MARSTON'S

ON TRADE
beer report 2018

A guide on improving consumer experience in the On Trade

Welcome to the **ON TRADE** beer report 2018 from Marston's Beer Company

This year we have extended the scope of this report to also encompass the Lager category and provide you with an even broader understanding of the Beer category as a whole.

As the UK's largest Ale Brewer and the UK distributor of a selection of renowned World Lagers & Craft Beers, we are well placed to offer category expertise across the entire beer category.

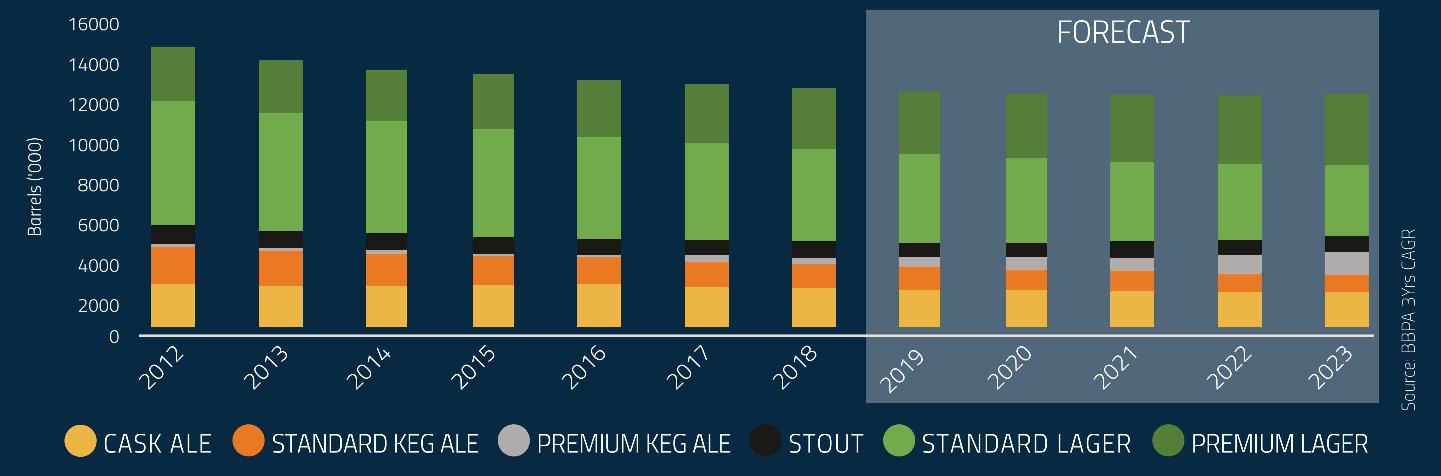
Throughout the report we have used multiple sources of data to provide insight into the industry. For overall Ale performance we have used data from CGA. We support that with Kantar Alcovision for the who, where and why in terms of consumer trends. Finally, to understand consumer perceptions and behaviour we commissioned Eureka! Research to conduct a survey of 2,000 Ale drinkers and 2,000 Lager drinkers.

We have done our best throughout the report to highlight key, actionable recommendations in every section that are supported by insight. We believe that if implemented correctly, these recommendations will provide sustainable long-term growth in what is a challenging market.

We hope that you find this report insightful and interesting, and our recommendations relevant & actionable Most importantly, we hope it gives you the tools to succeed in this unique & exciting category.

Thom Winter
On Trade Category Manager

PROJECTED ON TRADE BEER VOLUME PERFORMANCE



As the market continues to premiumise, the big, brand led categories will continue to struggle, particularly Standard Lager & Standard Keg which we predict will decline -22.5% and -27.8% respectively over the next 5 years.

Premium Lager and in particular World Lager will continue to perform as drinkers seek a perceived higher quality and brand provenance.

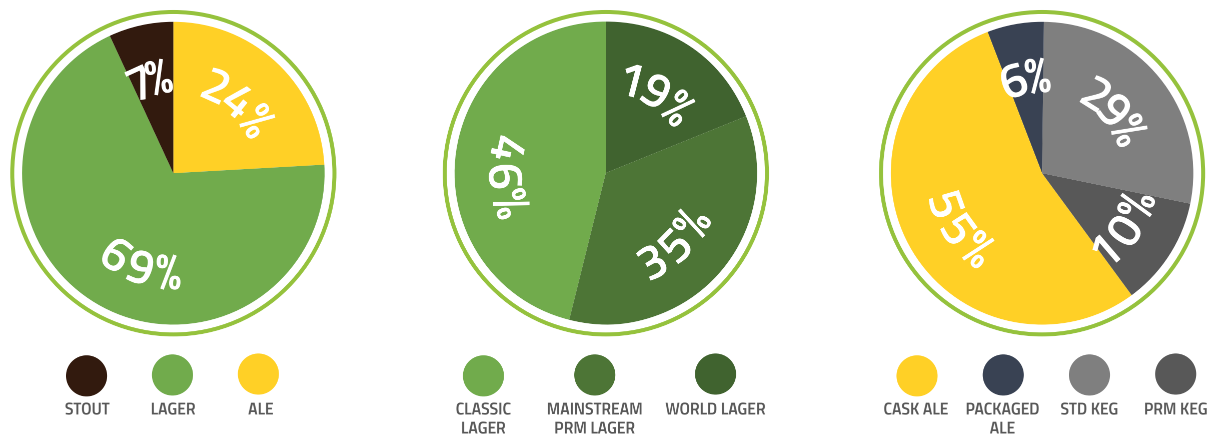
Premium, Craft Keg still has a substantial amount of leg room to work in, and we expect that to continue to offer drinkers something different, at a premium.

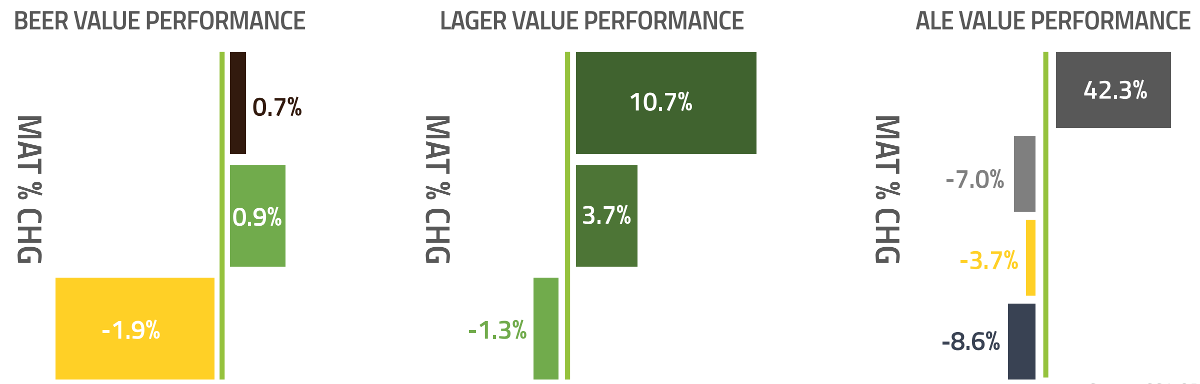
Throughout this report we will provide you with hints and tips to benefit from the premiumising trend whilst making the most out of those categories that are not so buoyant.

CATEGORY MARKET SNAPSHOT

DRINKS CATEGORIES PERFORMANCE & CATEGORY SHARES

TOTAL BEER VALUE SHARE | TOTAL LAGER VALUE SHARE | TOTAL ALE VALUE SHARE





Source: CGA OPMS 24/03/2018

TOP WORLD LAGER

		VALUE £m +10.7%
PERONI NASTRO AZZURRO	▲	396
SAN MIGUEL	▲▲	341
BIRRA MORETTI	▲▲	152
ESTRELLA DAMM	▲▲	109
STAROPRAMEN	▲▲	46
COBRA	▲▲	30
KOZEL	▼	24
PILSNER URQUELL	▼	17
ASAHI SUPER DRY	▲	13
MAHOU	▼	10

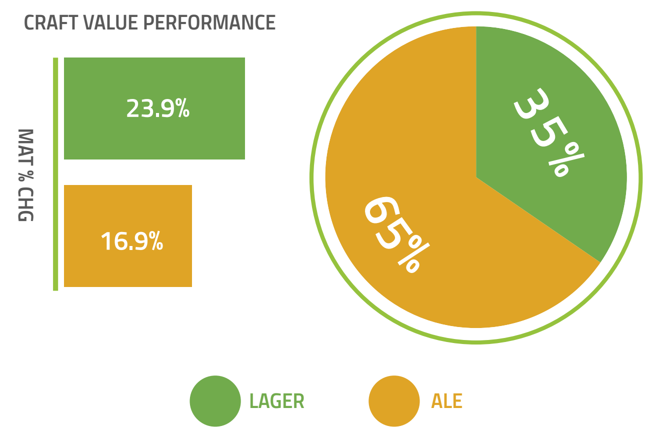
The Mediterranean market is driving World Lager forward, with the likes of Estrella Damm from Spain and Birra Moretti from Italy experiencing substantial performance growth.

TOP CRAFT BEER

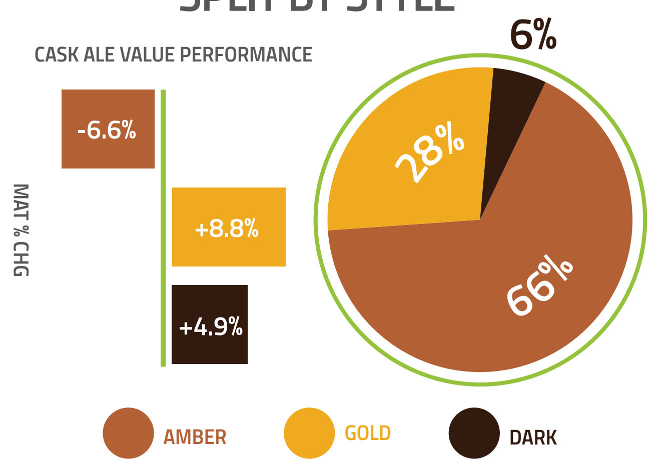
		VALUE £m +18.2%
HOP HOUSE 13	▲▲	71
CAMDEN HELLS	▲▲	26
CAMDEN TOWN PALE ALE	▲▲	22
MEANTIME PALE ALE	▲	22
BREWDOG PUNK IPA	▲▲	23
SHIPYARD AMERICAN PALE ALE	▲	17
SHARPS PILSNER	▲▲	14
BROOKLYN LAGER	▼	14
FULLERS FRONTIER	▲▲	13
INNIS & GUNN LAGER	▲▲	11

The majority of Craft Lager's are performing very well with drinkers seeking premium, refreshing products, specifically Hop House 13 which has seen enormous growth since being introduced at the back end of 2015.

