WORLD TELEVISION

Heineken

What's Brewing Seminar - Western Europe
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Not An Inch Back - Heineken UK

David Forde, Managing Director, Heineken UK
Good afternoon everybody. I hope you've had a pleasant lunch experience and that your taste buds have been tantalised with our beautiful beers and ciders. And if they haven't been tantalised during the lunch, the good news is there's one presentation to go which is mine, so I was after lunch, but I'm one step away from you getting back out to have a nice glass of cider or beer afterwards where I'm sure we can enjoy a little bit more conversation.

My name is David Forde. I'm the Managing Director of Heineken UK. I'm Irish and before this I ran the Irish operations and before that I've worked in Heineken for 27 years in various sales and marketing roles in Ireland, in the Netherlands, in Poland and in the UK.

What I'm going to try and do in the next 45 minutes is bring the story of Western Europe and bring our strategy, our Not An Inch Back strategy, bring it to life in the world that I live and work in the UK, and thankfully it's the world that many of you also live and work in here in London which is a critical market for us. But I think what you'll see is that it's been a tremendous journey for Heineken from the point where we acquired Scottish & Newcastle in quarter one of 2008, right up to where we find ourselves today and I just want to take you through that story.

Well if you look at our business in the UK, it's a very simple business. We're a beer and cider operator. We're number one in the market in both beer and in cider. We have two large beer manufacturing sites in Tadcaster and in Manchester. We have a cidery, a large cidery in Hereford and a secondary cidery plant in Ledbury, that's primarily a cider mill. We do most of the milling of our apples. And then we have a small brewery, a craft brewery up in Edinburgh, the Caledonian brewery which produces Deuchars.

We have a number of office locations. In London we have our commercial head office. In Edinburgh we more or less have our back office now: HR, Finance, Planning. And in Livingstone, that's Livingstone I understand is the call centre capital of the UK, and there we have our call centre which looks after our on trade and off trade customers, 2000 FTEs at this moment in time in the business.

It's a large market and it's a competitive market. If you look at the alcoholic drinks market in the UK today it's at consumer pricing, consumer sales level is about £38.8bn is spent every year in the UK on alcoholic drinks. It's growing by 1% per annum. Within that beer is growing at about 1.2% per annum its value. Cider is growing by 1.7% per annum. That was what happened in 2013 and that's in the context of an excise duty reduction in beer and in cider. So actually the value being created in the category is quite strong at this moment in time and our challenge is to try and capture as much of that as is possible.

Not unusual you'll see the shift in the UK LAD from on trade to off trade. It has been structural. But there is a change and certainly you'll have seen that in some of the discussions from my colleagues earlier on today. For the first time we're really seeing a softening in the trend. I often debate is it an incident or is it a trend. But certainly what we are seeing is that the on trade is upping its game. Pubs are upping their game. New bars are opening and it is attracting more and more consumers back into the on trade which is always good for our business.

If you look also at the market and you look at the volumes, what we're also beginning to see is that LAD volumes, beer and cider volumes are stabilising in this market. And who would have thought about that. For years we've become accustomed to this thought that everything is in structural decline and we're certainly beginning to see the softening. Beer is in marginal growth this year. Cider is also continuing to grow in the market.

So certainly LAD is in a better place today than it's been for many many years in the past and that's something that gives us a lot of confidence. Also what's encouraging is that the premiumisation shift that Alexis has talked about earlier today and that FX talked about, that we're also seeing in the UK. It's continuing and we expect that it's going to continue into the future and that again we see as an enormous opportunity for Heineken UK.

You may have felt that this year it hasn't grown quite as quickly. The reason for that is the World Cup effect. It's retailers in the off trade pushing very very hard against mainstream brands. That's a typical effect we see every four years. Again that will wash out again next year. So we've a very nice market where premium is growing. It's growing at between 5% and 7% per annum and we expect that it's going to continue.

And then within that what is Heineken UK. Heineken UK is a company that has 42% market share in cider and roughly 24% market share in beer. And I know you guys know the market well. It's a fragmented market. The UK is a very competitive market. It's one of the few markets where the five big global brewers are all present. We still have a strong regional brewer base in the UK and they have about between 20% and 23% of the market with strong pub estates. So this is one of the more competitive markets in the UK, or in the world. But we find ourselves with Heineken UK with a remarkably strong position.

