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Employee Relations Consequences of Ownership and Structural Changes in the UK Brewing and Public House Retailing Sectors

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This paper looks first at the sweeping changes that have taken place in the beer and pub retailing sectors over the last ten years. This has involved major restructuring and ownership changes after a series of mergers and acquisitions, connected to innovatory activity regarding the way in which pubs are valued, and presented to the public. These new approaches to valuing pubs and entering the market are explained. The paper, based on over 120 interviews over a three month period, then examines the impact these changes have had on the people involved and their responses. In particular, it considers the effect on senior managers, pub managers and bar staff in two public house retailing companies following a major acquisition by a foreign-owned financial services sector company.

Industry background

The structure of the UK Beer Industry at the end of the 1980s was largely one of vertical integration (see Crompton, 1998). Five of the "Big 6" brewing companies of Bass plc, Scottish and Newcastle Breweries, Courage, Allied and Whitbread were responsible for the entire process from buying the barley and hops, brewing the beer, distributing it to the pubs and finally selling the beer to the customer. They controlled over 70 percent of the pub retailing market place with their huge estates of managed and tenanted pubs as well as their indirect control through Free Trade Loan and Grants. (Guinness was, and remains, the exception, with no pubs.) For example, in the late 1980s Bass owned c.7500 pubs and had a Free Trade Loan portfolio of hundreds of millions of pounds. They also enjoyed 20 percent of the UK beer market.

Following a report by the Monopolies and Mergers Commission (MMC), published in 1989, the Government introduced the "Department of Trade and Industry Beer Orders". These stated that any brewer owning more that 2,000 on-licensed premises (hotels, bars and pubs) had (before November 1992) either to stop brewing or sell, or lease free from any tie, half of the pubs they owned above the 2,000 limit the DTI imposed.

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The immediate effect was dramatic for the large Brewers (see Preece, Steven and Steven, 1999; Preece, Steven and Steven, 2002; Millns, 1998; Gourvish and Wilson, 1994). They had to decide whether to remain in brewing, their core business, or to dispose of large numbers of their pubs. Bass, for example, decided at that time to remain in brewing and therefore had to reduce its estate by 2,680 pubs in less than two years. Thousands of pubs were also put on the market by the other national brewers. All of these were bought by individuals, small companies and large pub retailing chains, and it was at this time that companies such as Enterprise Inns and Wetherspoons were formed. Pub retailing emerged as a sector in its own right. Not all brewers decided to remain in brewing, however, and some of the breweries were also sold.

As they reorganized their businesses some of the brewers took the opportunity to think again about contracts and conditions of service. Bass, for example, developed "The New Deal", a highly individual contract with increased pay combined with the de-recognition of trade unions for collective bargaining purposes, although the unions were allowed to retain representational rights. Derecognition was easily attained for union power had been substantially diminished in the sector by sub-contracting distribution. The old powerful alliance between general union draymen and white collar staff had lost its industrial muscle. Pub managers and their staff no longer had a collective voice at a negotiating table at a time of great change in ways of working.

Times were turbulent, but after the 1992 deadline the organizations focused on in-company change as they adapted to their new structures. There then came a short period of consolidation in the mid to late 1990s, in which the brewers and pub retailers reviewed their strategies for the future. This comparative lull on the industry front was followed by another period of intense activity and complex maneuvering as the major players realigned themselves in keeping with where they now saw their core business. Scottish and Newcastle Breweries decided that branded outlets was the way forward in the pub sector, but wanted to maintain a brewing operation. Whitbread also opted for branded retailing, but in this instance, decided to put the Beer Company up for sale. In addition it formed the Whitbread Pub and Bar Company from its unbranded pubs and although the "For Sale" sign did not go up immediately, none of the pub managers or bar staff had any doubts that they were being operated for eventual disposal as non core operations. The following list summarises the restructuring in the industry since 1997 as the key players repositioned themselves for the new millennium.

