

THINKING BIG

Brands and breweries can get lost in the ever-changing fortunes of a multinational brewer, and that's arguably been true of Tennent's Caledonian, until recently a far-flung outpost of A-B InBev's global empire. Today, under the ownership of C&C Group, this historic brewery is being invested in once again, and resuming its leadership role in the Scottish industry. Report by editor *Larry Nelson*

Hugh Tennent. Heard of him? Thought not, and you're not alone in this oversight.

Tennent's considerable claim to fame is as a forerunner in the introduction of lager to Britain. In 1884 young Hugh was abroad on the continent, a 21 year-old encountering amongst other exotica a light, sparkling drink in Bavaria. Excited by the refreshing qualities of lager by 1885 Tennent's was being brewed on the Wellpark site in Glasgow; five years later a specially built lager brewery had begun production.

Alas, tragedy struck. Hugh Tennent did not live to see the first brew, succumbing at age 26 to ill health that was said to have dogged him throughout his life. With his death, the Tennent's business left family hands for good.

Fast forward more than a century to 2009, when then owner A-B InBev, looking to pare down debt accumulated from the Anheuser-Busch transaction, sold Tennent's, Wellpark Brewery, and production and distribution rights to a handful of its brands in Scotland, Northern Ireland and the Republic of Ireland. Enter C&C Group of Dublin, who handed over £180 million for the assets.

C&C might not be any more familiar than Hugh Tennent to the brewing community at large. At heart it's a cider maker, one famed for injecting new life into the British market in the mid-noughties by suggesting that its leading brand, Magners be served over ice.

The sudden success of this seemingly simple serving suggestion attracted competitors, whose responses drove down Magners market share and in turn C&C's share price, dropping it well below its floatation price. Enter then a trio of well-known – and recently unemployed – ex-Scottish & Newcastle executives, with S&N chief executive John Dunsmore and chief operating officer Stephen Glancey assuming identical roles at C&C, joined by a third S&N leading light, Kenny Neison, as strategy director.

The remit was to turn the business around, which they did in short order, divesting a spirits business while at the same time adding Tennent's and a second British cider maker, Gaymer's. Magners is, at least for now, returned to growth.

According to Glancey, who spoke to *Brewers' Guardian* at the beginning of May in Glasgow, Magners is the number one concern for C&C, with the Tennent's business and its routes



to market providing a springboard to make Magners Scotland's leading cider.

"To be honest, the issue was Magners and it will always be Magners," he says. "What we've done in the three years, through the acquisitions and the disposal, is firstly reinforced an existing business – and the Tennent's business is a good business.

"We think we can get Magners to number one cider in Scotland, that's the plan. But we can only do that if we continue to invest in the Tennent's brand and keep it strong and exploit any opportunities that come from that."

Nothing so simple

Tennent's and Wellpark are central to C&C's strategy, as evidenced by recent capital investment totalling £12 million in company-wide IT



Stephen Glancey: continued investment and exploiting opportunities - key to brand success

systems and new glycol cooling jackets for Wellpark's tank farm. There's more – investments in advertising, sports and music sponsorships, plus the creation of a training academy for the on-trade all suggest a commitment to the well-being of both the brand portfolio and the brewery itself.

C&C's commitment to its assets is in contrast to A-B InBev, when then Interbrew acquiring Tennent's and Wellpark as part of the messy Bass-Whitbread split at the onset of the new millennium. Glancey says A-B InBev treated its Scottish business as "an unloved asset" that was underinvested.

"In effect they were taking cash out of it, not necessarily wrongly because you take cash out of Scotland and invest it in Brazil or South America and the returns are better," Glancey explains.

"And equally even within that it was being run

sub-optimally for Scotland, optimally maybe for InBev so it meant that some of the deals, some of the things that happened in Scotland weren't necessarily good for the Tennent's business but weren't bad necessarily for the A-B InBev business."

What C&C acquired for its cash was, first and foremost, Scotland's leading beer brand. Tennent's, a 4% abv mainstream lager, boasts 72% distribution in the on-trade and an impressive 42% share – Glancey estimates that Tennent's outsells its nearest rival by a five-to-one margin.

The initial response might well be that C&C bought too near the top of the market but you'd be wrong. There are both threats to address and opportunities to seize.

Glancey says, "We underperform in the off-trade, in the supermarket sector. In fairness you are competing against Carling, InBev, etc, so it's a

bit tougher. But we under-compete there, so there are opportunities, we believe, in the off-trade, we still think there are opportunities in the on-trade."