And we acquired that position back in 2008, quarter one of 2008 and George said David it's worthwhile just going back and giving people a sense of what that journey has been because it's been quite a complex and challenging journey for Heineken. And if I go back to 2008 quarter one we bought the business and then we experienced what you would call the perfect external storm - financial collapse. We expected you bankers to tell us about that but you didn't. Leading to an economic collapse. Leading to a devaluation of sterling versus the euro. Government imposing a smoking ban at the end of 2008 and the government making a raid on the industry with a very very draconian increases in excise duties. So a very very difficult landscape that Heineken found itself in in the middle of 2008 and entering into 2009.

A war cabinet was formed. Ronald was part of the war cabinet and they went into restructuring mode and I'm just giving you a sense of some of the things that we did. And some things were still about growth. So even in 2009 we went, in that difficult time, we went acquiring. We acquired the free trade business of Brains which is a regional brewer down in Wales.

But we also went into restructuring and cost reduction. We closed two major breweries, one in Newcastle, one in Reading. And we divested our wholesale business. 1,200 people, £600m of revenue called Waverley TBS. Now you might ask yourself the question, why in the UK are you getting out of wholesale and other markets you're staying in wholesale. In the UK it was very simple. Waverley TBS accounted for 1.5% of our volume, so it wasn't structurally delivering our volume to the market. It was primarily a wine, beer, spirits composite wholesaler.

Also we had no issue in accessing any pub, any bar, any off-licence in the country with our own route to market and mainly going direct. We didn't need the wholesale channel. So in the UK we divested Waverley and we moved on then in 2011 and we acquired a pub estate which we now call Star Pubs & Bars that we were managing on behalf of large investors. We acquired that business and we started the whole process of turning that pub estate around.

And then in 2012 we also acquired our Desperados brand bank from SHS Group drinks and beverages company because we felt that that was enormous opportunity for the Desperados brand which was quite small at the time to build that in the UK.

So a huge amount of change in the business and that led to a turnaround in the financial performance of the company. We returned the business to what I would call an acceptable profit level both in terms of absolute profit level and in terms of profit margins. And that's where we found ourselves at the end of 2012 and that coincided with myself coming to the UK and Alexis taking over in the role in the region Western Europe.

And then we had a very frank look at well now what do we need to do with the business in the UK. And moving from restructuring mode where to be fair we had conceded share. We conceded some competitive position in the market. To saying now what do we want to do and how are we going to build a sustainable business in the UK and that called for a change of strategy from if I simplified it cost for profit, extract cost as quickly as possible and stick it onto the bottom line; to now employing what we call the Not An Inch Back strategy, the cost for revenue approach which we're now fully deploying in the UK.

And if I look at that, the first thing we said is what do we want to be in the UK. And it sounds very simple but we said we want to be the undisputed leader in the beer and cider market here. There's been a lot of inertia in the market. Very little movement between the major players. We believe that we're best placed to grow our share and to grow our share structurally in the UK and put clear water between ourselves and our major competitors.

And to do that we were going to employ again something you've seen all day today, that simple growth model. Continue, despite all the restructuring that was done up until 2012. Still huge opportunity to cut cost in Heineken UK. And we said we want to go and actively extract cost. Not passively and this is what we say to our people. This is a slide that we share within the company to our 2,000 employees. We want to actively strip out cost. To reinvest behind our brands and our commercial system; to structurally grow our cider and beer share. And in the UK when you talk about structural that is taking the hard road. The easy road is increase promo pressure. You can grow your share. But it's not structural. And I come back on what that means for our business. To then deliver a sustainable top line and bottom line growth for the company. To continue to grow both lines in the business and that we believe we can do.

The first thing we had to do then is extract cost. And we're in that process of continuing to extract cost and to give you a sense of how things are moving you'll see that by the end of this year our gross margins are improving in the UK. And obviously you'll say well what are the major drivers of that gross margin improvement? A number of things. As Wiggert said on the supply side, we are restructuring our Manchester brewery, we're restructuring our Hereford brewery and that will give us a far far lower cost of goods produced.