- Allied Domeq (formerly Allied Breweries) disposed of their entire managed and leased estate of circa 3000 pubs to Bass and Punch Taverns

- Carlsberg Tetley sold its Burton Brewery to Bass Brewers

- Bass plc, now renamed Six Continents Retail plc, disposed of its entire Brewing division to Interbrew of Belgium

- Bass plc disposed of 1,000 managed community pubs to Nomura, the Japanese Bank
- Bass plc disposed of the Bass Lease Company of circa 1600 leased pubs
- Greenall Whitley disposed of its community pub estate
- Scottish and Newcastle Breweries disposed of 658 community pubs to Nomura and another tranche to the Royal Bank of Scotland
- Whitbread plc disposed of its Brewing division to Interbrew
- Whitbread plc disposed of its Pubs and Bars Company, managed and leased, to Morgan Grenfell Private Equity, part of Deutsche Bank
- Whitbread disposed of its Swallow Inns Estate to Enterprise Inns
- Enterprise Inns acquired 429 pubs from The Laurel Pub Company
- Wolverhampton and Dudley Breweries acquired Marstons, the brewers of Pedigree Ale and by the narrowest of margins survived a takeover bid from the Pubmaster group
- The Secretary of State at the Department of Trade and Industry prior to the last election said that the Interbrew acquisition of Bass Brewers was not in the public interest, only to have his decision refuted by the Courts. The new Cabinet Minister has said she approves of the deal if the new company disposes of the Carling and Caffreys Brand.

These changes transformed both the beer supply and pub retailing sides of the business and created continuing turbulence in the working lives of thousands.

An analysis of the present structure of the beer industry reveals that there are now five main players who account for approximately 85 percent of UK beer production –

- Scottish Courage plc, the last of the UK's large vertically integrated breweries and pubs businesses, with breweries in Tadcaster, Edinburgh, Manchester, Reading and Newcastle. They acquired Kronenbourg (the largest lager brewery in France) in 2000, and also brew or distribute a range of other brands which are sold in the company's pub retailing business, where public house branding, as with beer brands, is seen as the way ahead. In 2001 the company disposed of c. 650 non-branded pubs to Nomura. In June 2001 the Executive Chairman restated their strategy of operating only large and branded retail outlets in the pub sector and continuing to brew and distribute beer.

- The Belgian Brewer Interbrew, which acquired the brewery businesses of Whitbread and Bass (subject to EEC/UK government ratification) in 2000. Interbrew was already very successful in the UK beer market with the No. 1 premium lager, Stella, but this had been brewed in the UK for them under license by Whitbread.

- Carlsberg-Tetley, itself a product in the mid-1990s of the Allied Domeq disposal of Tetley and the latter's subsequent merger with the brewing operation of Carlsberg, the UK arm of United Breweries of Copenhagen. The company has two key brands: Tetley in the ale sector and Carlsberg in the standard and premium lager segments.

- The Guinness Group, which with its Harp Lager subsidiary and market dominance in the stout sector commands some 10 percent of all UK beer sales in public houses.
- The American giant Anheuser-Busch who purchased the former Watneys Brewery in London where they make and sell the market leading brand in the Premium Packaged Lager Sector – Budweiser.

The new structure of the industry is shown in Table 1.

Table 1: Principal suppliers and buyers in the UK "beer business"

	No. of Companies	Share of Beer market	Producers/ retailers	Pubs	% of Total
National Brewers	5	85%	S&NB	1,850	3%
Local Brewers (1)	45	13%	41	c8,500	14%
Micro Brewers	298	2%		-	
Pub Companies (more than 25 pubs) (2)	75	-		31,000	51%
Free Traders	-	-		19,000	32%

Source: Brewers' Society, British Pub Associations, Home Office, estimates.

(1) Regional/Local Breweries include Greene King, Wolverhampton and Dudley, Burtonwood, Fullers, Everards, Batemans, etc.

(2) Pub Companies would include Punch, Wetherspoons, Pubmaster, Enterprise, Laurel, Regent Inns, etc, and include managed houses and tenanted/ lease operations.