CRAFT VALUE SPLIT LAGER VS. ALE



CASK VALUE SPLIT BY STYLE



TOP CLASSIC LAGERS

		VALUE £m -1.3%
CARLING	▼	1,703
FOSTERS	▼	1,115
CARLSBERG	▼▼	568
TENNENTS	▼	300

Classic Lager continues to struggle as drinkers move to more premium options. However, Carling & Fosters remain by far and away the biggest Value Lager brands in the market.

Key:
Single digit growth ▲ Single digit decline ▼
Double digit + growth ▲▲ Double digit + decline ▼▼

TOP 10 MAINSTREAM PREMIUM LAGER

		VALUE £m +3.7%
STELLA ARTOIS	▼	420
COORS LIGHT	▲▲	325
AMSTEL	▲▲	303
KRONENBOURG 1664	▼	255
HEINEKEN	▲	223
BECKS VIER	▼▼	116
BUDWEISER	▼▼	52
BUD LIGHT	▲▲	48
PRAVHA	▲▲	40
STELLA 4%	▼▼	36

The biggest growth area within Mainstream Premium is the Premium 4% sub-category. The likes of Amstel & Coors Light continue to perform ahead of the market whilst newcomers Bud Light & Pravha have been successful additions in terms of distribution gains.

TOP 10 TRADITIONAL KEG

		VALUE £m -7.0%
JOHN SMITH'S EXTRA SMOOTH	▼	447
WORTHINGTON CREAMFLOW	▼	90
TETLEY'S SMOOTHFLOW	▼▼	72
BELHAVEN BEST	▲▲	47
BODDINGTONS DRAUGHTFLOW	▼▼	34
CALEDONIA BEST	▼	15
BREW XI	▼▼	10
BANKS'S MILD	▼▼	7
MCEWAN'S BEST SCOTCH	▼▼	5
THWAITES SMOOTH	▼▼	4

Standard, Traditional Keg is seeing month on month decline with no signs of slowing. Like Classic Lager, as consumers become more discerning the once favourable category is being left behind.

TOP 10 CASK ALE

		VALUE £m -3.7%
SHARP'S DOOM BAR	▲	141
GREENE KING IPA	▼	88
FULLER'S LONDON PRIDE	▼	68
CALEDONIAN DEUCHARS IPA	▲	37
GREENE KING ABBOT ALE	▼	36
MARSTON'S PEDIGREE	▼	27
WAINWRIGHT GOLDEN ALE	▲▲	26
TIMOTHY TAYLOR LANDLORD	▼	24
ST AUSTELL TRIBUTE	▲	23
OLD SPECKLED HEN	▼	21

The stand out performer in the top 10 is Wainwright Golden Ale which is in +19% Value Growth in a market that is -3.7% decline.

Source: CGA OPMS 24/03/2018.

THE DRINKER

To benefit from market insight, it is essential to understand your customers. Here we review the differences in behaviour between Ale and Lager drinkers and how that differs still when it comes to Craft.

BRANDS

LESS ENGAGED

We represent 22% of Craft drinkers, 44% of Ale and 64% of Lager drinkers, we have our favourite brands and tend to stick with them, we will only experiment if something new is the only option available.

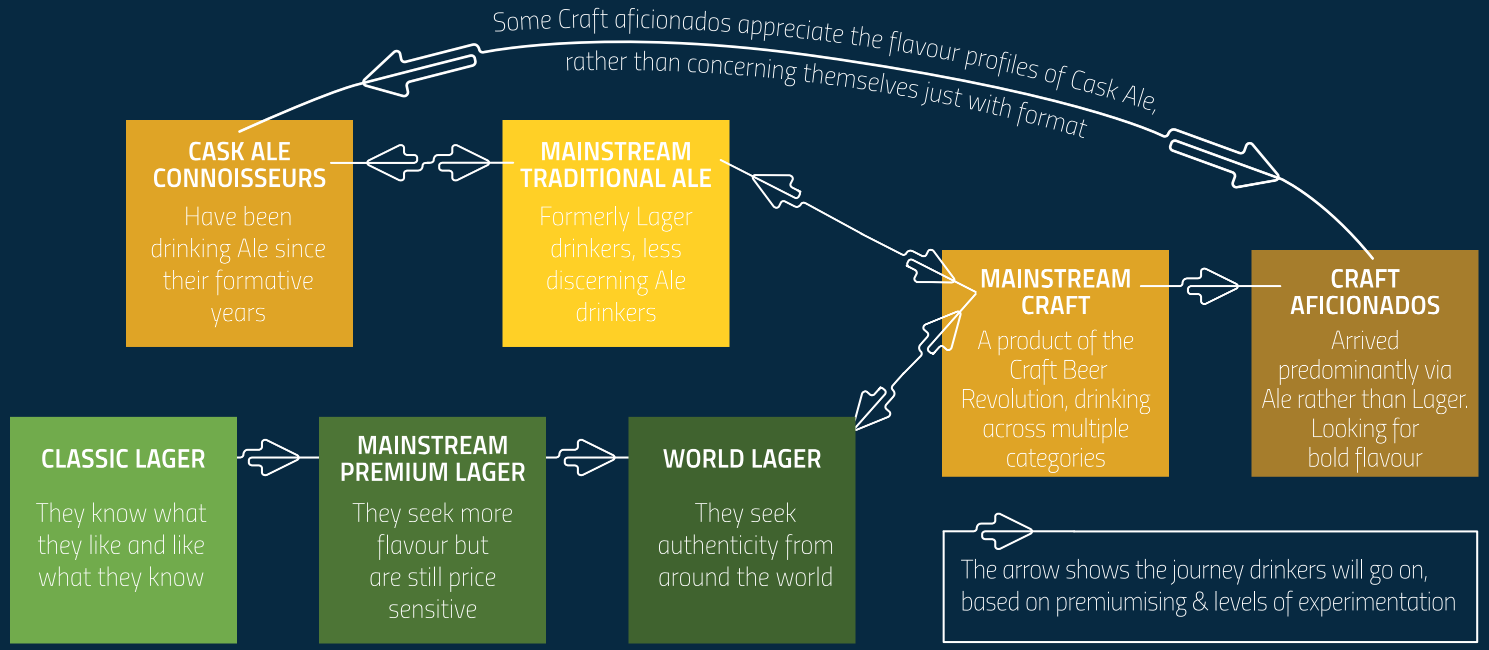
MORE ENGAGED

We represent 78% of Craft drinkers, 56% of Ale and only 36% of Lager drinkers.

We like to take our time at the bar making our choice and experiment with new and different beers.

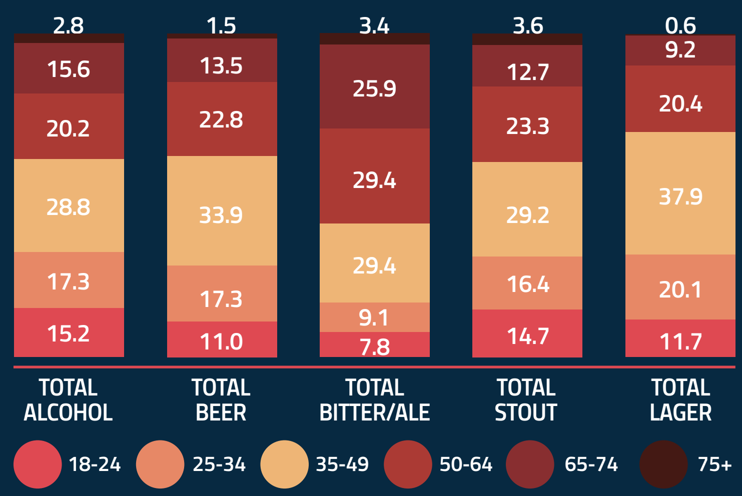
Source : MBC Eureka! Survey 2018

CRAFT BEER HAS DONE A LOT TO BLUR THE BOUNDARIES OF BEING AN "ALE DRINKER" OR A "LAGER DRINKER". OUR RECENT QUALITATIVE RESEARCH HAS OUTLINED THE CORE DRINKER TYPES IN EACH CATEGORY...



Source: MBC Razor Research Focus Groups 2018.

SHARE OF SERVES BY AGE



Source: Kantar Alcovision Dec17

ALE DRINKERS TEND TO BE OLDER, WITH THE LARGEST PROPORTION OF SERVES COMING FROM THE 50-64 AGE GROUP

59% OF ALE DRINKERS ARE AGED 50+

30% OF LAGER DRINKERS ARE AGED 50+

FOR LAGER THE MOST SIGNIFICANT AGE GROUP IS 35-49

Knowledge of styles is relatively low for Ale drinkers – with 1/3 unable to name one Ale style spontaneously. A further 1/5 can only name one. Keeping it simple is essential, providing clear and obvious cues.

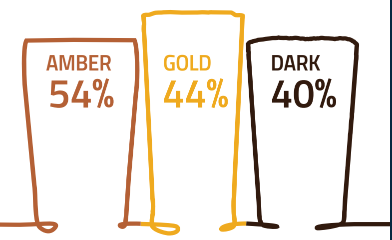
For Lager drinkers, Brands play much more of a part, but decision making is also influenced by the perceived country of origin.

WITH TWO-THIRDS OF ALE DRINKERS BEING ABLE TO RECALL AN ALE STYLE, IT IS IMPORTANT TO UNDERSTAND WHAT STYLES RESONATE WITH THEM.