We have restructured our off trade logistics operation. We've gone from a regional distribution configuration in the UK to opening up a national distribution centre in Derby this year and that has dramatically reduced our logistics cost to our off trade customers. We're also increasing the amount the volume we're delivering direct from our breweries and our cideries to our large customers in the off trade.

We're increasing our premium share within our portfolio. That's improving our gross margins. You will see our innovation rates. Our innovation rates in the UK are at world class levels. That's improving our gross margins. And we've employed what Wiggert referred to as CVE, Consumer Value Engineering. We've employed that across our total portfolio of brands in the market in both beer and cider to make sure that we're delivering perfect products at an affordable price for consumers, but again it has helped tremendously to improve our gross margins. That will continue.

On productivity we're structurally reducing our workforce. Rule of thumb, every year roughly 5%. Maintaining a solid revenue line base whilst continuing to reduce RFTs is something that's making a big impact on our productivity. And a lot of that is coming from dealing with as Alberto said, dealing with reducing our support costs. We have outsourced the bulk of our finance function from Edinburgh to Krakow.

What does that mean? Eight months ago we had 165 people in Edinburgh. Today we have 45. Of that 45 we have 25 new people in role. It's a fundamentally different finance function that we now have in Edinburgh, business partnering; working with commerce to drive growth in the company. All of the back office is being handled in Krakow or in India.

Also our global brands, we're no longer producing advertising for global brands in London. That's all now being done by Alexis and his team in Amsterdam. So we don't need advertising managers making ads in the UK. Purchasing, all of our pack is no longer being purchased in the UK; it's being purchased in Amsterdam. Those people are not required any more in the business. And the same in IT and in many many of our support functions and there's still more to go.

So we have a very exciting and ambitious cost reduction programme that we're going to use to then fuel the growth of the business moving forward.

And if we look at what we needed to do there; what we saw at the end of 2012 is we had an incomplete portfolio in beer and cider. We had a strong mainstream portfolio. But for certain sure our premium portfolio in beer wasn't strong enough and in cider we virtually didn't have a premium portfolio. We were over reliant on the Strongbow brand.

So the first thing we had to do was say let's build the appropriate portfolios in beer and in cider. That's going to cost. We're going to invest. We also have to build our organisation. We said if we want to win in the market we need to have a world class off trade organisation and a world class on trade organisation. We will not compromise in our cost reduction programme on the front office and I will show you some slides on what we have done with our commercial operation.

And if we can deliver that, deliver the brands with a world class organisation and then with a highly efficient supply chain, driven by the changes in Manchester and in Hereford with tremendous amount of onshoring of volume that we're currently buying from out across Europe, with a very, very strong and simplified back office structure, we then feel we're positioned to win in this market.

And if you look at that. That cost is being transferred into our A&P investment line. We've increased it in two years by 30%. All coming from cost reduction programmes and we're using that increase in A&P to fund existing brands and to fund investment in new brands. And we've translated that into what we believe is a sustainable growth model now for the business in the UK. And I started saying first ramp up the ATL and the BTL investment.

And the great thing we've enjoyed in our company in the last two years is asking the organisation to go hard at cost when they know it's going back into exciting initiatives on the portfolio, on the growth, on investing in winning in the market is a lot easier, it's a lot more exciting and you get a lot more commitment and that's what we focused on.

So we've ramped up the selling and marketing. You will see we've ramped up the scale of both our beer and cider portfolios. We have full portfolios now in both categories. We have and I will show you a record innovation rate. We talk about 6% in Heineken. We talk about 7.5% year to date. In the UK our innovation rate is 12%. What's the right level? I don't know. But I like 12. Our customers like 12. Our consumers like 12. Can we sustain it? Possibly. Our innovation funnel is locked and loaded. It's locked and loaded. We have a world class innovation machine in Heineken UK.

We're strengthening our commercial organisation. You'll see it in a second. We are the number one FMCG operator as Wiggert showed in the UK. Not number one in beverages. Not number one in beer. Number one in FMCG. It gives me great pleasure when I'm talking to the P&G guy. The former P&G guy 'cos he talks about P&G a lot. They're number nine. We're number one.

