rise in the retail price of beer since 1989 and although the guest beer provision was operating, the range of choice on offer was often restricted to well-known brands from regional brewers, or beers from offshoots of nationals which could easily be mistaken by the unwary drinker for guests.[13] The letter but not the spirit of the Beer Orders had been observed and the result expected by the government when they were introduced had not materialised.

As the 1990s progressed it became the norm to question the need to continue brewing amongst vertically integrated brewer/pub owners. In the name of 'maximising shareholder value' increasing numbers of companies decided to stop brewing but keep their pubs. The effect was seen across the spectrum of established brewers. In the decade or so following the implementation of the Beer Orders the U.K.'s national brewers continued to unravel with parent companies withdrawing from brewing and then, as the pressure on profits continued, selling off their pub chains. Of the six vertically integrated national companies that had dominated the industry from the 1960s, the last to abandon a system which had for so long seemed immutable was Scottish

& Newcastle plc., trading as Scottish Courage after the takeover of the latter. S&N sold its tied estate to the Punch Group in November 2003 in deference to pressure from the City. The remnants of the other indigenous national brewers' production capacity were by then in foreign hands and their tied estates had been ceded to the pubcos.[14] In 1989 the brewers owned 44,100 on-licences and pubcos, as we now know them, hardly existed. By 1993, the first full year after compliance with the orders, the brewers had 26,200 pubs and the pubcos 14,800. By October 2003 the brewers' share had dropped to 8,400 pubs with the pubcos holding 32,900. The U.K. brewing industry became little more than the hollowed out husk of its former self, no longer a centre of decision making and wealth generation in its own right. Courage, Watney, Ind Coope, Bass; now only names of faded brands at best.[15]

It has become a commonplace to trace the source of these changes solely to the Beer Orders, but that is a misreading of events. The upheaval in the U.K. trade since 1989 in reality reflected longer term trends within the brewing industry. Mergers between brewers, closure of breweries and sales of pubs are hardly something new, and the first steps towards the separation of retailing from production had been made at least a decade before the Beer Orders came out.[16] Whitbread had already separated out their pub estate from their brewing activities before 1989 and Grand Metropolitan's managed houses had long been run by a dedicated division of the company.[17] Allied Breweries Ltd., had recognised retailing rather than manufacturing as its prime activity at strategy conferences held in October and December 1983. The report on these conferences contains the following passage:

> Allied Breweries should recognise that retailing is its key business. A fundamental change of emphasis is required, to establish the principle that Allied Breweries are retailers who are vertically integrated into brewing, not brewers who own tied houses.[18]

With the decision that retailing and property were the priorities, all that came next followed naturally. The creation of autonomous retailing units within companies, the flight from manufacturing, the growth of independent pubcos, the eventual withdrawal from the pub trade altogether as companies looked for yet more profitable ways of using their capital, became inevitable. Even Bass plc, in its dominant position in the old order as the biggest U.K. brewer with its top-down, finance-driven, style of management, could not resist the trend in the end.[19] The Beer Orders didn't start anything; what they did was to accelerate process that was already underway. Thus they were the catalyst for, but not the cause of, change in the industry.

Notes

1. The members of the committee of the B.H.S. are thanked for useful comments on an earlier draft of this essay.
2. Evans, P.H.T. (1977) 'Future Trends.' *The Brewer*, 63, pp.216-218.
3. B.L.R.A. Statistical Handbook, 1994, Table A8 - Beer: UK monthly production adjusted for overseas trade.
4. Much the same optimistic predictions were being made by brewing companies in the seventies. In 1978, J.Q. Walker, a marketing man at Whitbread & Co. Ltd., stated that: 'A reasonable assumption is that beer consumption will grow by around 10% over the next five years'. *The Brewer* (1978) 64, p.392.
5. *The Brewer* (1993) 79, p.453; (1994) 80, p.51. The volume of beer sold in pubs in the U.K. had fallen by a quarter in the same period.
6. *The Brewer* (1993) 79, p.453; Ricketts, B. (2005) *Gone for a Burton. Memoirs from a Great British Heritage*. London: Pen Press, pp.202-216.
7. The discussion of the Beer Orders which follows is based primarily on the following sources: *The M&MC inquiry into the U.K. brewing industry. Are Leaner Times Ahead*. (1988) London: Barclays de Zoete Wedd. *The Monopolies and MergersCommission. The Supply of Beer. A report on the supply of beer for retail sale in the United Kingdom* (Cm 651). (1989) London: HMSO. *The Supply of Beer (Tied Estate) Order* (1989) (SI 2390). *The Supply of Beer (Loan Ties, Licensed Premises and Wholesale Prices) Order* (1989) (SI 2258). *The Landlord and Tenant (Licensed Premises) Act* (1990). News Release, 'Monopolies report a charter for chaos', Brewers' Society, (1989) 21 March. *The recommendations made by the Monopolies and Mergers Commission and their likely consequences*. (1989), Brewers' Society. *Agriculture Committee. Effects of the Beer Orders on the brewing industry and consumers*. (1993) London: H.M.S.O., 21 April. B.L.R.A. Statistical Handbook, (2003) pp.82-84. Mutch, A. (2006) *Strategic and organisational change.*

From production to retailing in U.K. brewing 1950-1990. Abingdon: Routledge.

8. The figure for production was variously quoted at the time as between 77% and 83%, depending upon how the calculation was made and who was doing the counting.