The biggest challenge is attracting newcomers, the key 18-24 year-old demographic, to the brand. To that end C&C has invested in sponsorships, last year signing the two teams that really matter in the Scottish Premier League, Rangers and Celtic, to shirt sponsorships costing £1 million per team per season. (This is one of a number of sponsorships that the club's market jointly: a brand owner choosing one over the other would certainly alienate the fans of the opposite club of this heated Glaswegian 'Old Firm' rivalry.)

In addition, Tennent's is renewing its sponsorship of T in the Park, a massive summer music festival that the brand has been associated with for numerous years. It's inclusive, and speaks to the



'Martin Doogan: brewery upgrades given careful consideration with a CO₂ recovery system still on the agenda'

hopes of aspiring Scottish musicians – more than 1,000 demo tapes were submitted for a chance to perform on the T Break Stage for unsigned acts.

Tennent's has been backed last year with an above-the-line campaign, the first television campaign in several years. The ads bring to life the remarkable heritage of Hugh Tennent, taking viewers back to those heady days of discovery in 1884 and '85. The campaign returns this summer, with executions centred on music and T in the Park.

Glancey, a locally born and bred Glaswegian, confesses that he, too, wasn't familiar with the story of Tennent's, and that the heritage of the brand adds lustre for modern day drinkers.

"What we did was tell a story that people didn't know," he says. "Getting that story out there was quite important because it linked into quality.

"The saliency scores for that age group that we need to get to keep circling up. Brand recognition scores are going in the right direction, so it seems to be working."

As might be surmised, marketing spend has increased from the days of A-B InBev. Brand investment is about 11 per cent of net sales value; according to Glancey, that's effectively a doubling of spend.

There's a packaging format addition in the offing – Tennent's, a brand traditionally available on draft and in cans, is to be bottled. A used bottling line is to be installed this year at Wellpark, a £2 million investment. The desire is to offer more aspirational packaging for younger drinkers, who want to 'badge' what they're drinking.

Glancey notes, "Tennent's is just in cans. It's not very premium but having the bottling line here gives us a bit more flexibility for the off-trade and for exports. We're not as strong as we should be in the 18-24/25 [year-olds], where we're not recruiting as much as we should. A lot of that is because of the pack type."

Contributing to community

Tennent Caledonian is a city centre brewery, with a 2.4 million hectolitre capacity. It's operated on a 5/24 basis, with three shifts five days a week. The Briggs mash conversion vessel feeds into a Meura mash filter, a piece of equipment in place since 1996. There's also a Briggs externally heated wort boiler. The brew length is 1,050 hectolitres, with eight or nine brews per day.

There's a nitrogen generator in place, but no CO₂ recovery system – according to general site manager Martin Doogan, installation of a CO₂ recovery system has been examined from time-to-time, but a convincing business case has yet to be made.

The tank farm consists of 24 dedicated fermentation vessels, 16 dual purpose vessels, and 22 maturation vessels. Capacities offer flexibility - the FVs accommodate between two and three brews, the MVs one to two brews.

The brewery equipment is generally aging, but in good condition and, where needed, invested with upgraded operating systems – as with the IT system spend referenced earlier. The

KHS keg filler, rated at 750 kegs an hour, benefitted from a multi-million pound control system upgrade within the last five years, notes Doogan.

The C&C strategy is to maximise the return from the brewery, in essence to sweat the assets. There's contract brewing and packaging work underway for brewers other than the publicised A-B InBev commitments, plus private label work for supermarkets.

"Part of this business is to keep this place busy and that's good if you're a worker here, a guy who's dedicated his life," says Glancey. "The fact that you're not part of a network and there's owners out there trying to get work in that keeps you employed is actually a big deal."

So Glancey and C&C are attempting a cultural transformation, instilling a more entrepreneurial spirit akin to that with which he was familiar with at Scottish & Newcastle.

As he explains, "I think we're trying to make it more entrepreneurial. S&N punched above its weight in global brewing and it shouldn't have as a small company. We grew relationships, enterprise, working really hard, we clawed our way to a position that we shouldn't have got to.

"If I'm being honest here, the A-B InBev culture was much more command and control – here's what you do. It was very cost focused. And that's going to be undone; it's going to take while."

Glancey's sentiments are echoed by Doogan, who has worked for more than 20 years at Tennent Caledonian. He recalls that during the A-B InBev era, "people felt that you could see the writing on the wall in terms of the Tennent's brand. So for somebody to basically look out for the brand and look to invest longer-term is appreciated by us."

