

All Party Parliamentary Beer Group (APPBG) – ‘Unlocking Pubs Potential’ Inquiry
Written Response from HEINEKEN UK

About HEINEKEN UK

Headquartered in Edinburgh, HEINEKEN UK is the UK’s leading pub, cider and beer business and employs around 2,300 people. We own around 2,700 through our pub business, Star Pubs & Bars. The vast majority of our pubs are leased out to small businesses and entrepreneurs with a supply agreement. Around 100 operate on our ‘Just Add Talent’ model (a low cost of entry managed operator agreement).

HEINEKEN UK’s unrivalled portfolio of beer and cider brands includes Foster's, Heineken®, Strongbow, Desperados, Kronenbourg1664, John Smith's, Bulmers, Amstel, Birra Moretti and Old Mout, and is backed by a full range of craft and speciality brands.

Our ambition is to Build Britain’s Best Pub Company – by attracting and retaining the best operators, investing to create great pubs at the heart of their communities and by providing licensees with market leading insight and support. In 2018 Star Pubs & Bars won the Publican Award for Best Tenanted & Leased Pub Company.

Since the acquisition of Scottish & Newcastle in 2008, HEINEKEN has invested consistently and significantly in the UK. Over the past three years we have invested more than £100 million in our UK brewing operations (located in Hereford, Ledbury, Manchester, Tadcaster and Edinburgh), and a further £135 million has been invested into our pubs¹ over the last five years.

Introduction

Pubs, bars, alehouses and inns aren’t just a place to have a drink, they’re often the heartbeat of local communities. They bring people together from all walks of life, and provide jobs for hundreds of thousands of people across the UK. However, with business rates, VAT and beer duty, we know pubs are increasingly under pressure.

In launching its inquiry, the APPBG noted “widely reported closures” in the pub sector. In our view, the macro trends mean that a level of closure is inevitable, however, well invested pubs with the right operators will continue to prosper.

In this submission to the All Party Parliamentary Beer Group we will outline the macro trends in the sector and why our investment helps to unlock pubs potential. We will also outline our ‘Brewing a Better World’ agenda, including case studies of what our pubs are doing to unlock not only the financial value of pubs, but real social value too. Finally, we will make a series of suggestions where we believe that Parliamentarians can make a difference to the future vibrancy of the pub sector.

Understanding the Macro trends

In order for pubs to be sustainable in the long-term, it is important to understand the broader macro trends across the industry. Pubs face increased competition from coffee shops, casual dining and from more people choosing to entertain in their own homes. Technology is impacting and supporting every

¹ That investment figure in pubs excludes our recent acquisition of 1,900 pubs from Punch Taverns (a further £1.3 billion of inward investment).

step on the retail occasion as consumers demand more premium experiences. At the same time, the motivations of 18-24 year olds are changing, with that particular demographic drinking less alcohol than previous generations. Our insight also suggests that food is becoming a bigger reason to visit the pub, and occasions for pubs to appeal to females and families is growing.

The latest MCA Pub Market Report² suggests there is much to be positive about in the pub sector:

- The pub market is in better shape than last year but there is no room for complacency. Pub growth is outpacing that of the 'Eating Out' market which is grappling with the 'casual dining crunch'.
- Pubs remain the most popular Eating Out channel despite falling dining frequencies. Consumers rate pubs highly for value for money and food quality is a popular reason for visiting.
- Pubs show restraint in putting up prices. They are absorbing rising cost pressures in order to increase value for money to consumers.
- The end is in sight for net pub closures. Decline in the total number of pubs at the Top 10 pub group slowed to -2.2% in 2017 from -3% in 2016, driven by a drop in tenanted closures. Smaller emerging pub groups with 20-100 pubs are expanding rapidly.
- After years of annual decline, MCA expects pub outlet growth to stabilise from 2021, and rise from 2023. However, the market will remain intensely competitive, meaning publicans will need to offer the highest quality drinks and food, tailored to their specific customer base, to succeed.

Investment

At HEINEKEN we take a positive view of the Great British Pub with the right operator and right investment. That is why we've invested over £172 million over the last five years to ensure each pub's proposition is relevant to the community where it's based. We support our licensees to develop an offer that takes into account the macro trends and today's consumer expectations on quality service, facilities, range, food and more. We want our licensees' businesses to keep growing and ensure that the Great British Pub remains at the heart of British life for generations to come.