Laughter

And importantly and uniquely in Heineken UK we have a pub estate and we've chosen to focus on our pub estate and to invest in our pub estate. And why are pubs important? We've 1100 of them. They're a tremendous showcase for our brands. We are able with our portfolio to deliver about 83 to 85% of the needs of every one of our pubs in the country when it comes to beer and cider sales.

So when you walk into a Star pub you will see that broadly speaking, in some cases 100% of the beer and cider sold in that pub are our brands. And by having a pub estate of 1100 tenants who'll rent these pubs from us. They demand from us every day that our portfolio is fit for purpose. They are our most demanding customers and they are the customers that are closest to our consumer base and that keeps us fit. They tell us what's required in craft and not required in craft. They tell us what's required in modern cider or not. They tell us whether low alcohol or no alcohol is working very very quickly. They tell us what impact temperature has on volume, on waste, on serve, on cleaning.

We have a tremendous insight into the business by owning that pub estate. And that model we believe is what makes Heineken UK unique. No other competitor in the market has this model and we believe now that we really understand what it takes to drive that forward.

And if we do that then with a more commercially assertive organisation we think we can win. Both on our core and there we talk a lot about premiumisation but in this market Foster's last year became the largest lager brand in the market overtaking Carling. Strongbow is the largest cider brand in the market. John Smiths is the largest keg ale brand in the market. These are critically important for us, that we protect the core.

And one of the great ways we're protecting the core is by actively and aggressively line extending these fantastic assets and I'm going to show you some examples of that later. We're also stretching the boundaries as many of my colleagues have talked about, Desperados into late night. It's the fastest growing premium bottle beer brand in the UK for the last five years. Something like Citrus Edge from Strongbow, a citrus flavoured cider. 60% of its growth is coming from females who used to drink white wine. The pinot grigio drinker, the sauvignon blanc drinker finds Strongbow Citrus Edge hugely, hugely attractive.

It's the same with Old Mout, our New Zealand cider brand that we acquired as part of the APB acquisition. A very beautiful crafty cider brand that we've now brought to the UK. The fastest growing modern cider brand in the UK at this moment in time. And Affligem playing a fantastic role for us in high end bars, particularly in London at this moment in time.

And then we're stretching into the area of no and low alcohol with Foster's; Foster's Radler 2% alcohol and Foster's Radler 0%. But also with the Bulmers brand we've launched two variants of Bulmers, Bulmers Indian Summer and there the alcohol level is at 2%. So we're offering consumers lower alcohol cider and beer propositions.

And I'm going to show you an ad in a second and I want to come back to a question you had about does all this innovation cost a lot. And yes you have your gross margin improvement but then you also have to fuel it. It's not always the case, because particularly when your line extends existing strong brands you can reallocate your marketing from the core to the innovation. And I'm going to show you a Foster's commercial now. I'm going to show you two Foster's commercials; one for the core brand and one for Foster's Radler. And I would argue that you could replace either brand, either product type in either commercial. So both commercials do a job for the core brand and one of the commercials in particular does a fantastic job for Foster's Radler.

But they use the terrible duo Brad and Dan who have become infamous in the UK for Foster's, these advertising gurus. Foster's is the brand that wins every advertising award in the UK. We cut through like no other brand in the market and it's because of these two fantastic Australians. So if you wouldn't mind could you roll the commercial please?

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Video Played

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David Forde, Managing Director, Heineken UK
And now can we run the Radler spot?

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Video Played

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David Forde, Managing Director, Heineken UK
So I think what you see there is when you've a strong brand you can play the innovation game. You can leverage the equity but you can also build communication that works for both the core and also for the line extension.

The second thing then and this is coming back and I just want to answer the question about the advantage survey. This is the advantage survey for the on trade that I like to share with Alexis on a regular basis to show that P&G are number eight actually. But if you look at what the UK retailers, this is the UK retailers, this is their voice. UK retailers are tough. They're demanding. Asda, Tesco, Morrisons, Sainsbury, tough guys. They don't throw out petals too easily.

And what's measured is our business relationship and support, our personnel, category development support, consumer marketing support, trade and marketing promotion practices, logistics and supply chain management and customer service and support. And there you see our ranking. We're not number one in everything. There's a gap to fill. We will fill it.