This culture change extends beyond the brewery itself and into the community at large. In the last year, at a cost of £1 million, the Tennent's Training Academy has come to life. Workers in the Scottish on-trade come to Wellpark to acquire new skills. The facility has a full kitchen with 12 work stations, a wine room for tastings, health & safety training facilities – in short, everything necessary for people to learn the trade.

The academy is run as a not-for-profit operation. While it'd be a bonus if the skills derived improves the quality of Tennent's service in the on-trade, to hope for such an outcome is to miss the purpose of the academy. Or purposes, which according to Glancey are two-fold: "One is to show that we're back, investing in the trade. Two is to actually give retailers more hospitality skills to bar staff."

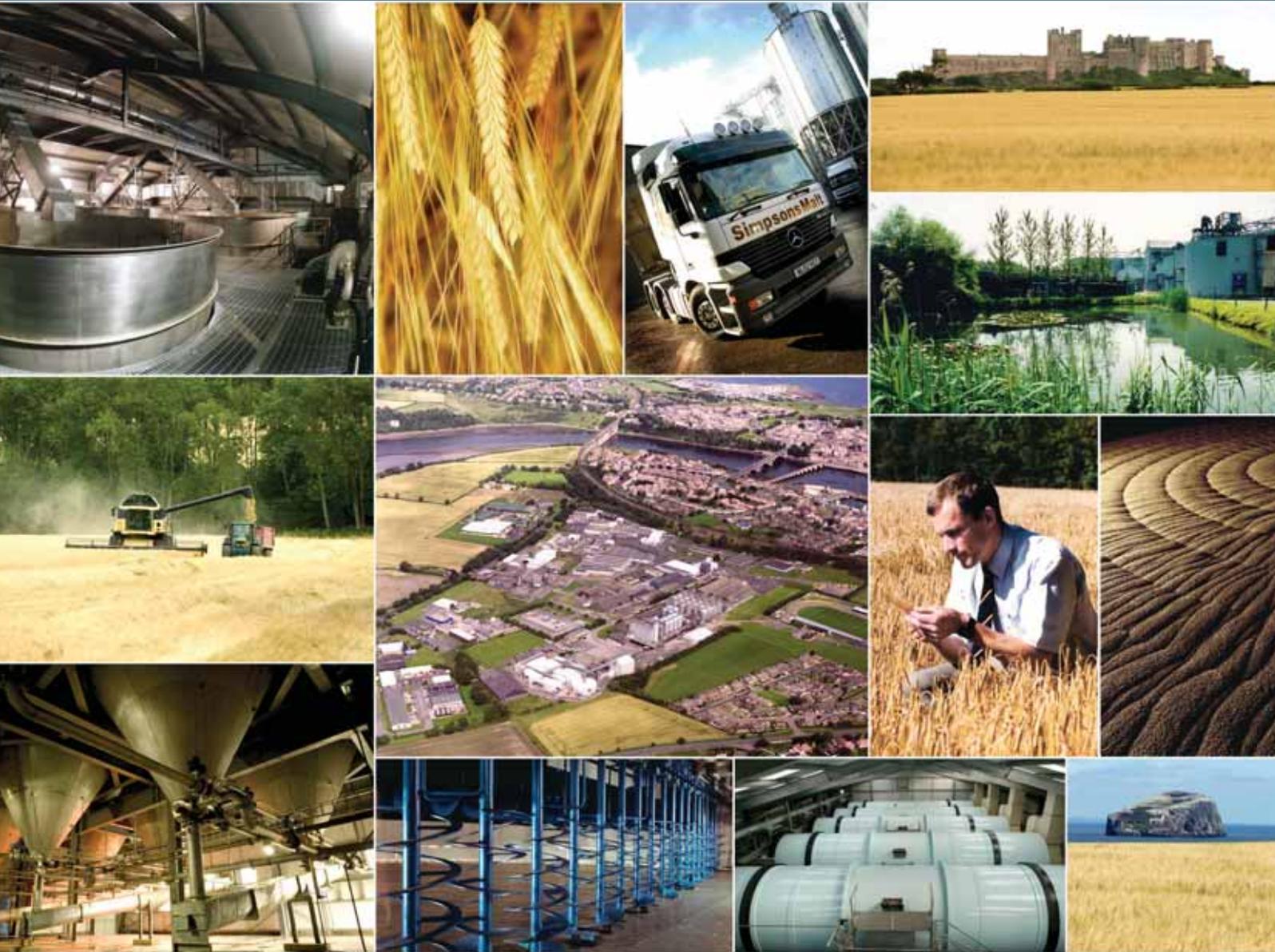
Future outcomes

There's no thought on the part of the former brain trust of Scottish & Newcastle to treat Tennent's as the first plank in building a brewing



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“We’re lucky because its lager, and fundamentally attractive to new entrants, kids coming through, and it’s sweet, which suits the Scottish palate”

Stephen Glancey, chief operating officer, C&C Group



Playing to a younger audience: a double goal with Scottish Premier League, Rangers and Celtic sponsorships; a heritage discovery with the young Hugh Tennent; and celebrating T in the Park

empire under C&C’s roof, no mad plan to create a latter-day ‘Scottish & Dublin.’ Glancey laughs heartily at the suggestion – “We’re realistic about Tennent’s,” he says. “It’s not going to get much further out in the markets.”

