



Department for Business, Innovation & Skills

Pub companies and tenants - A government consultation

Response form

The consultation will begin on 22/04/2013 and will run for 8 weeks, closing on 14/06/2013

When responding please state whether you are responding as an individual or representing the views of an organisation. If you are responding on behalf of an organisation, please make it clear who the organisation represents by selecting the appropriate interest group on the consultation response form and, where applicable, how the views of members were assembled.

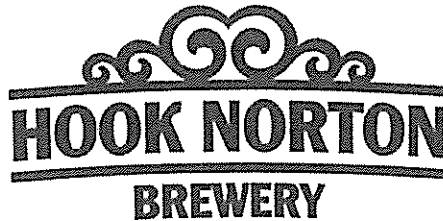
This response form can be returned to:

Pubs Consultation
Consumer and Competition Policy
Department for Business, Innovation and Skills
3rd Floor, Orchard 2
1 Victoria Street
Westminster
SW1H 0ET

Email: pubs.consultation@bis.gsi.gov.uk

Please tick one box from a list of options that best describes you as a respondent. This will enable views to be presented by group type.
Representative Organisation
Trade Union
Interest Group
Small to Medium Enterprise <input checked="" type="checkbox"/>
Large Enterprise
Local Government
Central Government
Legal
Academic
Other (please describe):

The Department may, in accordance with the Code of Practice on Access to Government Information, make available, on public request, individual responses.



Pubs Consultation
Consumer and Competition Policy
Department of Business, Innovation and Skills
3rd Floor, Orchard 2
1 Victoria Street
Westminster
London SW1 0ET

12 June 2013

Dear Sir

Pub Companies and Tenants: A Government Consultation
Hook Norton – A Background

The Hook Norton Brewery Company Limited can trace its' origins back to 1849, when my Great Great Grandfather moved to Hook Norton to a small farm and malting business. Brewing soon followed, and he purchased his first tied pub in 1864. The business grew, and today Hook Norton is a well-known and well respected Independent Family Brewer. A range of beers are produced, in both draught and packaged variants, and as well as selling in this Country, export markets are increasingly important.

That the business has survived is due to committed management and ownership, and a strong family ethos. This is reflected in all aspects of the business, where each generation has a responsibility to operate the business in a sustainable and responsible manner.

Hook Norton today:

- brews 20,000 barrels of beer per annum;
- owns 42 pubs, all of which are let on Brewery Tenancies;
- directly employs 50 people;
- with an estimated 300+ people employed throughout our Brewery Tenancies;
- and sells beer throughout the United Kingdom and beyond. However our key market is ' , and our key product line is For this, a thriving British pub sector is absolutely key to our success.

It is of note at the outset that our contribution to the Exchequer is significant; we estimate that this financial year we will pay:

- £ million in Beer Duty;
- £ in VAT;
- £ in employment taxes;

And our forecast for this year is that:

- Turnover will be £
- Operating Profit of £
- Of which not more than % after tax will be paid as Dividend.

So it can be clearly seen that taxation is a massive burden on our business.

- Our employment taxes exceed our profit;
- Beer Duty alone is % of Company turnover, but this includes all of our sales;
- in terms of Beer Duty on sales of the beer we actually brew, it equates to %.

It is these severe and punitive tax levels which have affected the Industry more than anything.

The Consultation

We welcome the opportunity to respond to the Consultation. We have a number of concerns, and whilst we may well be a smaller player in the Industry, we believe our concerns will be shared by many similar companies. Our concerns centre around unintended consequences. This concern is heightened by the proposed 500 pub threshold, which gives an initial impression that smaller Companies like Hook Norton will not be affected. We firmly believe that is not the case, and that our business, both pubs and brewing, could be severely affected even if we are exempted. If we were not exempted, the consequences for us would be dramatically and potentially lethal.

The current economic climate is tough for all businesses, and pubs are no exception having also suffered from changing lifestyles, and competition from across the leisure sector, including:

- Beer Duty risen by 40% since 2008.
- Rise in use of social media, so less use of pubs as social meeting points.
- Cheap alcohol in the off trade.
- Increased availability and accessibility of home entertainment.
- In 1990, 90% of beer sold in the UK was consumed in pubs; in 2011, only just over 50% of beer consumed in the UK was in pub.