But what's fantastic is we are the most respected operator in FMCG in the UK. We are a source of talent for all the other guys. But going back to the talent question, if somebody wants to work in the UK at FMCG and they say where's a great school. Heineken UK is now becoming that great school. So yes we are losing people to the

Coca Colas, to the P&Gs, to the Unilevers, to the Danones, to the Diageos. It's great. It's a compliment that they come to our company to hire people, but also we're able to attract the best talent into the business at this moment in time because our reputation commercially is so strong.

We're also premiumising our portfolio, a big strategic pillar for us. Our share of premium in cider and beer is 20% in both categories. We're under fair share. We have a 24% share in beer. We have a 42% share in cider but we've only got 20% share in premium in both beer and in cider and Alexis doesn't like that. He doesn't believe in the concept of below share. He doesn't believe even in the concept of fair share.

So we have a gap to fill and here you'll see what we're doing. All of our premium brands with the exception of Tiger in double digit growth. We have a fantastic portfolio that we have acquired recently, like Tiger from APB, like Sol that we acquired from FEMSA. And brands like Moretti or Amstel that have been around for quite a while. But we have a fantastic premium portfolio that has fantastic momentum in both the on trade and in the off trade throughout the length and breadth of the country.

But as Alexis said earlier, also cities are incredibly important to us. And in particular London, given its diversity, given its scale, given its trend setting capability, London is remarkably important. And here you see that the market for premium beers is growing at 7.5% per annum, and our portfolio is growing at above 13%. So we're winning share in premium also in London at this moment in time. And we've a very very strong city strategy with dedicated teams working in London, working in Birmingham, Manchester, Leeds and Glasgow. It's another cornerstone of our commercial approach within the business.

And if I talk about leveraging our on trade and leveraging our pubs I just want to share with you a story about a brand called Strongbow Dark Fruit. Strongbow Dark Fruit we launched in May of 2013. For those of you that drink a cider what's quite traditional in the UK is sometimes people have a cider and black. A glass of cider with a little bit of blackcurrant. What we did with Strongbow dark fruit is we just pre-packed it. Not very complicated.

Last year at retail we sold £38m worth of Strongbow Dark Fruit. It wasn't the number one innovation in cider last year. It wasn't the number one innovation in alcohol. It wasn't the number one innovation in drinks. It was the number one innovation across the total FMCG category. It has never happened with an alcohol brand. This is the first brand ever to achieve it.

And when we talk about the scale of it the revenue of Strongbow Dark Fruit was twice the revenue of all the innovations of the next 100 alcohol brands in the UK last year. A phenomenal phenomenal success. Obvious question - off trade can you make it happen in the on trade? Will people drink pints of this stuff in the on trade? In April of this year we put it into 20 pubs, 20 of our Star pubs and bars for six weeks. Every pub achieved the minimum throughput of a keg per week and over the last four months we have now installed it into 4,000 pubs and it's the fastest growing draught cider in the UK.

And I think what this shows you is our ability to innovate, to create fantastic products, to deliver them through our off trade organisation, to land the innovation launch of the year. Then to leverage our pub estate to test has this got real on trade potential. And once we said yes it has we had the resources in our budgets to say let's go big time in the on trade and we had the organisation that could rapidly take it to 4,000 outlets.

And if you look within the on trade, and again consistent with what we were showing you earlier on this morning, availability is critical for our business. Building availability of our brands across the on trade is critical. You've seen what we've been able to do in the on trade with Strongbow Dark Fruit. Visibility, Old Mout which is our New Zealand cider brand, we launched earlier this year and it won the innovation of the year from the Morning Advertiser which is the quintessential publication into the on trade in the UK and it said it's the first time ever that a brand launched in the year has one the innovation of the year. It said normally the on trade retailers talk about an innovation that came a year or two before. And it said the reason that they think it won was because it stands out so clearly in the bar. It's so visible. The point of sale, the packaging, the cut through in the fridge has been recognised as best in class.

And if you look at improving throughput I want to talk about Heineken served extra cold. This year we will install Heineken served extra cold into 1,000 outlets, primarily in the south east of the UK. It's growing share for the Heineken brand, but more importantly where we do it really well it's growing the total lager category in the outlet. By taking the temperature from six degrees down to anything between zero and two degrees consumers are enjoying it more and they're ordering that extra pint. Heineken served extra cold is simply delighting consumers.