Bitter, Pale/IPA & Stout are the most recognised styles when prompted. Dark, Gold & Amber are the next most recognised styles, highlighting the style/colour cross over.

With the pre-mentioned styles being very closely linked to Amber, Gold & Dark respectively this is as clear a ranging method as is required.

Amber is the preferred style for more than half of Ale drinkers.



Female drinkers have a higher preference for Golden Ales.

As shown on page 5, Amber beers remain the biggest proportion of the market – driven by both ROS and Distribution. This should be ranged 1st when it comes to Cask Ale, followed by Gold, then Dark.

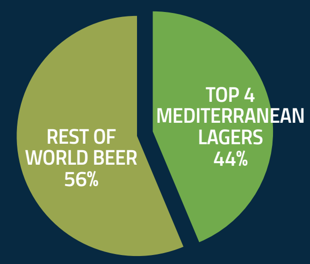
CONSIDER: IPA is the most frequently recalled style by Ale drinkers spontaneously and it should be seen as a sub-category within Gold.

30%

Perception of quality and choice of occasion are intrinsically linked for Lager drinkers. With 9 in 10 suggesting a European country as the best Lager brewing Country in the World, this is the growth area.

9/10 MENTION A EUROPEAN COUNTRY

DRAUGHT WORLD LAGER VALUE



Source: CGA OPMS 24/03/2018.

Whilst World Lager continues to perform, the top 4 Mediterranean Lagers of Peroni Nastro Azzurro, San Miguel, Estrella Damm and Birra Moretti account for 44% of total World Lager draught value. Their propensity to remind people of holiday destinations, warmer weather etc. lends themselves to be consumers go to choice.

Whilst European countries dominate the list of perceived best brewing countries for Lager, and Germany is identified by 3 in 10 as the best Lager brewing country in the World.

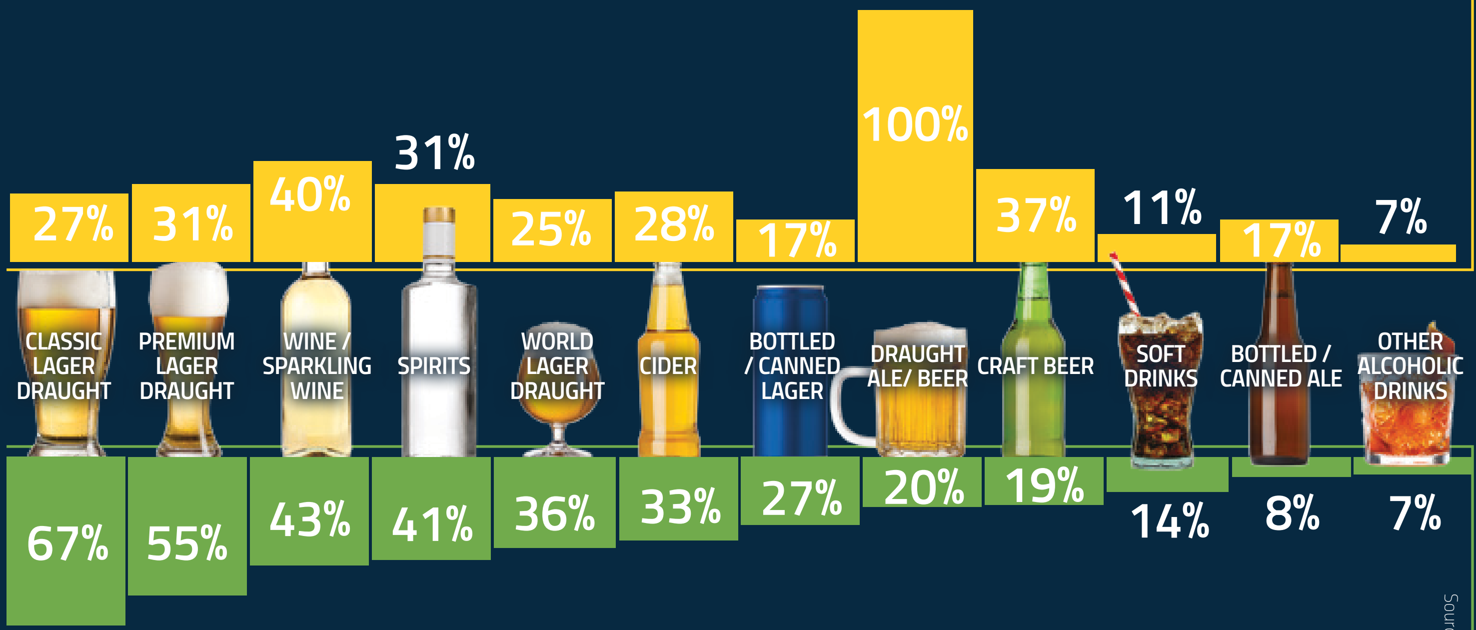
Source: MBC Eureka! Research 2018.

THE DRINKER

When comparing the drinking repertoire in the On Trade there are clear differences between Ale and Lager drinkers and the selection of drinks they choose.

ALE DRINKER REPERTOIRE

Ale drinkers have a strong repertoire of drinks that they'd drink out of home with Wine, Craft Beer and Premium Lager the categories they're most likely to move between (with Ale).



Source: MBC Eureka! Research 2018

Lager drinkers are more open to moving into different categories when out and about. A higher % will drink wine, spirits and/or cider than Ale drinkers. In terms of Craft, only 19% of Lager drinkers have drunk it in the past 3 months, compared to 37% of Ale drinkers.

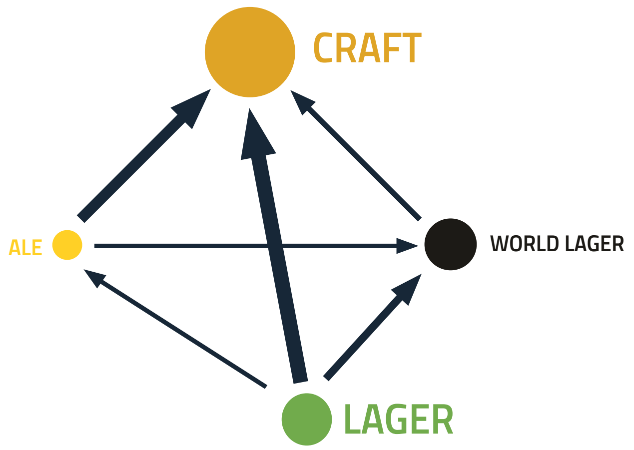
The above %'s highlight the types of alcohol Ale & Lager drinkers have purchased in the last 3 months, rather than simply what they would drink.

LAGER DRINKER REPERTOIRE

CONSUMER SWITCHING BEHAVIOUR IN THE OFF TRADE

Despite only a small % of Lager drinkers including Craft in their repertoire, over time Craft beer has actually taken more gains from Lager (65%) as a category than Ale (26%), due to the size of the categories.

The shift from Lager to Ale is unsurprising, with 47% of current Ale drinkers having migrated away from Lager.



WIDTH INDICATES IMPORTANCE OF SWITCH

SIZE OF BUBBLE REPRESENTS TOTAL NET SWITCHING VALUE

Source: Kantar Worldpanel | Beer Gains/Loss & Switching Analysis (Spend) | 52 w/e 28th January 2018

DRINKER EXPERIENCE & BEHAVIOUR

It is key to understand how drinkers behave and what they expect from their drinking out experience. When asking both Ale and Lager drinkers what the most important aspects when considering where to go out, there are clear similarities...

Quality and range of drinks are extremely important to all beer drinkers, as is good service and a good atmosphere. All of these aspects of an outlet are more important than price which is important to 85% of Lager drinkers and 83% of Ale drinkers, quality and service are that bit more important.

Across Ale and Lager, both quality and range of drinks are intrinsically linked. Breadth of choice for the consumer is imperative. With Lager in particular, there is a perception that all drinkers are loyal to just one brand...

Across all Lager categories, 50% of consumers remain loyal to their favoured format despite the brand they normally drink not being on the bar. This highlights the importance to range a breadth of category choice rather than being brand focused. See page 18 for a look at the commercial benefits of ranging Lager by breadth of choice.

LAGER DRINKERS BEHAVIOUR WHEN THEIR PREFERRED LAGER IS UNAVAILABLE

STAY AND DRINK THE SAME AMOUNT OF ANOTHER LAGER WITHIN THE SAME CATEGORY

STAY AND DRINK LESS OF ANOTHER LAGER WITHIN THE SAME CATEGORY

48% STICK WITH CLASSIC LAGERS
ONLY 8% DRINKING LESS

57% STICK WITH PREMIUM LAGERS
ONLY 6% DRINKING LESS

52% STICK WITH WORLD LAGERS
ONLY 5% DRINKING LESS

Source: MBC Eureka! Research 2018

DRINKER EXPERIENCE & BEHAVIOUR

To better understand how consumers will rate the atmosphere of a venue, it is essential to know their drinking occasion and reason to visit.

DRINKING OCCASIONS

HIGH TEMPO → LOW TEMPO

'GROUP BONDING'

Watching a sporting event with a large group, long Saturday in the pub.

EXPECTATION: Well know brands. Shouldn't be too expensive, appealing to a bigger group at a sessionable ABV.

'SOPHISTICATED SOCIALISING'

Dinner out with friends, After work drinks with colleagues.

HOW TO TAILOR YOUR RANGE TO ACCOMMODATE FOR THESE OCCASIONS

EXPECTATION: A drink that portrays a premium/sophisticated image and reflects the occasion. A higher ABV as consumption will likely be of a slightly lower quantity.