We are pleased that the consultation recognises the importance of the beer tie, and that this is considered an important part of the success of the Industry. The Campaign for Real Ale has been unhelpful in their broad brush disagreement with the tie system but they have little understanding of the realities of pub or brewery economics. It is independent Family Brewers like us, as well as the pub companies and larger regional breweries, who have helped many pubs, and in particular rural pubs, to survive. The tie has been fundamental to this survival. A number of our pubs are the sole remaining facility in communities, and without the beer tie, would be unviable as they only make sense with if up-stream brewery or landlord profit, which is not available to a free-of-tie operator, is available to support the pub. However most of these pubs, with a balanced rent and beer supply arrangement, can be viable businesses and play such an important role in smaller communities.

It is in our interest to help our Brewery Tenants to operate successful businesses, and we offer a myriad of support and benefits, including training, marketing, business skills, and indeed a direct personal relationship, which includes family and Board members regularly visiting pubs, to have direct dialogue. We offer significant financial support to our Brewery Tenants, including targeted discounts on certain products, seasonal rent charging and assistance with working capital. We also offer support beyond this; as an example, one of our pubs suffered a fire recently, and whilst the damage was covered by insurance, we provided temporary arrangements to get the pub trading again, and bore the cost of this pending insurance settlement. I cannot think of another business sector where such support would be offered. We want, like our competitors, long term success for our pubs. It is not about extracting the most rent we can in the shortest possible time, but about looking at how we help develop successful businesses, for both us and the Brewery Tenant.

We have seen marked improvements in tenant and landlord relationships across the Industry, and firmly believe that self-regulation is the appropriate way forward. As well as improvements in the tenant and landlord relationship, we have also seen much improvement in the recruitment of Brewery Tenant's process. Training, awareness and exchange of information for prospective tenants is much more comprehensive, and this is driving standards within our Industry.

We would challenge a number of assertions made in the consultation, particularly regarding numbers of complaints, average rent movements, and the continued references to a tied pub being "no worse off than a free of tie pub".

The consultation document mentions 400 complaints to the BII, when in fact we know this to be 400 enquiries: quite an important distinction. Average rent movements should be seen in the overall economy; rent is dictated by market forces, and we have certainly seen a reduction in our rental income, as businesses have come under increasing competition. We always strive to recruit the best licensees and maintain our pubs to the highest standards – "good enough" simply isn't - we want our pubs to be successful businesses. It is not a case of anything being any more or less "worse off": to maintain and develop a thriving pub culture we need to ensure licensees have the best possible opportunity to maximise their businesses. This is all about supporting tenants; a thriving pub will provide income for the tenant, jobs, income for the pub company or brewery, and an increased revenue take for Government. It is in no one's interest to run anything other than good pubs, provided with the best opportunities to maximise their businesses. We continue to invest in our pub estate, and work with tenants to maximise the business opportunities.

We operate a very open and accessible culture and have constant communication with brewery tenants. We have a dedicated Business Manager with full time administrative support, dedicated technical services team, and a range of support available to our tenants. This is because these are the needs we have jointly identified with our tenants. We measure their satisfaction with independent surveys, which tell us where we are satisfying the tenants' needs, as well as areas where we can improve.

Last year, across our estate of 42 pubs,

- we invested nearly £ , and
- substantially refurbished six pubs, and estimate this created the equivalent of 15 full time jobs; we are very proud of this achievement.

This is not isolated to Hook Norton, but is a trend reflected across the family brewers, other regional brewers, and indeed all of the pub companies.