The move from vertical integration has changed the names of the beer suppliers, but left the new "Big 5" with 85 percent of the beer production and only three percent of the pubs, all of which belong to S&NB. Regional Brewers own some 8,500 pubs, about 15 percent of all UK pubs, ranging from Burtonwood with 415 outlets to Greene King with 1,658. The total UK beer market has declined by 18 percent since the peak year of 1978/9 when over 42 million barrels were produced. This, coupled with the ale to lager swing (now 64 percent lager to 36 percent ale) has resulted in 36 breweries being closed, including 19 in the last four years with resultant job losses.

Table 2: Pub ownership from the beer orders to the present day

	1989/90	2001
National Brewers Estate	34,000	1,850 (S&NB)
Regional Brewers Estate	11,000	8,500
Pub Company Estates	1,000	31,000

Source: Retail Committee Brewers' Society and British Pub Associations, estimates.

Let us now turn to the public house retailers, for if there has been a transformation in the organization and ownership of beer supply, there has been a revolution here:

- Allied Domeq has disposed of all its pubs
- Bass (now renamed Six Continents plc) has only 2000
- Scottish and Newcastle Breweries Ltd has 1850
- Whitbread has sold 3000 and kept only its restaurants and other branded outlets
- Wetherspoons has grown from 3 to 575 managed houses in 10 years
- Nomura, a Japanese Investment House is Britain's biggest pub owner with 6,500
- Punch owns 4,200 leased pubs and 1,000 managed houses
- Laurel Pub Company owns 2,500
- Enterprise Inns owns 3,500
- Greene King owns 1,658
- Pubmaster owns 2,000.

The trend towards branding, especially in the managed estates, continues to gather momentum, as does the conversion of community managed houses to tenancies or leases. The brewers have either disposed of or churned their managed estates away from community-based businesses to "High Street"outlets or restaurant operations or lodges. The consequential disposal of their old community and tenanted estate has produced in its wake a plethora of pub retailing companies which are largely lease businesses and who see themselves as landlords and, in some cases, wholesale beer suppliers. The days of the managed house as the "shop window of the brewery" have long since gone (Preece et al, 1999). Table 3 summarises the present position.

Table 3: Ownership of UK pubs

Type of Outlet	Total number of outlets	percent of all pubs
Brewery Managed	4,500	7.5%
Brewery Leased/tenanted	5,900	10%
Pub Company managed	9,320	15.5%
Pub Company leased/tenanted	22,000	36.5%
Free Trade Pubs	18,400	30.5%
Total	60,120	100%

Source: Brewers' Society Retail Committee and British Pub Associations, estimates

This organizational transformation of pub retailing has, to a significant extent, been achieved by (i) a financial transformation of the sector into substantial lease-based companies, led by Guy Hands of Nomura and (ii) the creation of new managed house pub retailing groups, led by Tim Martin of Wetherspoons. How has this come about?

Hands is the UK CEO of the Nomura Equity Investment arm called "The Principal Finance Group". His acquisition and change strategy was founded upon the principal that, if the pub businesses of the brewers were nothing else, they were excellent generators of cash. Cash, and the near certainty of cash flows from rent (little risk) and beer sales (slightly greater risk, but a pub with no beer cannot operate), and the subsequent payment by the lessee for the wholesale supply of beer is likely to be forthcoming, otherwise the tenant will get no more beer. The near certainty of these cash flows, as measured by Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA), meant that Nomura had a new way of valuing pubs. The old "site and bricks and mortar" plus annual barrellage conventional method produced one figure, let us say £400k, whereas notionally capitalising the "certain" cash flows would produce a higher figure, say £440k, and Hands and Nomura were successful in several pub-buying deals using this methodology, to the extent that they are now the UK's largest public house owning group.

The financial strategy involves, briefly, borrowing money on a short- term basis to acquire the pubs, and then (through a process called "securitisation") converting these loans into less costly medium and long term instruments, as and when the estate confirms its EBITDA potential, and therefore, the diminution of risk which longer term lenders require to securitise the debt. In essence, securitisation is a process whereby future cash flows from the firm's asset base, such as rental income from pubs, are used as financial backing for investment bonds on international bonds markets. As these longer term debts replace more expensive short term ones, they in turn help generate additional cash balances for further acquisition. Thus the potential exists to move ever onwards and upwards in a pub- hungry spiral.