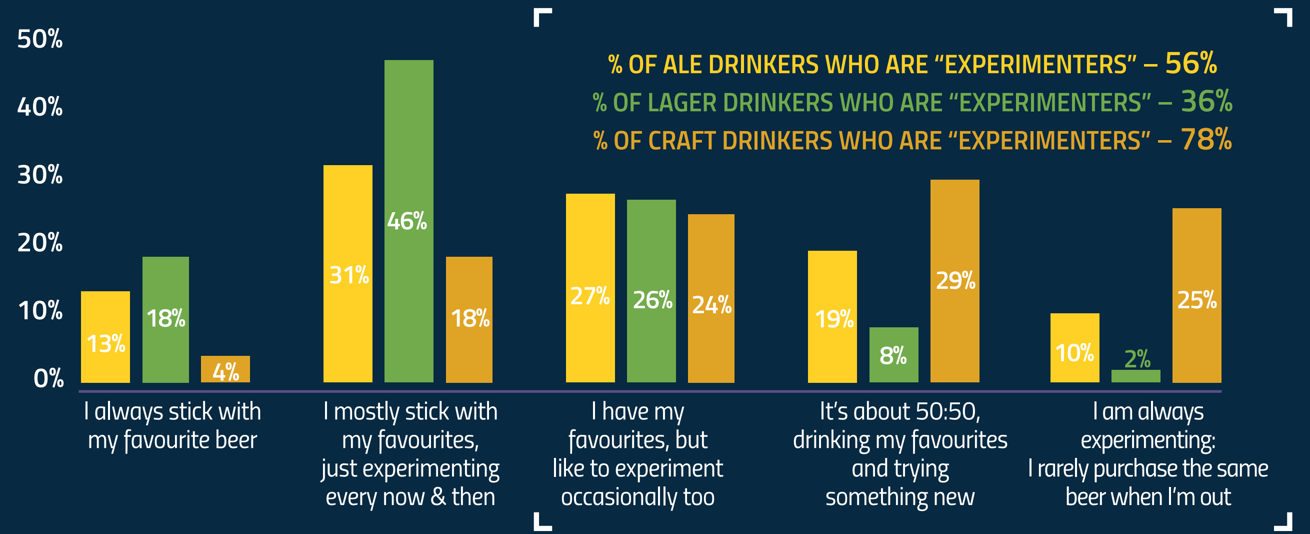
'MAKING A STATEMENT'

Low volume mid-week drink, specialist "drinking occasion", special occasion.

EXPECTATION: Beers that are savoured and consumed slower, more likely to be Craft & Speciality, with bold & unusual flavours to encourage experimentation & trial.

Source: MBC Razor Research Focus Groups 2018.

As the tempo of the drinking occasion differs as does the level of experimentation.
Across the different categories there is varying levels of experimentation, with Lager drinkers more inclined to stick to their favourites and Craft drinkers more likely to experiment.



Source: MBC Eureka! Research 2018.

KEY RECOMMENDATIONS

- Consider using packaged beer to provide additional range in the categories that lend themselves to experimentation such as Craft whilst utilising brands elsewhere.
- Understand exactly what your venue is being used for and what beer categories lend themselves to that occasion.
- If you are going for an upmarket approach, give drinkers reason to purchase a more premium drink by offering the perfect serve - well maintained glassware and engaging knowledgeable staff.

Pubs are slowly becoming more of a family friendly, all day dining destination. In 1995 the ban on children under 14 going into pubs in England & Wales was lifted, since then pubs have been restructuring to cater for the whole family by introducing play areas, live sports events and modern food concepts such as pizza ovens, rotisseries and grills. As such we have seen drinker behaviour change...

% OF DRINKERS VISITING FOOD & WET LED VENUES IN A MONTH

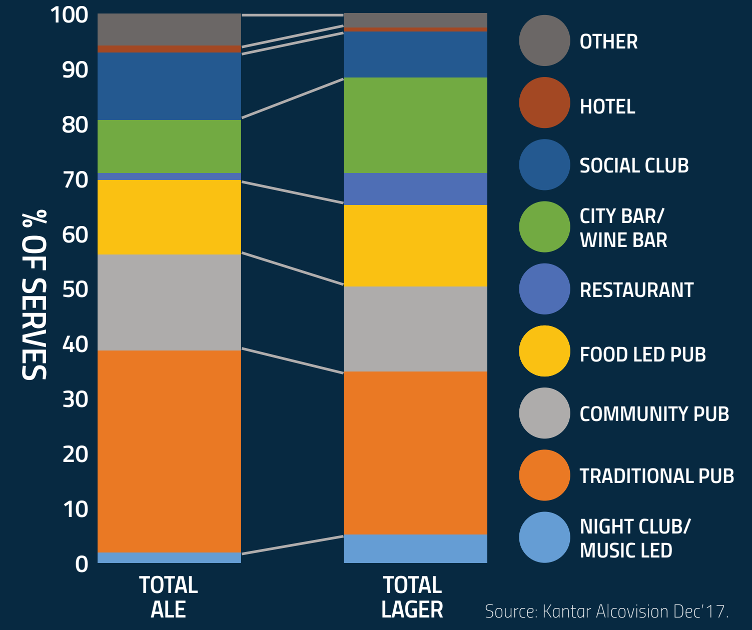
	Food led	BAR ONLY
ALE DRINKERS	68%	72%
LAGER DRINKERS	65%	63%

Where in the past the wet led "boozer" would be by far and away the main drinking venue for beer drinkers, the change in consumer expectation has led to a similar number of both Ale and Lager drinkers visiting food led pubs just as often.

We have also seen an increase in frequency of visit to Town centre bars and casual dining restaurants as the drinks offer has improved to cater for both of these drinker types.

Source: MBC Eureka! Research 2018. Base: Ale 1,016; Lager 1,001.

% SERVES BY TRADING FORMAT



Source: Kantar Alcovision Dec'17.

When comparing the splits of where both Ale and Lager are consumed, there is a higher volume of Ale drunk in Traditional pubs where you would expect to find a breadth of choice across both Cask and Keg.
A higher % of Lager is consumed in Town Centre/City Bars.
This is again down to expectation of breadth of choice across Classic, Mainstream Premium and World Lagers.

DUE TO THE CHANGING BEHAVIOURS OF DRINKERS WE ARE SEEING THE ON TRADE LANDSCAPE CHANGE. THE ONLY GROWTH IN OUTLET NUMBERS IS COMING FROM THE MANAGED SECTOR (+2.8%) AS DRINKERS SEEK OUT A TRUSTED EXPERIENCE, WHERE THEY HAVE HIGH EXPECTATIONS OF A GOOD QUALITY SERVICE

+14.2%

YOY Number of Pubs Source: CGA Outlet Index March 2018

Food led pubs are seeing the biggest growth in the managed sector as consumers seek a multitude of experiences and occasions merged into one. Brands such as Generous George (Marston's) and Ember Inns (Mitchells & Butlers) have coupled an expansive food offering with a strong drinks range to cater for a wide audience and a variety of occasions.

+13.9%

YOY Number of Pubs Source: CGA Outlet Index March 2018

Wet Led local pubs are also seeing strong growth rate in the managed sector with brand fascia's such as Castle (Mitchells & Butlers) and Town Pub & Kitchen (Stonegate) offering consumers a premium choice of drinks coupled with a number of reasons to visit/occasions to enjoy.

Source: CGA Outlet Index March 2018.

RETAINING & GAINING CONSUMERS IN THE VENUE OF CHOICE

There are numerous factors to consider within your drinking venue which will help retain and increase consumer visits. This can include a good breadth of range to cater for all drinker needs, but also a high level of service and atmosphere to encourage increased purchasing and visits.

GOOD SERVICE

BARTENDERS EXERT A STRONG INFLUENCE OVER CHOICE, WITH ALL DRINKERS SEEKING THEIR RECOMMENDATIONS

Source: PUBLAB Eye-tracking 2017.

With consumers now spending more but drinking less, reasons to visit drinking venues are changing. It is important to provide more reasons to visit other than the beer on the bar.

Consumer demands for a high quality experience and better engagement has never been higher. With that, staff knowledge has never been more important. With more categories, brands and beers to navigate on the bar, guidance from the "expert" behind the bar can make each consumer feel comfortable and engaged.

WHO IS THE RIGHT GLASSWARE MOST IMPORTANT TO:

Younger consumers (72%)

Those on higher incomes (72%)

Those drinking in modern bars (75%)

When Premium Lager is No.1 Choice (76%)

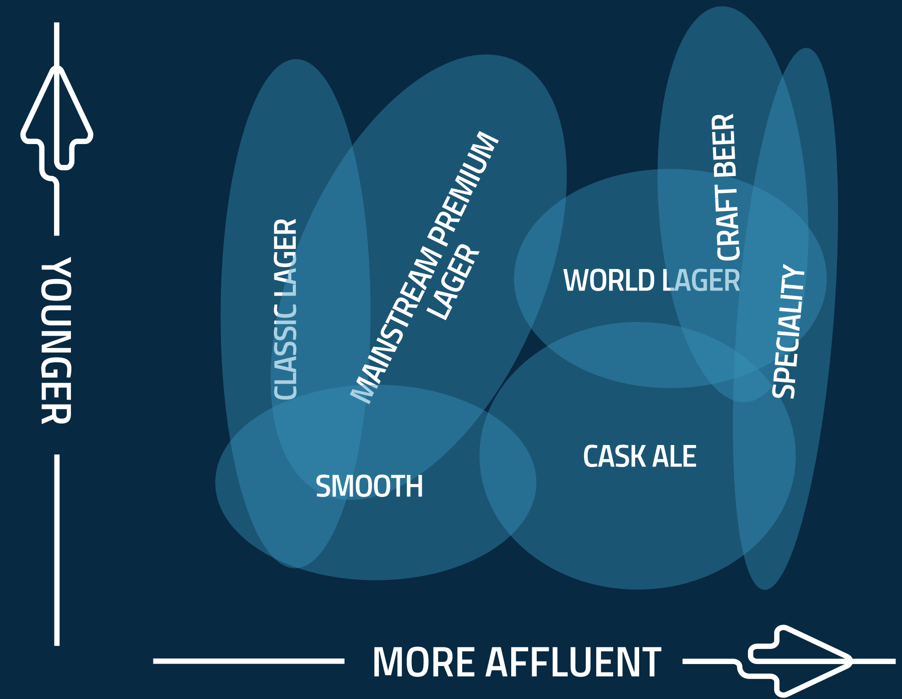
Source: MBC Eureka! Research 2018.