It would appear that the Statutory Code is aimed at the larger pub owning companies. At least two of these operate what is known as the Direct Delivery Scheme, allowing local brewers to deliver beers direct to the pub, within a specific geographical area. This scheme was developed and is managed by SIBA, The Society of Independent Brewers, of which virtually all smaller brewers are members including ourselves. As an initiative of a member's organisation, this is clearly an important route to market for many smaller brewers. Another of the large pub companies operates a scheme where a number of beers will be showcased for a 13 week period, and the more successful of these beers are then given further trade opportunities within the pub company. These arrangements increase consumer choice, and provide an effective route to market for many regional and smaller brewers. Any risk to these business arrangements could have serious consequences for many brewers as the national brewers do not want to carry our brands nationally as we compete with their brand portfolios. The Campaign for Real Ale continually talks about consumer choice, but there is already a vast choice of beers in response to customer demand and we believe it is the larger pub companies that have played a critical role in the growth of the smaller brewery sector as these pub companies seek to compete among themselves by offering huge brand choice to their licensees.

Our own markets are split across our own pubs, direct free trade (independently owned) pubs, wholesalers, supermarkets, independent shops and off licences, Pub Companies, overseas markets, and direct to consumers through our shop. The split is as below:

[Pie chart
withheld]

It can be clearly seen that the Pub Companies are a significant customer of ours, as indeed they are of most independent brewers. We have a mix of customers to spread our risks, and enable us to grow volumes across a range of customer bases in what is a challenging market. We are growing our export business as the economic climate in this Country continues to be tough and believe that it will grow to over % of sales in the next few years, but we are also growing our cask ale sales in the UK, with growth in sales to showing the most encouraging signs.

We have developed a new brand, with significant investment,

The supply chain for this new beer is important too:

- We source all of our malt from UK grown barley.
- All of our beers are brewed using English hops.
- Over % of the sales of this new brand are to pub companies.

Without this route to market, we would have been unlikely to invest and develop this new beer. This beer is already around % of our cask ale sales, clearly an extremely important part of our business.

Conclusion

The voluntary code is clearly working. It must be made clear that a lot of the factors which have affected pubs, such as rising beer duty (+40% since 2008), and the general economic downturn, together with changing consumer lifestyles, are not the fault of the Brewers and pub owners. What we are now all doing is identifying those pubs with a long term future, and investing in them to develop and maintain successful businesses.

There are clearly a number of parties contributing to this debate, and the pub industry always seems to attract a disproportionate amount of emotion.

The tie as we see it is fundamental to the brewery tenancy.

Pub Companies are very important customers to us and many similar brewers. For many smaller brewers, they are even more important as a route to market. As an industry we are all very aware of the challenges facing pubs, and it is in all of our interests to have a vibrant and successful pub industry. The Beer Orders of 1989 were designed to open up a market and it promoting consumer choice and allowing the opening of smaller breweries they were successful, albeit they have taken 20 years or more to settle down and there were many unfortunate side effects as well. What we are seeing now is a mature and stable pub industry, adapting to modern day consumer behaviour and market forces. There is no need for a statutory code or any further Government intervention on this matter.

It is clear there will be a whole range of responses to this consultation, and that some of the evidence in the consultation document is likely to be challenged.

The Pub Companies are a very significant market to us, as they are to many breweries. With the Consultation process underway, many businesses will be reducing investment pending the outcome. If a Statutory Code is implemented, and a free of tie option enforced, this industry will see more change than resulted from the 1989 Beer Orders, and it will not be positive change. Likewise, we would not benefit from the guest beer provision as currently drafted – these benefits to fall to the big foreign multinational lager brewers. Neither would we benefit if the mooted “transfer of value” from big pub companies to licensees take place as this would undermine the pub companies’ ability to invest and support their tenants, and again much of the additional profit transferred would also be lost as many pub company pubs would be sold off by their owners and many would be converted to alternative uses by property developers.

The Beer Orders have put the industry in the position it is in now: market forces and a vibrant, competitive Brewing and Pub Industry, unbridled by stifling legislation, is the only solution.

I trust that the points raised in this letter will be duly considered, and that no actions will be taken which could threaten this Company, other Family Brewers, and the Industry. We resolutely oppose further regulation in these matters and believe that the continued development of effective self-regulation is in the best interested of tenants, consumers, local communities, brewers and landlords.

Yours faithfully

J W Clarke FBII MloD
Managing Director (Brewing)