In the wake of this financial revolutionary's contribution to the transformation of the UK pub retailing sector, several start-up companies have successfully embraced his financial methodology, also starting up, developing and growing lease-based pub retailing businesses.

In part redressing the balance has been the second "entrepreneurial hero" - Tim Martin of Wetherspoons. Martin is a lawyer by training and started his pub company over ten years ago with the acquisition of one pub in north London. He now controls a business which has over 530 managed pubs spread throughout the UK with a turnover approaching £500 million and profits of £44+ million, projected to grow by at least another 500 over the next five year. Wetherspoons gathered together very effective pub acquisition and liquor licensing teams. The company was and is prepared to take any initial rejection of a licence application in a magistrate's court to the next level up, and, faced with potentially damaging higher court costs, many a local licensing bench opted for removing their objections. They negotiated favourable deals with major brewers such as Scottish Courage to supply them with well known branded beers and with several regional brewers to give them an attractive range of cask conditioned ales. They also pioneered major in-pub beer festivals, theme nights, student nights, curry nights, beer and burger offers and so on.

In churning their estate over a number of years, the brewers have come to now possess a portfolio of high street city/town bars and key location food-led destination outlets such that with the exception of well-established privately-owned free houses, the best pubs are controlled by a few corporate giants. This ever-increasing buying power and monopolistic presence is a powerful threat to the hitherto near-monopoly power of the major brewers such as Interbrew, Carlsberg/Tetley and Guinness. These influential monopolistic and controlling presences can be traced back to a government intervention that was fundamentally flawed. The intent of the 1989 "Beer Orders" was to remove a complex monopoly rooted in vertical integration-the result has been the growth and development of oligopolistic/monopolistic presence in both the supply and retailing of beer through public houses. What is going on inside these new public house retailing companies and, in particular, how is the management of staff handled, and how does this differ from under the ancient regime?

Laurel Pub Company Ltd.: a case study of one of the key players in the new public house retailing sector

Our case study focuses on one of the most recent acquisitions in the pub retailing sector, from which was created a new company – Laurel Pub Company Ltd which at October 29, 2001 had around 2,500 pubs, consisting of c.1,870 leased and c.625 managed houses. We will focus here upon the establishment of the organization, the early employee resourcing and relations issues faced by the company, how management addressed them, and the implications for staff.

Morgan Grenfell Private Equity, a subsidiary of Deutche Bank, purchased the 3,000 pubs owned by the Whitbread Pubs and Bars division for £1.6 billion in May, 2001. These comprised approximately 1,300 managed houses and 1,700 leased pubs. In March, Morgan Grenfell had announced that Ian Payne (previously the MD of Ladbroke Casinos and a former Director of Bass Taverns) had been appointed the CEO of the new business. Payne had been working with Morgan Grenfell executives and the incumbent Whitbread Management team to develop a strategic overview and operational plans for the new business. In the interim period between acceptance by Whitbread of the Morgan Grenfell offer and the deal becoming unconditional on the 15th of May 2001 detailed plans, proposals and arrangements were put in place with most of the work under the interim management arrangements being carried out by Whitbread- employed directors and managers, all of whom did not know at the time whether they would get a job in the new company, especially as within two weeks 429 pubs were sold to Enterprise Inns. As soon as Morgan Grenfell became the preferred bidder, the CEO-designate Ian Payne began to recruit his senior management team. Some posts were filled by current staff, others through outside recruitment. Given also that there were to be considerably fewer jobs in the new company, this meant that a significant minority of managers and staff specialists would be out of a job. The first effect of the acquisition for senior managers and support staff, therefore, was the uncertainty created by the knowledge of imminent job losses and the consequent demotivation. Thus, a key question for Payne was how could they be motivated to continue delivering sales, volumes and profits for Morgan Grenfell once they knew this? The answer was simple- make failure to do so hugely expensive to them in terms of their final separation arrangements with the parent company.