And we're not just working above the bar. We're also working deep down in the cellar of the pub on improving our quality. And here we've launched a new dispense innovation called Smart Dispense. Again it's an integrated system that chills the beer literally from the tapping head right to the tap and takes it down again by another three to four degrees.

What has been the impact? Energy consumption in the pub reduces by about 12%. Water consumption for cleaning lines reduces by 30%. The cleaning frequency of cleaning lines moves from doing it once a week to only once a month. And the yield on a keg for our customers was up by 8%. Less waste through less frothy beer. So a better consumer experience, better quality, cooler beer and better yield for our customer and lower operating costs for our customer.

This is transformational in the on trade. It's transformational for our customers and now we're going into the next scale. We've piloted this in about 250 accounts. We're moving on to the next phase of roll out in the UK. But it's a true win win for us. And where we gain is if we can have as much volume of our brands going through our system. Some of our competitors are willing to pay a rent to us. It's a new revenue stream to be part of our technical solution which is heavily, heavily patented. But a completely new solution in the on trade.

And then if you look at our innovation rates, important for marketing we've a 20% innovation rate in cider and a 9% innovation rate in beer. And if you look at that versus the market, 12% on cider and 2% on beer. 17 products launched in 2014 and what's been utterly transformed in our business is this concept of this is complex, this is adding complexity, we talk about adding good complexity, this is good complexity. We strip out bad complexity, but offering more great brands, in more pack types, in more bars, restaurants, pubs and clubs around the UK, that's good business.

And again into 2015, 2016 and 2017 we're going to maintain that type of rate and we have the A&P funding and the commercial organisation that has the capability to deliver that into the market.

I probably don't need to talk to them all, but you see on cider, Strongbow Citrus Edge, Strongbow Dark Fruit, increasing our Bulmers range, which is the number one modern over ice cider brand in the market. We've launched Symonds Founders Reserve, which is a craft cider draught brand in the market. Old Mout, which is our world cider, competing with brands like Kopparberg and Rekorderlig. And then the beer side extending with Radlers, we're developing Sol very quickly, Heineken served extra cold and the Affligem portfolio.

We're beginning now as Heineken UK to have a very, very compelling premium portfolio in the market to support our four blockbuster mainstream brands. And again coming back to the communication, you can see by leveraging a strong brand like Bulmers, we're able to bring some of these new innovations to life. And now I'd just like to show a little VT on the Bulmers brand and how we're using that to capture new consumers and new occasions. VT please.

Video Played

David Forde, Managing Director, Heineken UK
So Bulmers is absolutely flying and the portfolio has got quite wide. And I think one of the questions I was asked today was - you know there's a lot of innovation taking place in the UK, but at the end of the day as Ronald said, you know the shelf fixture is fixed. So one of the things that we're working hard on in our business, where we want to become a lot better is in category management.

And not alone developing the capability to sell brands into retail, but also developing the capabilities to sell brands out. And also that means cutting our own tail, being brave enough when we see that brands are not rotating that you can quickly take them out of the market and bring in new brands that have more relevance. But also building the capability to sell out our competitor brands, selling out brands that don't justify their place on the bar counter, don't justify their place any more on the shelf.

And certainly the large retailers, the big four retailers are engaging rapidly in that, because they're going to have to reduce their own cost base. They've added a lot of complexity into their own business and we do see over time that winning brands, strong brands that are well supported in the market will justify their place on the shelf. But if you're not investing, you're not investing heavily and not innovating heavily behind your brands and creating value for your customer, simply those brands will drop off the shelf very, very quickly.

If we look at our results, just two metrics that I want to share with you, one is on innovation, we believe it's key and you've heard that many, many times today, it's key to our future and we think we've cracked it. We are a serial innovator in the UK, Western Europe is an innovation hub for Heineken globally and we consider the Heineken UK to be an innovation hub for Western Europe.