Tennent’s is a bit further afield than Scotland, it is also the on-trade leader in Northern Ireland, with room to grow market share. Exports are to be developed – the lager will be appearing on shelves in Canada and Australia by the end of the year. Glancey says he’ll be pleased if exports reach 100,000 hectolitres.

Tennent’s – a cared-for Tennent’s – is possibly insurmountable. Glancey, who spent 20 years at Scottish & Newcastle trying to find ways to overcome its strengths, has a unique insight when he says, “You keep investing in the brand, and it’s been invested in for the long term, then it puts you in a very, very strong position. We’re lucky because its lager, and fundamentally attractive to new entrants, kids coming through, and it’s sweet, which suits the Scottish palate.”

But Tennent’s is just a single brand, supported by some extensions such as 3.5% abv Tennent’s Special. The business has a handful of ale brands, and an improbably named Sweetheart Stout, a 2% abv lightweight.

As a sustainable business there’s a need recognised to broaden the brand portfolio yet Glancey shows no enthusiasm for the existing propositions. Surprisingly, ales are in growth in Scotland, with volumes up an estimated five per cent in the last year. Belhaven, a Scottish brewery owned by Greene King, has the market “stitched up for the moment.”

Glancey is well aware of the industry trend at the moment, of national brewers buying craft producers, as with Molson Coors’ recent bid of Sharp’s Brewery in Cornwall and, before then, S&N’s acquisition of the Caledonian business in Glasgow, now proudly part of the Heineken empire. It is food for thought, certainly; an acquisition hasn’t been ruled out.

“If you think what we did at S&N was we bought Caledonian and took Deuchars [IPA] to a bigger market and we’d like to do that,” says Glancey. “But whether we create it – do it yourself – or you can do it with somebody else, you can buy somebody else out. We’re small enough that we can buy a business and leave it alone.

Molson Coors doing it, I’m not sure about, but we’re small enough we could do that. We’ll see.”

Interestingly, there are one or two products in market trial at the moment. And Glancey is considering another possibility, of starting from scratch, going greenfield. Building a “small brewery” is a possibility.

Launching a no-alcohol Tennent’s extension is under consideration – within the last six months product has been shipped to the continent to be de-alcoholised. Glancey notes that C&C was one of the few producers in Scotland to support recent government proposals to introduce minimum pricing, and that it’s likely to become a political reality now that a majority government has been elected.

“In terms of the social responsibility argument, we completely get it,” he explains. “We would argue, quite strongly, that the brewer’s going to have to have everything in their range from zero per cent non-alcoholic beer up to four or five [per cent] and the days of super-strength stuff are over.”

There is a Tennent’s Super, a 9% abv strong beer, but it remains under A-B InBev ownership. C&C wasn’t interested in acquiring it, says Glancey.

Supply chain security is an issue for brewers worldwide, and no less so for those based in Scotland. C&C Group has fared better than most, last year signing a three-year supply deal with Simpsons to supply solely Scottish-grown malting barley. (C&C’s input costs are generally flat, an achievement in these inflationary times.)

“When everybody else was doing short-term stuff we’ve put in a long-term arrangement,” notes Glancey. “It’s the right thing for us because if you’re a farmer in Scotland you’ve got lots of things you can grow, and you can sell barley to the whisky companies. So we’ve got a group of no more than 25 farmers who are growing Tennent’s barley for us. Those are quite important relationships.”

In fact, Glancey muses that one day C&C Group might look to acquire farmland to ensure supply chain security. “Because we’re small we can come up with daft ideas but if you take a 20-year view there’s going to be a big issue for the brewing sector.”

Small? Only in relative turnover terms – Tennent’s is big in Scotland and long on ideas, some already achieved as with the establishment of training academy and shoring up Tennent’s trio of lager, sport and music. Others are to come – non-alcoholic beers, a re-entry into the ale market, and possibly a greenfield microbrewery. There’s no shortage of blue sky thinking, a mindset which Hugh Tennent would surely approve of. 