In 2019 we will be investing £50 million in our pubs. There will be 136 planned major refurbishments with an average spend of £265,000 per pub. Changes include building new kitchens to help pubs develop their food menus, offering great coffee and better spaces so that people can come together in their communities. We expect 1,200 new jobs to be created on the back of these major revitalisation projects.

Case study: *The Extraordinary Hare, West Hendred* - is the Oxfordshire village's only pub and had been closed for four years prior to its refurbishment in early 2019. The £500,000 scheme has completely renovated the distinctive 200-year old clapboard building and made it into a local landmark. As a village pub, *The Extraordinary Hare* needs to attract residents and those from further afield to be viable. The significant investment delivered the changes required to appeal to both. The large bar area has been modernised for those wanting to drink and socialise whilst a new kitchen and extension housing a 56-seat dining area has enabled the introduction of freshly prepared home-made food. The garden has been landscaped and a covered terrace added for al fresco eating and drinking. Click [here](#) to watch the video.

Case study: *The Stanhill, Accrington* - is smashing targets and fast becoming 'bookings only' since a £330,000 refurbishment. Whilst offering great food and a locals' bar has been key, licensee Brian Healy

² MCA, UK Pub Market Report 2018, published July 2018.

says incorporating village history into the redesign has significantly contributed to locals' overwhelming support. Stanhill was the home of Spinning Jenny inventor, James Hargreaves, and the Spinning Jenny features on the pub sign; looms and sewing machines provide decoration, and sewing machine covers act as light shades. One of Hargreaves' last relatives toasted the pub's relaunch with the house beer, Hargreaves Ale. Brian has also joined forces with the village's heritage trail committee, reframing their photos for a display in The Stanhill and encouraging walkers to start or finish the trail at the pub. "The historical links create interest and help villagers feel it's their pub," explains Brian. Click [here](#) to watch the video.

HEINEKEN'S approach to sustainability

At HEINEKEN UK, we see sustainability as a driver for business success, and business as a positive force for change. 'Brewing a Better World' is our Global Sustainability Strategy and it helps us to maximise our potential. We set ambitious commitments and aim to embed sustainability across our entire value chain, from growing the barley and apples that go into our beers and cider to working with our customers who serve a quality chilled pint.

The strategy is centred on three key themes: People, Planet and Prosperity, within which we have six focus areas. As it evolves in conversation with our stakeholders, Brewing a Better World continues to drive us to address our social and environmental issues. It also shapes our contribution to delivering the UN Sustainable Development Goals which aim to end global poverty, protect the planet and ensure prosperity for all. The following paragraphs outline how we are helping connect communities together, making our pubs greener and using these businesses to deliver real social change.

Pubs helping to tackle loneliness

Forget Facebook, Twitter, Instagram and Snapchat. Pubs are the original social network – a hub for all ages and backgrounds. #BrewingGood Cheer is HEINEKEN UK's annual campaign that celebrates the role pubs play in communities in bringing people together and helping to combat loneliness. In 2018, during the lead up to Christmas, we held over 100 #BrewingGood Cheer lunches around the country bringing people together in their local pubs.

With pubs across the UK linking up with local charities, supporting those most in need, the campaign is further brought to life by the passion our of our colleagues who play their part by volunteering at the lunches and chatting with those who might otherwise be spending time on their own.

Case study: Butlers Arms, Pleasington - Mike Hales of The Butlers Arms, Pleasington believes a key part of Christmas is giving back to the community and participating in Brewing Good Cheer is a great way of doing it. Last year Mike hosted a Christmas meal for 45 people from his local Social Inclusion Football League, which addresses isolation and mental health issues amongst young men. "For many it was their Christmas Day, without it, they wouldn't have celebrated," says Mike. Mike has now made the group the pub's year round charity, funding its pitch fees and kit, rebranding it Blokes Utd and providing a weekly meal. "This year we're extending Brewing Good Cheer to my three other pubs. It's easy to sign up and by holding it on a quieter weekday lunchtime, we didn't lose out on other bookings."