9. Since 1966 at least 15 reports by U.K. public bodies on various aspects of the brewing trade had been produced.

10. Grand Metropolitan had bought Watney Mann in 1972 and in 1991 passed its breweries to Courage (which had been bought by the Australian group Elders IXL in 1986), in exchange for the latter's pubs. The deal had been announced in March 1990 and only went ahead after being referred to the M.M.C. Greenalls closed its breweries in Warrington, Birmingham and Nottingham in 1990/91. Boddington sold its brewery in Manchester to Whitbread in 1989.

11. The 50:50 joint venture was formed in December 1992 and became operational in January 1993, having been announced in October 1991, the delay being due to the inevitable M.M.C. referral.

12. *The Brewer* (1992) 78, p.483. This was the industry's estimate. Government estimates at the time were that the share had only gone up by 1% by the end of 1991, but that a further 4% would be added to the national brewers share by the creation of Carlsberg-Tetley Brewing Ltd. In the M.M.C. report Carlsberg had been defined as a "brewer without tied estate". The dismal performance of Carlsberg-Tetley once it started trading in 1993 meant that in reality the share probably did not increase so much. *Effects of the Beer Orders on the brewing industry and consumers*. London: (1993) H.M.S.O., 21 April, p.x. Carlsberg-Tetley plc. Board Minutes 24 April 1994.

13. A good example of the latter were the 'Tapsters Choice' range of beers produced in the Allied pilot plant in Burton, rebranded for the purpose as the 'Samuel Allsopp Brewery Co.'

14. After a belligerent defence S&N was eventually acquired by the Carlsberg/Heineken axis in 2008. The last of the Big Six to fall, the takeover of S&N was not motivated by a desire to secure the company's holdings in the U.K. but rather as a consequence of Carlsberg's scramble to secure 100% of the then highly profitable Baltic Beverages Holdings which was run as a 50:50 joint venture with S&N. In the dismemberment of the company the UK interests of S&N ended up with Heineken as a device to get over regulatory difficulties in the U.K. where a Carlsberg/S&N tie up would have had 40-45% of the market, but where Heineken was weak.

15. Of the 39 U.K. breweries owned by the Big Six in 1989 and recorded in the MMC *Supply of Beer* report of that year (Appendix 2.3, p.328), only ten remain in operation in 2012. The ten still brewing are: the now combined former Allied and Bass breweries in Burton and the former Bass breweries in Tadcaster and Alton, all four now operated by Molson Coors; the former Bass owned Tennent's brewery in Glasgow, operated by C&C since 2009; the former S&N John Smith's brewery in Tadcaster and Royal brewery in Manchester, both now owned by Heineken UK; the former Whitbread breweries in Magor and Samlesbury, and the recently reprieved former Watney's/Grand Metropolitan/Courage, Mortlake brewery, all three of which are owned by A.B. InBev U.K. Ltd. Brewing is also still carried out on the site of Bass's former Highgate brewery, but in a microbrewery rather than the main brewery.

16. See Mutch, A. (2006) op. cit., particularly pp.149-152.

17. Similarly, GrandMet's much copied introduction of their 20-year Inntrepreneur leases in 1988 came as response to pressure in the industry for a more property-based approach to pub tenancies.

18. Allied Breweries Review of Strategy, 1984. Copy held at the National Brewery Centre archive, Burton-on-Trent.

19. Bass had a U.K. beer market share of at least 22% in 1989 and a lead over the next biggest brewer of approaching 60%. Amongst the national brewers it was arguably the company that most closely identified itself with beer and was thus unsurprisingly the most reluctant to adapt to the new order even after its dominant position had been smashed by the creation of Scottish Courage Ltd., in 1995.

Appendix. The Big Six: A chronology of collapse

1990	Watney Mann (Grand Metropolitan) swaps its breweries for Courage's pubs.
1993	The merger of Allied's brewing interests with those of Carlsberg in the U.K. is completed, creating a 50:50 joint venture: Carlsberg-Tetley.
1995	Courage is sold by its owners, Fosters, to Scottish & Newcastle creating a new number one in U.K. brewing with c.30% of the market.
1997	The attempt to sell Carlsberg-Tetley to Bass is blocked by the U.K. government, but by the terms of the agreement between Allied and Carlsberg the latter is forced to take full control of the joint-venture.
	Grand Metropolitan's pubs are sold to the Japanese banking group Nomura and Grand Metropolitan itself merged with Diageo.
1999	Allied's pub estate is sold to Punch Taverns to the chagrin of Whitbread and with the assistance of Bass; the latter creaming off the best 550 or so pubs.
2000	Whitbread's brewing interests are sold to Interbrew.
	The brewing interests of Bass are sold to Interbrew.
2001	Whitbread sells its pubs to the Laurel Pub Company, which a year later sells them on to Enterprise Inns.
	Bass changes its name to Six Continents.
2002	Interbrew is forced by the government to sell the former Bass breweries in England and the Carling and Worthington brands. Coors is the buyer.
2003	The pub division of Six Continents is hived off into a separate company which is given the name 'Mitchells & Butlers'.
	Scottish & Newcastle sells its pubs and restaurants to the Spirit Group.
2008	Scottish & Newcastle is acquired by the Carlsberg/Heineken axis, as a result of which Heineken becomes the biggest brewer in the U.K.