KEY RECOMMENDATIONS

- Provide a breadth of choice across Lager categories (see page 15) to cater for as many consumers as possible.
- Become famous and recognised for something drinkers want in a venue. Understand why consumers will be visiting your venue and cater to suit that. Align that reason to visit to the level of experimentation you can expect.
- With food playing a more pivotal role in pubs across the UK, be clear on your offer. Do drinks well, food well or both well – half hearted on any of those will limit your customer base.
- 'Try before you buy' is a good way to help with the introduction of new beers to consumers which could ultimately move them up the pricing ladder (see page 17 for details on pricing ladder). Along with building the relationship between bar staff and customer making them feel comfortable and welcome.

RANGING YOUR BAR TO APPEAL TO YOUR CUSTOMERS

The size of the bubbles below show the breadth of drinker rather than the size of the pool of drinkers.



Cask Ale tends to attract an older drinker, however Craft Beer has gone a long way to introduce younger drinkers into the total Ale category.

Classic Lager, although not appealing to one particular age group, is more popular with a less affluent drinker.

Consider these interactions and the diversity when ranging your bar.

Source: Kantar Worldpanel Online Dec 2017.

At a macro level within beer, Craft beer is bridging the gap between Lager and Ale (see pages 19-22 for a detailed look into the Craft market).

Drinkers are seeking out quality and therefore the lines are becoming blurred between the sub segments with Crafted Lagers and Ales gaining in popularity.

LAGER | **CRAFT** | **ALE**

WORLD LAGER

The provenance and quality that has been synonymous with Ale is now expected in leading world beers, and showcases another blur between two very different beer categories.

CONTEMPORARY KEG

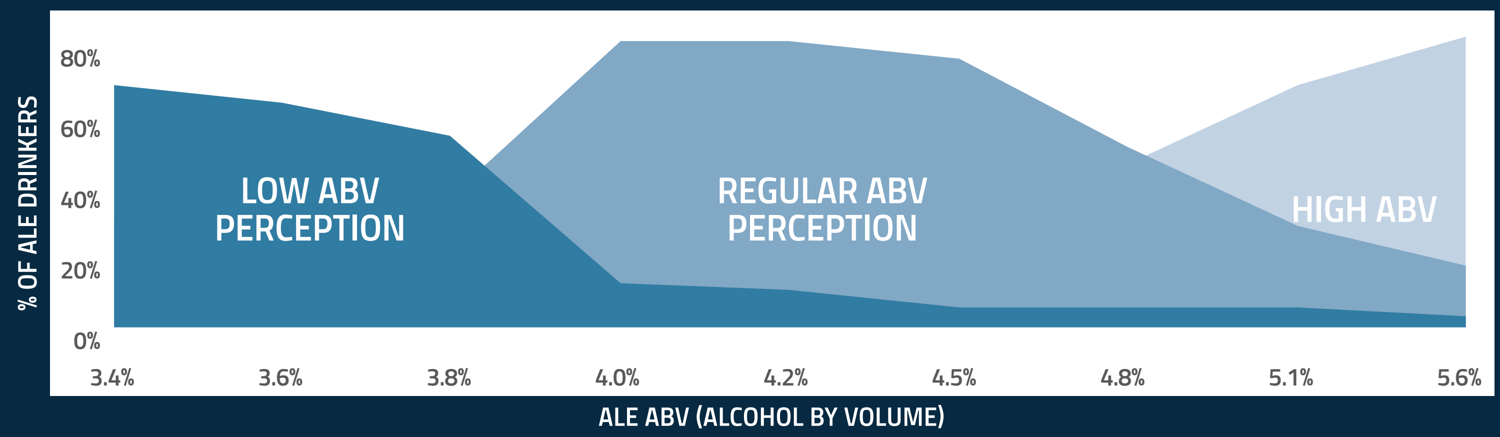
Ale brands have begun to use design cues from Craft Beer to appeal to a younger audience. Regional Brewers are also innovating on Keg to appeal to both Craft and traditional Keg drinkers.

RANGING

The most beneficial way to range is by both style and ABV, with these being the most important pieces of information consumers expect to see on a pump clip or lens. Consider which styles and ABVs engage with the most drinkers at different occasions.

4 IN 10 DRINKERS NOW CLAIM AN IPA OR PALE ALE IS THEIR PREFERRED STYLE. CONSIDER THIS AS A SUB-CATEGORY WITHIN GOLD

By then using differing ABVs, you can cater for a larger proportion of drinkers. We asked over 1,000 Ale drinkers their perception of different ABVs. There are 3 clear ABV brackets. 3.8% and below, 3.9% - 4.7% and 4.8% and above.



% OF DRINKERS WHEN "GENERAL SOCIALISING"	GOLDEN 27% OF TOTAL CASK VOLUME	AMBER 67% OF TOTAL CASK VOLUME	DARK 6% OF TOTAL CASK VOLUME
11% OF ALE DRINKERS WILL CHOOSE HIGH ABV			
81% OF ALE DRINKERS WILL CHOOSE REGULAR ABV			
8% OF ALE DRINKERS WILL CHOOSE LOW ABV			

30% OF ALE DRINKERS PREFER TO DRINK HIGH ABV ALES WHEN DRINKING AT A SPECIAL OCCASION

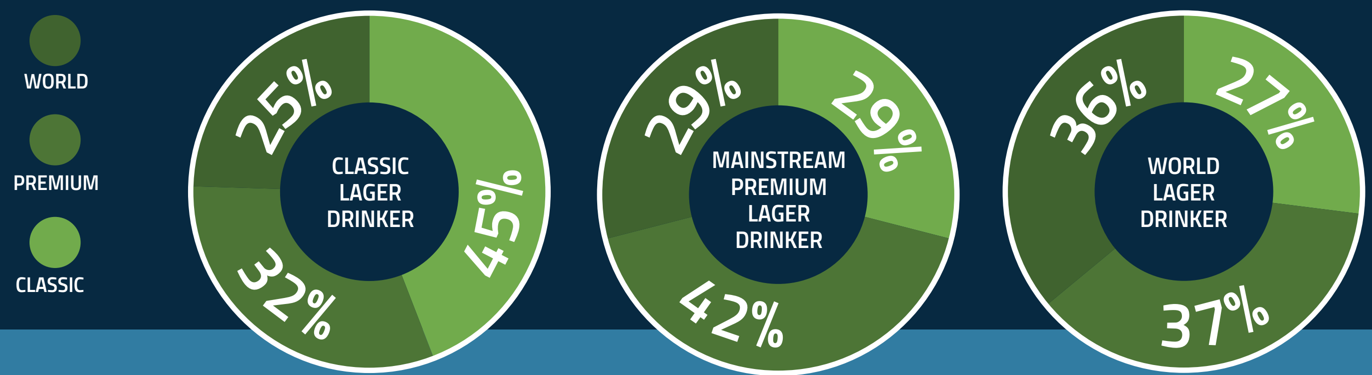
40% OF ALE DRINKERS PREFER TO DRINK LOW ABV ALES WHEN DRINKING AT LUNCHTIME/DURING THE DAY

BREADTH BEFORE DEPTH

To make the most of the space available you should look to satisfy a breadth of sub-categories before a depth of brands.

You should satisfy customer demand by increasing breadth of range through offering as many brands from left to right of this diagram, covering multiple sub-categories, but ensuring you are getting good through-put from all brands, before offering a depth of categories that already exist which your outlet might sell particularly well.

PREFERRED MIX OF LAGER BRANDS TO BE ON THE BAR - BY DRINKER TYPE



ALL LAGER DRINKERS WANT TO SEE A STRONG RANGE FROM CLASSIC/STANDARD UP TO WORLD LAGER, NO MATTER WHAT THEIR PREFERRED LAGER CATEGORY IS.

KEY RECOMMENDATIONS

- Range your Cask Ale line-up based on both time of week, and type of occasion throughout the week, if you have a big business crowd during the week be sure to range low ABV for instance.
- Do not try to do too much, over ranging is the biggest cause of poor quality so range within your through put.
- Lager drinkers want to see opportunity to premiumise and treat themselves. Advertise World Lagers to provide this opportunity and drive cash into your till.

RANGING

By understanding drinker expectations, there are numerous ways to range a bar to provide as much choice as possible

7 IN 10 ALE DRINKERS HAVE BEEN SERVED AN OFF PINT:

Cask Ale has seen a heavy dip in quality, with the biggest reason being over ranging. 40% of those drinkers will not return to the pub where they were served a bad quality pint of Cask Ale.

Base your ranging on throughput, you need to be selling 1 firkin (9 gallon) of Cask in 3 days.

91% OF ALE DRINKERS HIGHLIGHT RANGE OF DRINKS AS AN IMPORTANT FACTOR WHEN CONSIDERING WHERE TO VISIT

87% OF LAGER DRINKERS HIGHLIGHT RANGE OF DRINKS AS AN IMPORTANT FACTOR WHEN CONSIDERING WHERE TO VISIT

1 IN 3 PREMIUM LAGER DRINKERS

Will change their drink type if preferred brand isn't available.

Of who **1 IN 2** will premiumise

4 IN 10 CLASSIC LAGER DRINKERS

Will change their drink type if preferred brand isn't available.

Of who **7 IN 10** will premiumise

When it comes to Ale, drinkers preference is 1 National, 1 Local & 1 "Guest".

Be sure to balance your range in a similar fashion, bearing in mind "local" is not necessarily local to the pub, more a perception of what is a local brewery.

AMBER	GOLDEN	DARK	AMBER
Low / **REGULAR** / High ABV	Low / Regular / **HIGH ABV**	Low / **REGULAR** / High ABV	**LOW** / Regular / High ABV
NATIONAL / Lesser Known	National / **LESSER KNOWN**	**NATIONAL** / Lesser Known	National / **LESSER KNOWN**

Over the past 3 years there have been 1,051* new Cask Ales brought to market. Despite this, 84% of drinkers want at least 1 Nationally recognised Ale.

Source: CGA OPMS Q4 2017

63% DRINKERS WANT A GUEST ALE TO LAST BETWEEN 2 WEEKS – 1 MONTH, ONLY 8% WANT IT TO LAST "DAYS"

IF YOU CAN WARRANT HAVING MORE HAND PULLS, CONSIDER WHAT RANGE ASPECT YOU MAY BE MISSING STYLE, ABV GROUPS, BREWERY RECOGNITION.