Case study: The Tiger, London – the pub works with [South London Cares](#) (a charity and community network of young professionals and older neighbours helping one another in a rapidly changing city) to offer regular 'pub club' events. In an area of London with an increasingly quick turnover of slick new bars and cocktail clubs, the pubs and bars in the area can often feel unwelcoming and alien to older people. On top of that, it can feel doubly isolating if you don't have anyone to go to the pub with. That's where the monthly pub club comes in – helping older and younger neighbours get together in a warm,

welcoming environment and to make new intergenerational friends. The pub offers the first round of drinks for free, and more often than not, everyone stays on for a second one – proof that being at the heart of community is also good for business.

Pubs at the heart of their community

We want our pubs to be at the heart of their local communities, and many are a natural focus for local social activities and charity fundraising. According to the latest statistics from PubAid, pubs that carry out charitable activities raise on average £2,742 per year with thousands of charities benefitting. The survey also found that of all surveyed pubs in the UK 77% raised money for charity.

Case Study: The Oaklands, Derby – the pub gained accreditation in the signed language programme Makaton so they can communicate with a boy with Down’s Syndrome whose family are regulars. Staff completed three hours training to master the basics of Makaton, which is used by over 1,000,000 people in the UK – from stroke sufferers to those with learning disabilities – who need communication support. Licensee Noreen Tristram is also displaying Makaton signs to help users find facilities such as the toilets and order food and drink. The third pub in the country to gain Makaton friendly status, it made national news and raised £10,000. Says Noreen, “It’s the most supported pub event I’ve run in thirty years. We aim to be inclusive and welcoming to all and are gaining new customers as a result.”

Case Study: The Wheatsheaf, Woodplumpton – the village’s only pub and twice winner of Star’s Heart of the Community Award. As well as providing a meeting place for community groups from the WI to the book group and ukulele band, the Wheatsheaf now fundraises for local charities, holds village events such as the school carol concert and church barbecue and runs activities ranging from a New Years Eve disco to quiz nights to bring people together. The pub hosts the post office twice a week since the Woodplumpton branch shut down. It was their dream of running a community pub that led Pete (formerly in the RAF) and Ness (a mental health worker) to leave family and friends in North Yorkshire and take over the Wheatsheaf in March 2013. “The pub had fallen on hard times but we fell in love with it straight away and just wanted to bring it back to being a hub of Woodplumpton,” says Pete.

Partnership working

We can have the greatest impact by working in partnership. HEINEKEN support Best Bar None in around 120 towns and cities and Pubwatch to promote a safer night time economy in pubs, bars and clubs. We’re also helping to ensure pubs remain at the heart of their communities by supporting Pub is the Hub. Last year we made a £30,000 donation to the not for profit organisation that encourages pubs to provide additional services to meet the needs of the local community.

We fund the independent alcohol education charity, Drinkaware, who help people to make more informed choices about their drinking. 9.4m people visited their website in 2017 with 841,000 using Drinkaware’s online tool to find out how many units and calories were in their drinks. As founding members of the Portman Group we’re committed to responsible marketing of our products and the work of the Local Alcohol Partnerships Group. Our pubs also have a number of local partnerships relevant to the communities in which they are based.

Case study: The Engine, Kenilworth - Annual prostate cancer blood test evenings at The Engine, Kenilworth, prove pubs make a real difference to people’s lives. Run with the Graham Fulford Charitable Trust, the tests are free but participants asked for a donation. “Men often overlook their health,” explains licensee, Ted Bear. “Having tests in the pub made prostate cancer a talking point and encouraged sign ups.” At last year’s event, three customers discovered they had the disease and were subsequently successfully treated. “It was sobering. We had a record turnout this year, with 121 men

tested in two hours.” Ted is now launching a ladies’ health awareness night focussed on dementia and cancer. The nights are just part of the active role Ted plays in the community, helping The Engine scoop Kenilworth pub of the year for the second time.

Case Study: White Hart, Wadworth - When the village post office closed and appealed to Rita Cox of the White Hart, Wadworth to provide space for it, she immediately accepted. “I’d just taken over and revamped the pub. Saving the post office instantly embedded us in the community.” Five years on, it still introduces new people to the pub and drives trade. Explains Rita: “We make using the post office into a social occasion, serving tea, coffee and a senior citizens lunch to attract people to meet up. We display our events and restaurant menu so they can see all we offer. The post office runs from the bar for three hours on Monday, Tuesday and Friday afternoons so it doesn’t interfere with our wet trade. There’s no extra work - the post office pays for the space, provides staff and promotes the pub’s location on line and with signs.”