The separation terms, even by the relatively generous standards of the beer business, were quite exceptional, and were way above any entitlements under statutory redundancy legislation. They were "just bought off", as a Board member observed. He added *"There is a kind of resurgence of pride in what you do based on – we'll show these bastards– trying to deliver exceptional results with a sword of Damacles hanging over your head"*. And deliver they did. In the interim period from Morgan Grenfell's announcement to the Laurel Pub Company "taking over the keys" of the business, the Whitbread management team delivered results ahead of budget and ahead of the previous year. In our interviews a range of views was offered as to why this was happening:

> Our bosses are so busy chasing around trying to tidy their desks, getting in formation for the new bosses and trying to sort out jobs that they are leaving us alone. And you know when they leave us alone, we usually get on with it!
>
> You have got to try and deliver 'cos they might be thinking about transferring us to lease, and I don't want a lease.
>
> We are good managers, you know. All we need is a bit of investment and we'll be OK. Just give us a chance - that's all I ask of Ian Payne.

It is worth adding that the business was also helped during this time by some excellent weather and several major sporting events which were shown on TVs in the pubs.

The new Board were determined that when they took over on May 15th there would not be an operations management team vacuum: every pub manager must know what was to happen to their pub and who was to be their immediate boss and boss's boss, i.e. Operations Director. Given the timescales involved, this meant that it was impossible for the Laurel Pub Company, as far as its new operations management team was concerned, to satisfy the consultation obligations of the UK Employment Rights legislation. Given that a significant proportion of the managerial workforce was to find their jobs redundant, the company had a duty to consult all interested parties over the preceding 30 days prior to making any irrevocable decisions. If, however, the process were to go ahead without complying with the consultation time-scales, then the company would have to reach individual settlements with the managers concerned about the loss of their jobs. In other words, the company would have to "compromise them out". Compromise Agreements, involving cash payments substantially in excess of statutory or contractual obligations, are commonplace in such circumstances. The CEO's view was that this would have to be embraced if the tight time-scales were to be attained.

Table 4: Job changes resulting from the organisational restructuring

	Directors		Senior Managers		Middle Managers		Managers		Support staff		Totals	
	W	L	W	L	W	L	W	L	W	L	W	L
					1	1	23	4	22	26	48	31
Board Support	9	6							3	2	12	8
IT			4	1	10	7	7	3	30	22	52	33
Marketing/ Commercial	4	2	9	7	24	18	5	9	14	9	57	45
Property	1	0	9	8	38	28	15	15	18	17	85	68
Finance	1	0	7	4	14	111/2	5	8	16	11	43	341/2
HR	1	1	5	2	11	11	7	5	16	9	41	28
Managed Houses	1	0	11	5	81	36	14	2	14	4	121	47
Lease			4	6	53	43	1	1	9	16	67	66
Total	17	9	50	33	232	1541/2	77	47	142	116	522	3601/2

Source: Company data

KEY. W = Whitbread, L = Laurel

For the remaining jobs a rigorous selection process was undertaken using assessment of the last three years' performance data; assessment of managerial potential as reported in the annual appraisal; assessment of managerial competence and potential as measured by the findings of management development assessment centers for managers; numerical reasoning and verbal reasoning aptitude data; occupational personality questionnaire expert report findings and a criterion-based interview conducted by a consultant. The criteria to be used in the interviews were outlined in advance. These were: commercial awareness; organizational understanding; motivation and team building. Detailed notes were taken of respondents' answers. These were then compared with their colleagues' views, as well as those of their subordinates, obtained in separate confidential discussions. These managers recognized that they were being interviewed for their own jobs, and nobody underestimated the importance of the process. The organizational restructuring and consequent changes in the nature and number of jobs are conveniently summarized in Table 4.