Like Lager, there is potential to premiumise within Keg Ale – Contemporary Keg can serve a purpose as a step up from Smooth, and a step down from Craft Beer.

USE THIS METRIC TO CREATE THE OPTIMUM PRICING LADDER. EG. IF CLASSIC LAGER IS £3.30 PRICE A WORLD LAGER AT 30% PREMIUM - £4.29*

By ranging from Classic up to Mainstream Premium and then World Lager you offer the potential for your customers to treat themselves.

Growth within World Lager is being driven by Mediterranean Lagers such as Estrella Damm & Peroni Nastro Azzurro.

These are accessible brands which consumers see as Super Premium and should be the first considered when adding World Lager to your line-up.

Utilise Discovery Lager's and Speciality beers to provide premium cues to your customer. 30% of Lager drinkers associate Germany with the best quality Lagers.

Whilst consumers are relatively consistent with their Ale style choice, the reason or occasion in which they are drinking does impact on the ABV of the beer they are drinking. Consider the purpose of your venue and why consumers will be drinking there – see below the uplift...

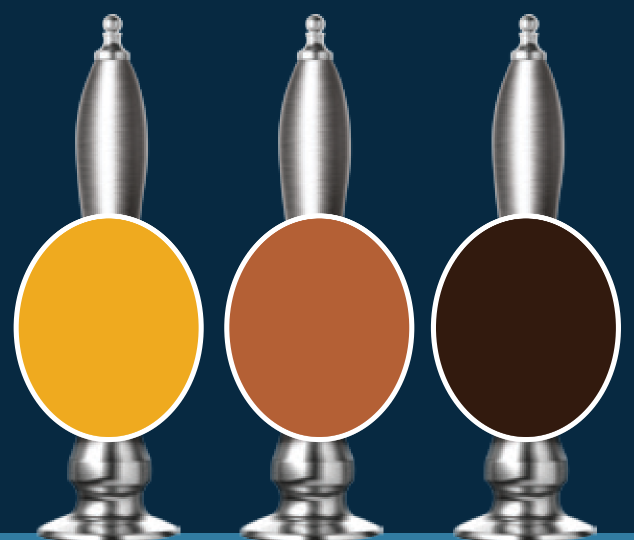
PREFERENCE	GENERAL SOCIALISING	SPECIAL OCCASIONS	OUT FOR THE DAY	LUNCHTIMES/ IN THE DAY
High ABV drink	11%	30%	13%	6%
Regular ABV drink	81%	67%	66%	54%
Low ABV drink	8%	3%	22%	40%

Source: MBC Eureka! Survey 2018 Base: 1,016.

*Pricing Ladder based on CGA OPMS March 2018 average by Sub-Category.

RANGING

WHAT ARE THE COMMERCIAL BENEFITS



WHAT WOULD YOU DO IF YOUR PREFERRED ALE STYLE WASN'T AVAILABLE?

29%+10%

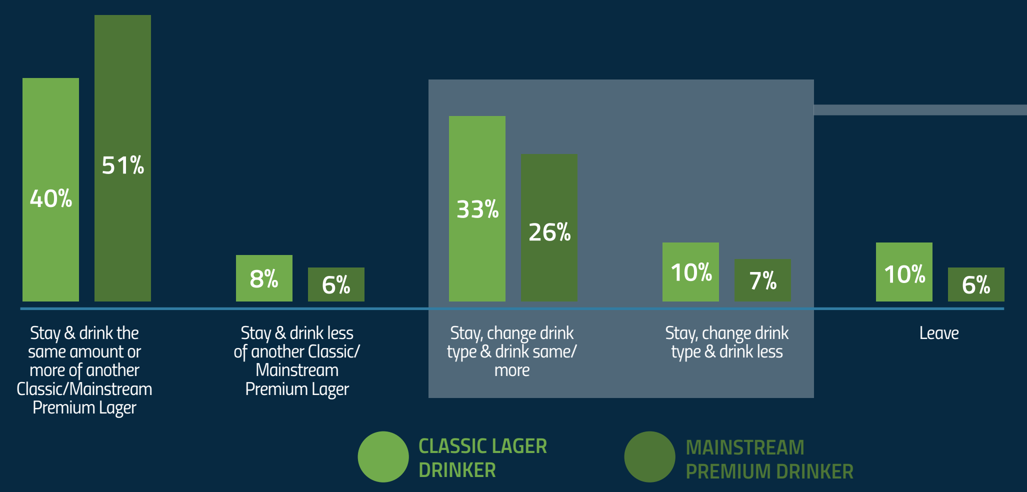
Stay & drink less of another Ale/drink — Leave, go elsewhere

MBC Eureka! Survey 2017.

A PUB DOING 6 FIRKINS A WEEK THAT DOES NOT RANGE PROPERLY IS MISSING OUT ON ANYTHING BETWEEN 71 & 149 PINTS PER WEEK. MINIMUM EXTRA MONEY IN THE TILL FOR A PUB CURRENTLY RANGING INCORRECTLY SELLING 6 FIRKINS:

£1,044 PER MONTH IN THE TILL, £12,528 PER YEAR

CLASSIC & PREMIUM LAGER DRINKERS ACTIONS IF THEIR PREFERRED BRAND IS UNAVAILABLE



65% OF THESE MAINSTREAM PREMIUM LAGER DRINKERS WOULD PREMIUMISE TO WORLD LAGER OR CRAFT

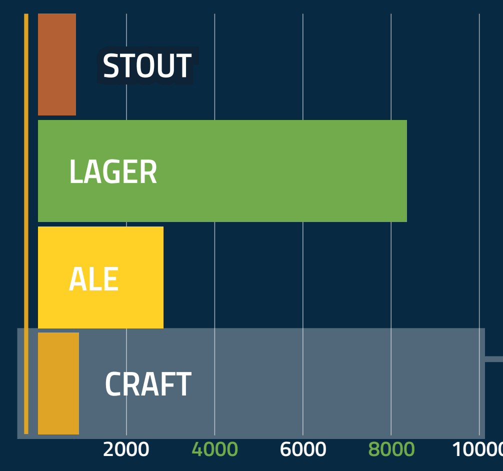
80% OF THESE CLASSIC LAGER DRINKERS WOULD PREMIUMISE TO MAINSTREAM PREMIUM, WORLD LAGER OR CRAFT

BASED ON A PUB CURRENTLY SELLING 8 KEGS A WEEK OF CLASSIC & MAINSTREAM PREMIUM LAGER AMENDING THEIR RANGE TO INCLUDE WORLD LAGER, THERE IS THE POTENTIAL TO GAIN:

£959 PER MONTH IN THE TILL, £11,508 PER YEAR - A 10% INCREASE IN SALES!

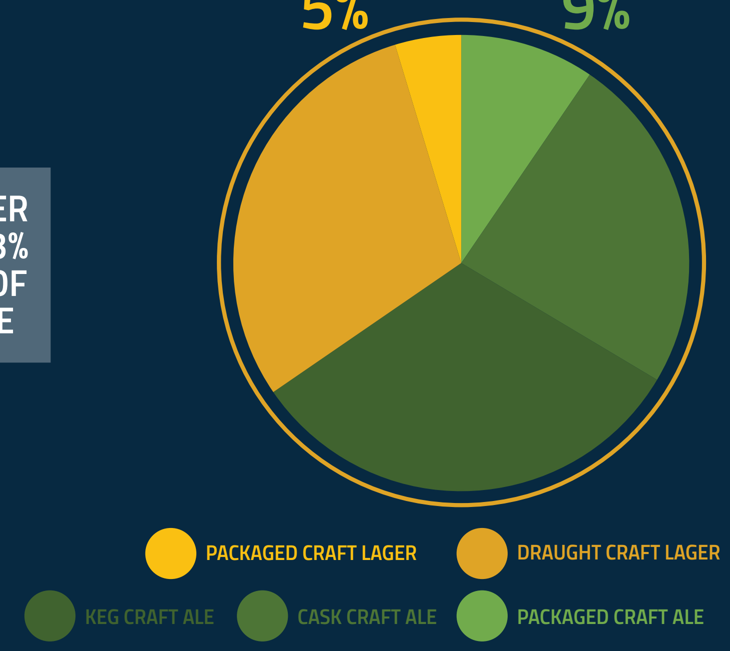
A CLOSER LOOK AT CRAFT

Craft Beer is at the forefront of beer creativity, constantly evolving and bringing flavour, style and an attitude to the beer world. Here we have a look into the concept of Craft Beer and how it will continue to evolve to suit consumers...



CRAFT BEER IS NOW 33% THE SIZE OF TOTAL ALE

CRAFT BEER VALUE



The biggest growth area of Craft is Keg Ale (+48%), whilst Craft Lager is also performing very well (+25%).

Packaged Craft is the only area seeing decline (-0.6%) due to a -15% decline in ROS which has been driven by both a switch into Draught Craft as more outlets stock it, and a greater variety of choice.

CGA OPMS Data to 24/03/2018.

The continued growth of Craft on Keg is being driven as much by supply as it is demand, however the growing visibility has impacted on drinker expectation. Craft Ale drinkers now expect Craft to be either Cask (47%) or Keg (41%), 3 years ago that would predominantly have been Cask Ale. Lager drinkers however, who are less knowledgeable of Craft Beer, are more expecting of Cask than they are Keg.

Q46. Which format do you expect Craft beer to be presented in? Base: 221 (Refined sample)
Q46. Which format do you prefer Craft beer to be presented in? Base: 221 (Refined sample)

Q46a1. Which format do you EXPECT Craft beer to be presented in? Base: 357
Q46b1. Which format do you PREFER Craft beer to be presented in? Base: 345

A CLOSER LOOK AT CRAFT

ALE DRINKER CRAFT BEER AWARENESS		LAGER DRINKER CRAFT BEER AWARENESS
98%	AWARE OF CRAFT	97%
67%	UNDERSTAND CRAFT	72%
49%	DRINK CRAFT	36%

Source: MBC Eureka! Survey 2018.