Lowering energy and water use

Launched in 2013, our SmartDispense system has revolutionised the way draught beer and cider is stored and served. It helps our customers across the UK to deliver a consistently cold and fresh pint to consumers while saving on waste and energy. By cooling beer and cider from the moment it leaves the keg, SmartDispense allows line cleaning to be extended from once a week to every four weeks, cutting beer, cider, water and chemical waste by a massive 75%.

The system is installed in over 2,000 pubs and bars with 30,000 cider and beer taps. Since its launch, SmartDispense has saved 72 million pints of water from going down the drain – another great example of how we’re working towards our global HEINEKEN initiative ‘Every Drop’. It’s our ambition to install SmartDispense in 10,000 pubs by 2020 as we continue to deliver major environmental benefits as well as supporting business growth.

Case study: The Winchmore, London - As well as looking at ways to reduce our own direct water use, we also work with our suppliers and licensees to help them do the same. Mark Walsh of The Winchmore, London has ditched branded bottled water and now sells filtered tap water. He has installed a filtration system in the cellar, donating all profits to Charity:Water who provide clean water, education and sanitation in developing countries. The Winchmore charges £2 for 75cl with unlimited refills - £3 cheaper for customers than the previous branded bottles. In six weeks sales are up 20%, raising £1,293 for charity. “We’re funding the overheads - £122 monthly equipment rental plus gas - but you can cover the costs, clear a profit and donate a percentage to a good cause, all within a price point suitable to your business.” says Mark. [Watch the video here](#).

Packaging Matters

As the UK’s leading pub, cider and beer company, we know we have a responsibility to make sure the packaging we use is as sustainable as possible and we’ve made some real progress which we want to continue. In pubs and bars, 90% of our products are served on draught in a closed loop system through returnable kegs. As well as making our aluminium cans and glass bottles lighter, we’re introducing 24% recycled content into the clear shrink wrap we use to transport our ciders and beers.

Case study: The Magdalen, Oxford - Going green has proved popular with locals and helped licensee Florence Fowler halve the bin bills at The Magdalen, Oxford by reducing waste. Introducing recyclable doggy bags means a third of customers now take their left overs home to enjoy later, whilst spare bones are given to dog owners. Reducing packaging is also a priority for Florence, who was using compostable straws and coffee cups before plastic hit the headlines. Where recycling or composting

isn't possible, Florence aims for reuse. Polystyrene fish boxes are washed and returned to the fishmongers. Wooden and plastic vegetable crates go in the car park with a note urging passers by to help themselves. "People snap them up for shelving and storage and break down the wooden ones for kindling. They eat space in the bins so it works well for all," says Florence.

Pubs are the home of responsible drinking

After 153 years of brewing our flagship Heineken® lager, we've introduced an alcohol-free variant, Heineken® 0.0. A perfectly-balanced, all natural and great-tasting beer with only 69 calories. Quickly embraced by consumers, Heineken® 0.0. is being trialed in over 50 of our pubs. Our cider brands have also followed suit, with Old Mout launching its first ever alcohol free drink earlier this year, with Berries & Cherries 0.0, adding more variety to the low and no alcohol category. With 50% of people looking to moderate their drinking, we've an ambition to continue to grow the low and no alcohol segment in the UK.

Case study: Bowman's Hotel, Howden - *It wasn't until Lesley Slater fitted a Blade serving Heineken 0.0 on tap that the farmers and truck drivers frequenting the wet-led Bowman's Hotel started to drink the alcohol-free beer. Lesley explained: "The guys playing pool and darts, who are working shifts or driving, feel like they're having a pint with their mates, as they say it tastes like lager. Before they'd opt for lime and soda. With Heineken 0.0 on tap they're happy to pay more - 20p less than a Heineken pint. Canisters are priced so we can make a good margin, hold eight litres and last 14 days. There's no line cleaning as each canister comes with a line. You just plug it in like a fridge. You can't miss it - it's bright and lights up. We were originally trialling the Blade for Dry January only, but have decided to keep it."*

Conclusion: how politicians can help unlock pubs potential

The real issue facing pubs across the UK are crippling business rates, rising beer duty, increasing skills shortages and access to labour amidst the uncertain macro-economic backdrop and Brexit. Those issues put enormous cost pressures on up and down the land – indeed £1 in every £3 spent in a pub (c. £140,000 per pub) goes the Exchequer³. Seven in ten alcohol drinks served in pubs is beer and yet the UK pays some of the highest rates of duty in beer in Europe – second only to Finland.