The leased estate of the Laurel Pub Company has been left largely intact, but with a growth in the number of Board members, senior and middle managers. There have also been no significant changes here in employee relations terms. There are a number of reasons for this, not least that this part of the business was performing well on acquisition. However, the representative comments below of leasees illustrate how they feel powerless as both individuals and a group to influence senior and middle management decisions, recognizing that they are now "mere cogs" in highly powered and geared financial and property milieux:

> "Well at least it's a German Bank and not a Japanese one – but what do they know about pubs in Liverpool?"
>
> "I used to be proud to work for Whitbread for 20 years, now we have nothing."
>
> "It's all just Mickey Mouse numbers. How can they pay £1.6 billion for us?"
>
> "What can we do about it – nothing!"
>
> "We are just commodities to be bought and sold. I thought we were going to Morgan Grenfell, then I was told it was Deutche Bank; now my pub's going to Enterprise – at least I think so."

The majority of the concerns expressed, however, related to what would happen when their leases came up for renewal.

Whilst the lease aspect of the new business saw little change, the managed house estate was now living in turbulent times. The Whitbread Pub Company had gone strongly down the route of brands and concepts and this had produced in its wake Brand Managers, Supporting Brand Managers, Brand Assistants and Marketing Analysts, amounting in itself to over 50 support staff jobs. This meant that from an operations management perspective, there was a good deal of marketing "interference" in operations and vice versa. Senior management had attempted to resolve this through creating a matrix structure: it was an organizational mess, and the pubs and pub managers suffered the consequences. Matrix management may work in complex multinationals operating across several continents with a limited range of products and/or services (see Child, 1984), but in the world of UK pub retailing it proved an organizational nightmare. The pub managers we interviewed spoke of the resulting uncertainty, contradictions and "not knowing who to listen to". The organizational restructuring resulted in the creation of three strategic business units led by an Operational Director, and each of them was allocated one marketing manager and one catering advisor. The rest of the jobs in the marketing function were redundant. In this instance, because of the more relaxed timescales, the company went through due process, gave the required notices, and therefore did not have to "compromise out" any of these staff. Apart from the six people who still had a job, most of the senior marketing teams opted for voluntary redundancy faced with the attractive terms on offer, whilst the remainder were made redundant. None of them was a member of a trade union, and in no case was there representation by a union official. Table 4 summarises the changes in staffing.

In the event, Marketing did not loose as many jobs as originally anticipated, for it gained some purchasing and commercial jobs from a Whitbread Head Office Team. But overall there were substantial job losses and, as it happens, they somewhat mirrored the reduction in the total number of managed houses.

For the pub managers and their staff the effect of the acquisition was felt most keenly by those whose managed house pubs were sold to lease companies. At a stroke they went from permanent pensionable employment with a large company to the uncertainty of self-employment – always assuming they were able to afford the lease and wanted to become leaseholders. In this instance, however, Laurel implemented a training and development programme for Pub Managers acquiring leases for the first time so that they were able to move more easily into self-employment and leasehold management. On the other hand on a more general level large managed house companies offer training and development for career progression. For pub managers this means the opportunity to move to large pubs or pubs in a different brand, to gain promotion to area or regional positions or, indeed, to move into other parts of the organization. For part-time bar staff a career ladder exists which allows some to progress to full-time pub management roles (Steven, 2000). Suddenly these opportunities were swept away.

Conclusion

In the last ten years the brewing and pub retailing sectors have been transformed and they continue to undergo substantial and far-reaching change. This transformation has by and large gone unrecorded, and little attention has been paid to the loss of pub managers' jobs in managed houses when many of these were transferred to lease operating companies. Those who have made the change have experienced the uncertainty of leaving permanent pensionable posts for the risks of self-employment and, at a lower level, bar staff, particularly those in part-time positions, typically no longer have the training opportunities and possibility to progress into full-time managerial posts – a route which has, in the past, been of particular benefit to women.

The management derecognition of trade unions in the sector and their consequent loss of power has perhaps, at least in part, come about as a result of their failure to recruit successfully in an industry where part-time workers are prevalent.

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