Of drinkers who say they understand what Craft Beer is and drink it, 55% of drinkers name brands more associated with Traditional Ale. It is clear that trade perception of Craft is not necessarily in line with the majority of beer drinkers. Consider you customer type, and what they would perceive Craft to be...

55%
NAME A BRAND MORE ASSOCIATED WITH TRADITIONAL ALE

45%
CORRECTLY NAME A RECOGNISED CRAFT BRAND

A CLOSER LOOK AT CRAFT: AS A CONCEPT

The perception of Craft varies depending on the usual repertoire of the drinker.....

CASK ALE

STYLE/BRAND QUEUES

REGIONAL CASK ALE

CONTEMPORARY KEG

MAINSTREAM CRAFT

BREWING HERITAGE

SUPER PREMIUM NICHE CRAFT

US CRAFT

THE HEIGHT OF THIS BOX SHOWCASES THE SIZE OF THE CRAFT DRINKER BASE. AS THE QUANTITY OF DRINKERS DECLINES, THE "RULES" OF WHAT IS OR ISN'T CRAFT BECOME MORE DEFINED.

Source: MBC Razor Research Focus Groups 2018

For 60% of Craft Beer drinkers, choice of venue is completely or to some extent dictated by their desire to drink Craft.

Of those drinkers, 82% will decide upon the venue of choice for their social group also, showcasing the importance of communicating Craft beers availability. It is the younger drinker (18-34) who is more inclined to influence their group (87%).

1 IN 4 CRAFT BEER DRINKERS IN LONDON WILL ONLY GO TO AN OUTLET SELLING CRAFT

1 IN 3 LONDON CRAFT BEER DRINKERS COMPLETELY DECIDE UPON CHOICE OF VENUE FOR THEIR GROUP

DRINKING CRAFT BEER: DOES THIS CHOICE INFLUENCE OTHERS YOU MAY SOCIALISE WITH?

YES, COMPLETELY	25%
YES, TO SOME EXTENT	57%
NO, HARDLY EVER	14%
NEVER	11%

18 TO 34	87%
35 TO 45	78%
55+	84%

Base: 382 (Drinkers)

KEY RECOMMENDATIONS

- Utilise World Lager alongside your Craft offering. The smallest amount of Craft Beer drinkers talk the loudest. Whilst they decide upon their social group's venue of choice, the rest of the group may want something recognised and accessible.
- If you have not got space on your Keg lineup, consider using both Cask and Packaged to provide additional choice for Craft Beer drinkers.
- Use Cask & Keg alongside each other to provide a complete breadth of range. With the flavour & serve quite different between the two, be sure to communicate to customers so they know what to expect.
- Craft Beer is a customer driver. Be sure to communicate on premises and on social media platforms what beers you have available and when it is available.

A CLOSER LOOK AT CRAFT

The "recognised Craft" drinker is starting to see 3 key Craft segments – with US Craft being perceived as different whilst UK Craft is going one of two ways, Super Premium or Mainstream...

Moving forward, a Craft Beer needs to resonate as a mainstream, readily available product or provide "reason to believe" as a Super Premium, niche brand. As we have seen with World Lager, a brand can certainly cater for both, but if it does neither it will not last long.

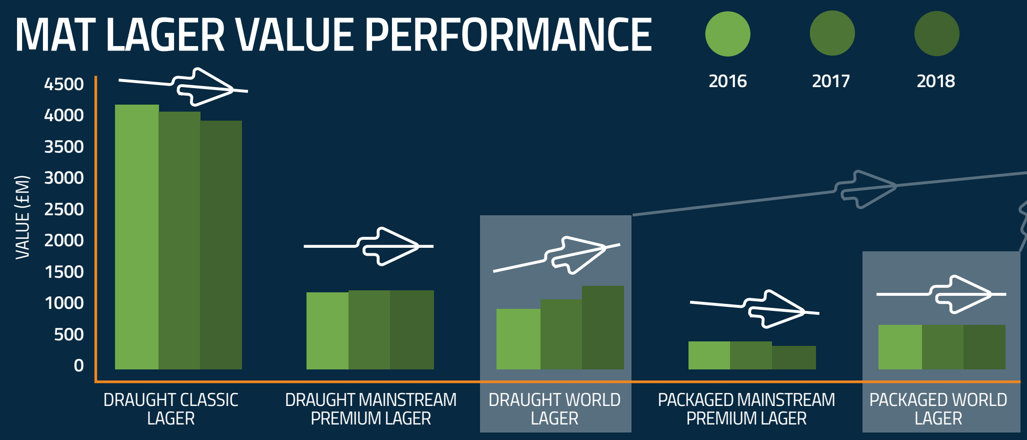
KEY RECOMMENDATIONS

- Use the right pricing ladder for your venue. Niche Craft should command a high price point, if it is charged too low drinkers will have no faith that it is "special" and revert to Mainstream Craft or World Lager.
- Understand what Craft means to your customers – there may be a propensity to move beyond recognised brands however there is a majority of drinkers that will be brand led and need recognised cues.
- America has a reputation for being the forefather of Craft, which brings with it trust. Utilise American Craft Breweries to appeal to the Craft Beer core.

Source: MBC Razor Research Focus Groups 2018

A CLOSER LOOK AT WORLD LAGER

World Lager is going a long way to drive the total Lager Market forward. Whether it be through brands within it that are performing excellently and growing rapidly, or through Mainstream brands utilising cues more commonly associated with World Beer, the Lager market is slowing changing shape. Here we review key changes and aspects of the World Lager market...



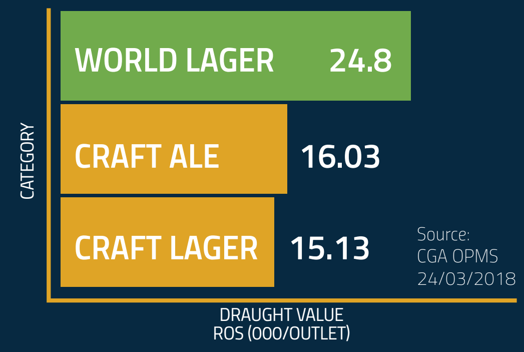
MAT LAGER VALUE PERFORMANCE

Over the past 2 years, World Lager has grown by +38.5% on draught in comparison to only +3.0% in packaged. This has seen draught's share increase from 58% to 65% vs packaged.

Consumers now expect World Lager on draught, rather than just in the fridge and you should extend your range accordingly.

Source: CGA OPMS 24/03/2018.

Whilst Craft Beer is growing strongly, it still accounts for a small share of the market and has a relatively low ROS. Utilising it alongside the higher volume category of World Lager will provide a better breadth of choice, complimentary range and satisfy the particular flavour demands of the Craft Beer drinker.



Source: CGA OPMS 24/03/2018

A successful brand journey for a World Lager is largely based upon providing premium cues to the consumer for an extended period of time, therefore making the brand aspirational. Once a brand finds its peek "premium level" it is about maintaining its position in "World Lager" for as long as possible whilst increasing availability and engaging with a wider consumer base – the venue and consumer type will influence the perception of how premium the brand is.

Source: MBC Razor Research Focus Groups 2018.

KEY RECOMMENDATIONS

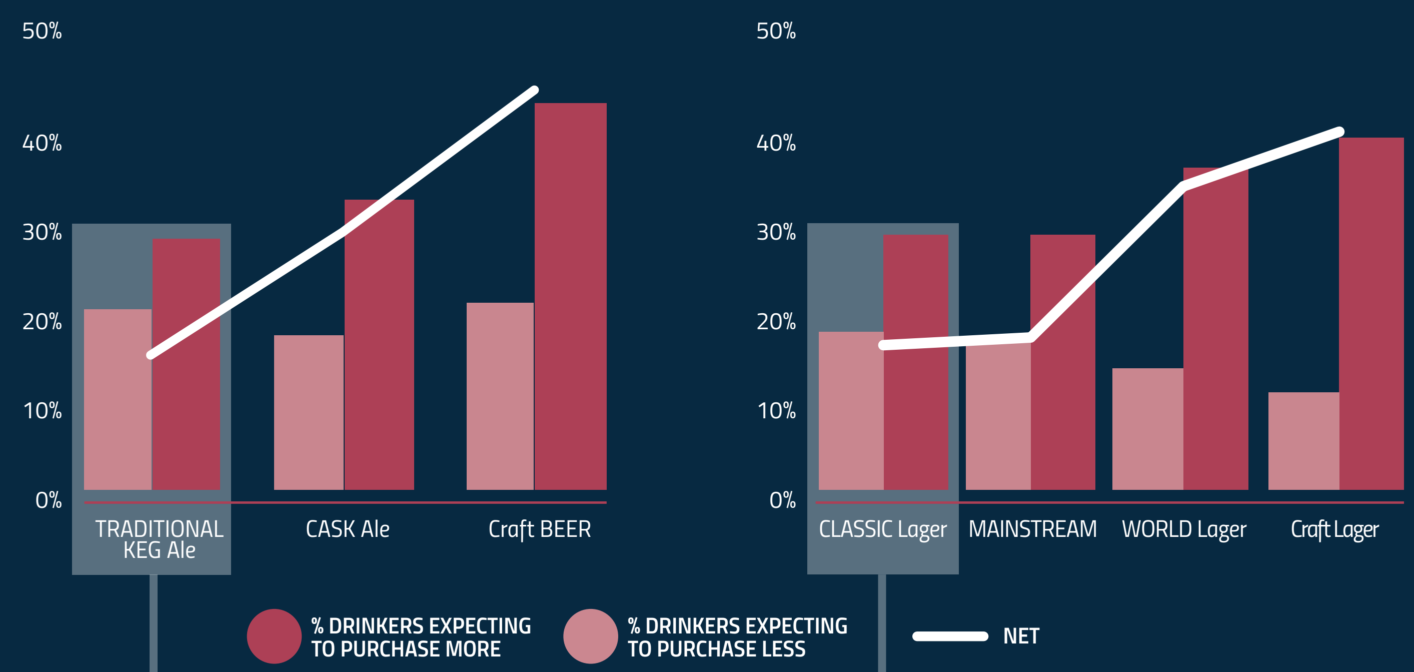
- With expectations of range and availability changing, make sure you utilise draught and packaged together – Discovery Lagers will be a good additional to more Mainstream or recognised World Lagers.
- World Lager, alongside Craft Beer, will be the driving force in the beer world for the foreseeable future. Understand what level of premium, and what brands at different stages of their journey will work for you and engage with your customers.