The business rates burden is crippling for many pubs. Pubs pay 2.8% of the total rates bill yet represent only 0.5% of rate-paying businesses turnover, an overpayment relative to turnover of £500 million. Per pound of turnover, pubs pay more in rates than any other business sector.⁴ A legacy of very different times, there can be no justification for such inherent unfairness in light of today's increasingly digital economy.

³ British Beer and Pub Association figures, November 2017

⁴ British Beer and Pub Association figures

We recently polled over 600 of our licensees, and they told us that the top three biggest issues facing them are recruiting and retaining the best talent, rising staff costs and business rates (illustration, right)⁵.

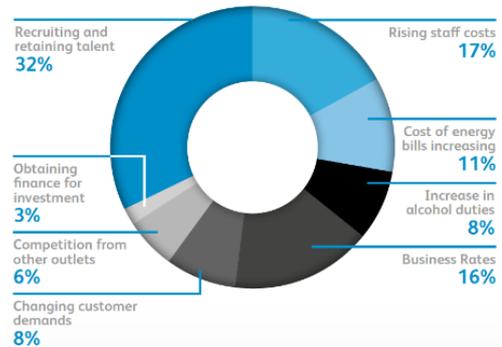
Pubs are part of the fabric of British life and these issues are putting enormous costs on licensees up and down the land. We believe Government and Parliament must focus efforts on supporting all pubs across the UK in the following policy areas:

- **Business rates:** we would like to see the Government commit to its manifesto promise of a wholesale review of business rates to address the rapidly evolving nature of business – and particularly the move to online goods and services reflecting the growth of on-line businesses and ensuring on-line businesses pay a fairer share of the business tax burden. The Digital Services Tax announced in the Budget was a positive step, but the additional projected revenue from this (around £400m by 2022-23) will not in itself be anywhere near enough to reduce significantly the £31bn business rates burden for property-based businesses. We recognise this is a challenging issue to address, so in the short-term we would also recommend:
 - Investment relief – we would like to see investment relief in the UK extended so there is no revaluation of a pub premises on the back of investment for the longer of two years or until the following revaluation period.
 - Community services relief – we believe there should be a relief or an adjustment to a pubs rateable value to pubs that can demonstrate they provide additional community services beyond running their business. The criteria would be agreed with Government to reflect the level of community service provided.
 - Pub ratings and VOA – ahead of the revaluation of business rates in 2021, we also need to ensure that the Guide to the rating of pubs published by the Valuation Office Agency is further improved. This would ensure that overtrading pubs are not unfairly penalised and that the various bandings used to calculate rateable values fairly reflect fair maintainable trade and associated costs.

- **Beer duty:** A cut in beer duty at the next Budget would create thousands of additional jobs, boost inward investment, tourism and export growth, and ensure a pint in the pub remains an affordable pleasure, bringing together people from all walks of life.

- **Pubs Code legislation:** Politicians must not be distracted by pubs code legislation which only affects a relatively small proportion of the market (of the 50,000 pubs in the UK, only 15,000 are leased and tenanted⁶). In fact while 11,500 leased & tenanted pub licensees are covered by the Code, a further 3,500 leased & tenanted licensees are not as the Code applies only to licensees of pub owning businesses with more than 500 leased & tenanted pubs.

Which of these do you consider the biggest issues facing your business and the sector as a whole?



For pubs to thrive and survive in communities across the UK, we believe the political and legislative focus must be on helping all pubs on the serious measures that are facing them – business rates, beer duty, and the need for a fairer and balanced system of regulation.

Further information

⁵ Star Pubs & Bars poll of licensees at regional forum events, October 2018

⁶ British Beer and Pub Association figures, June 2018



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