FUTURE: FOR THE DRINKER

When we ask drinkers how they expect their purchase pattern to change in the future, it is unsurprising that the more premium categories are going to see the biggest increase in purchase, whilst having the lowest likelihood of drinkers purchasing less...

ALE DRINKERS PURCHASE INTENTIONS

LAGER DRINKERS PURCHASE INTENTIONS



For +55 year olds Classic Lager and Traditional Keg have a net score of -14% and -15% respectively.

With a changing landscape of the UK population, there is a need to react.

AN AGEING POPULATION

Last summer the Financial Times reported average disposable income is increasing at a faster rate for Retiree's than for people of working age.

This higher % of consumers with said disposable income may be more willing to go out to treat themselves on occasion.

An increased dependency ratio will likely bring with it high tax rates.

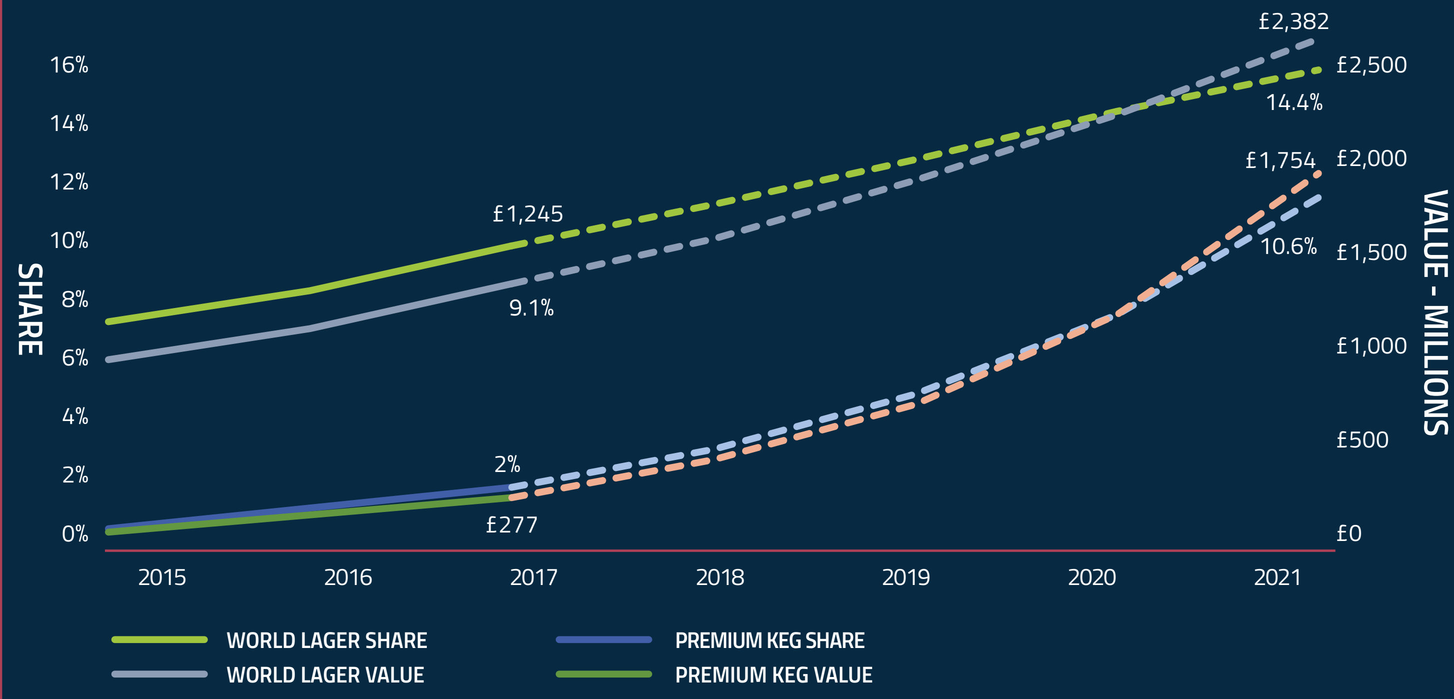
Younger, working population will have to be more careful with their money, and the "treat occasion" will become even more prevalent.

BOTH SCENARIO'S HIGHLIGHT THE NECESSITY TO PROVIDE CONSUMERS WITH THE OPPORTUNITIES TO PREMIUMISE AND TREAT THEMSELVES. THERE ARE NO SIGNS OF THE "LESS BUT BETTER" CONSUMER BEHAVIOUR CHANGING.

FUTURE: FOR THE MARKET

Considering consumer behaviour, and matching against current trends within premium categories, we can expect Craft Beer/Premium Keg & World Lager to continue to grow and take up substantial share of the beer market.

PREMIUM CATEGORY VALUE PERFORMANCE FORECAST



Source : CGA OPMS CAGR 2018.

WHAT CAN WE EXPECT IN THE COMING YEARS?

HEALTH

Whilst still only commanding 0.3% of beer category value, everything points to NABLAB booming in the coming years.

Learning from Germany, where last year Mintel reported on how producers there have improved the production technique, could be a good start.

This led to 27% of consumers now agreeing No and Low Beer tastes just as good as full-strength beer.

CATEGORY FUSION

Over half of 18-34 year old drinkers across the world say curiosity motivates them to try new flavours.

We have already seen Glenfiddich introduce their Experimental series, and with consumers seeking high quality yet interesting new flavours, this cross category fusion could continue to grow.

SUSTAINABLE DRINKING

69% of Generation X and 67% of Millennials state that ethic/social/environmental responsibility is influential when choosing alcoholic beverages, in comparison to only 56% of the silent generation.

Whether it be brands that showcase their responsibility in production by using local ingredients, or ones that promote & invest in sustainable practices, this trend will be key with the majority of new consumers.

Source: Global Data.

SUMMARY

CATEGORY SNAPSHOT

4-5

Craft Beer and World Lager are the big winners in the current market – consider how you can utilise them whether it be on Draught or Packaged.

The brand led, mainstream categories are not performing so well. In particular Standard/Smooth Keg and Classic Lager, as drinkers move away from drinking less to drinking better. Range appropriately so that drinkers can move between categories comfortably.

Cask Ale continues to decline as quality issues continue to put drinkers off – range within your means to make sure every pint is perfect.

WHO ARE YOUR CUSTOMERS?

6-8

There are two key types of beer drinker – the more engaged and the less engaged. Use brands to appeal to the less engaged whilst train bar staff to be able to converse with the more engaged.

Ale drinkers tend to be older than the rest of the alcoholic drinks category – use Traditional, trusted Ale brands if you have an older customer base.

Understand how your customers purchase: Ale purchase is predominantly driven by beer style, whilst Lager purchase is based on occasion and/or country of origin – which is fundamentally linked with quality perception.

Provide Ale drinkers with a good range to choose from (within your means) as they tend to have a more expansive repertoire of drinks than Lager drinkers, and are more likely to jump between categories.

HOW YOUR CUSTOMERS BEHAVE

9-12

Provide a breadth of choice across Lager categories (see page 15) to cater for as many consumers as possible.

Become famous and recognised for something drinkers want in a venue. Understand why consumers will be visiting your venue and cater to suit that. Align that reason to visit to the level of experimentation you can expect.

With food playing a more pivotal role in pubs across the UK, be clear on your offer. Do drinks well, food well or both well – half-hearted on either of those will limit your customer base.

Utilise 'Try before you buy'. It is a good way to help with the introduction of new beers to consumers which could ultimately move them up the pricing ladder.

RANGING YOUR BAR

13-18

Range your Ale line-up based on both time of week and type of occasion throughout the week. If you have a big business crowd during the week be sure to range low ABV for instance.

Do not try to do too much, over ranging is the biggest cause of poor quality so range within your means.

Lager drinkers want to see opportunity to premiumise and treat themselves. Tie in World Lager offers to big celebrations or party occasions.

Offer your customer the opportunity to premiumise within Lager whilst not making the RSP jump too big.

Use Contemporary Keg as a stepping stone between Smooth & Craft. The new Contemporary Keg category can allow Smooth Keg drinkers to potentially premiumise whilst also offering a lower RSP option for drinkers open to Craft Beer.

Utilise Mediterranean Lagers as your go to World Lager – they are considered both Super Premium & accessible and are the biggest growth market in Lager.

A CLOSER LOOK AT CRAFT AND WORLD LAGER

19-23

Utilise World Lager alongside your Craft offering. The smallest amount of Craft Beer drinkers talk the loudest. Whilst they decide upon their social group's venue of choice, the rest of the group may want something recognised and accessible.

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America has a reputation for being the forefather of Craft, which brings with it trust. Utilise American Craft Breweries to appeal to the Craft Beer core.

HOW THE FUTURE IS SHAPING UP

24-25

Shape your offer to cater for the "treat occasion". The UK is getting older, and with that the likelihood of the "treat mentality" to grow is increasing.

World Lager and Craft Beer will be the driving forces in the beer world for the foreseeable future. Understand what level of premium will work for you and engage with your customers.

Consider ranging No & Low Alcohol Beers in your fridge. They will continue to be launched and consumers' perception of the category will improve. It is time to look beyond the expected no alcohol offerings for something a bit more indulgent.

Think about how you can support local, respect the environment and work sustainably – and how you portray that. Sustainable living is a hot topic amongst younger drinkers. They will expect brands and venues alike to care.

Category merging may have had some unsuccessful attempts in the past, but the interesting nature of it will appeal to a new breed of drinkers.

The Eating & Drinking out scene is an essential part of the UK's personality, and the only way to keep it going in the right direction is by offering consumers the best possible experience.

Throughout the report we have included key recommendations that should help you with this whilst also helping the beer category to thrive in a challenging market.

We hope that you have found these recommendations and the report insightful, relevant and useful. If you have any queries on the Marston's Beer Report 2018, please contact:

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