But also it's delivering on our share and this is our share in the off trade, where our beer market share is developing quite nicely and our cider market share has returned to growth. We took, just under the cider we took a structural choice and review about what to exit high ABV PET cider, that was Strongbow Black, that was a decision we made due to our CSR policy, we did not like what we saw in terms of the consumer profile and the type of people that were using our product. We thought it was a problem product and we chose to deliberately walk away from six share points of cider in the market because we believed it was the right thing to do for the market, for consumers, for society and for our brand.

And having made that brave decision we're now beginning to recover our position in cider again in the UK.

So in summary - the UK is important, you know that, many of you live here, it's a big market, it's a competitive market, but we are very, very well positioned to grow in that. Nobody in the UK has a model like Heineken's, nobody has the diversity of portfolio, the strength of pub operation, or the strength of supply chain that we believe we have.

We still have plenty of cost to go for and we have buckets of ideas where we can invest that cost wisely. We have a commercial organisation now that is becoming best in class, and we still believe we can make it a lot better.

Some of us talk about don't compare yourself to ducks when you want to fly with eagles, just being number one isn't good enough; we have to continuously and relentlessly get better and better and better. And if we do that we do believe that we can continue to grow in the UK, both the top line and the bottom line and to win in the market. Thank you. Questions if any.

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Questions and Answers

Sasha El Khourg, F&C Investments
I just have a question about the model, I know you talked about all the benefits from having a pub chain, but why does a vertically integrated model actually make sense in the UK because you don't have the model elsewhere in Europe I presume and does it mean that your returns in the UK are lower than the European returns?

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David Forde, Managing Director, Heineken UK

So it wasn't unusual historically for brewers across Europe to own pubs, in the Netherlands we have, in German, it's very common in Austria. It's remarkably prevalent in the UK, you see regional brewers that are forward integrated, all the big brewers were fully forward integrated until the Beer Orders, when it was mandated by government that they had to break the tie, that was subsequently rescinded which gave people the opportunity to go back again.

The first thing that's important about owning pubs in the UK is it's accepted in the trade, it's accepted that you can be a supplier and a retailer. In many markets that would not be accepted. The second thing is that you can acquire large estates in the UK, there are large estates of pubs that are available. We also have an expertise in running pubs; we know how to run pubs. And we capture the total market from the brewery right through the chain. So from a financial point of view it's an incredibly attractive piece of our business model that delivers above average returns in the UK.

So it certainly fits and in terms of our ability to understand the market, to really tap into what consumers trends are really hot it gives us a competitive advantage. And it allows us to talk to pub companies in the UK from a different perspective. If you talk to Punch, to Enterprise, to Wetherspoons, to Marston's, not just as a supplier but as a pub owner you have a fundamentally different dialogue.

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Alexis Nasard, President Western Europe & Chief Marketing Officer
If I can add a couple of points to it, the decisions, as I mentioned a little earlier all decisions related to route to market modelling are decisions we take market by market, because idiosyncrasies are very local when it gets to route to market. For all the good reasons that David highlights we choose to play in pubs in the UK, that doesn't mean that we're not choosing to play in pubs elsewhere, these are considerations that we put on the table every once in a while. And by the way today we do own a few pubs in the Netherlands and in Belgium, to be clear.

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Question
Just coming back to your comment about good complexity, I'm struck by the fact that across Europe and I guess the UK as a part of this your SKUs are up 32% in a year. we've had years of companies telling us how taking out SKUs is the right thing to do in reducing complexity, and now you're telling us the opposite. How do you measure good complexity?

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David Forde, Managing Director, Heineken UK
I think it fundamentally starts with, does it allow you to win in the market. The consumer and the customer quite often will drive your complexity. And I think what we have to do is eliminate as I said, we have to eliminate SKUs that are not winning in the market, that are not growing in the market, that we don't see a future for; but becoming better at identifying winning trends and developing solutions to capture those trends, those consumer needs - that's very, very important.

And I think what we're realising and seeing is that the market is fragmenting, consumers are looking for diversity and we have the capability and the capacity to do it and the company that can best manage the complexity is going to be the company that's going to win in the market.

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Question
Sorry, does that mean that you're able to sort of measure all the way down to the sort of supermarket shelf what a new SKU is delivering in terms of margin relative to the rest of the portfolio and whether it is enhancing?

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David Forde, Managing Director, Heineken UK
We can, we can measure it down to the SKU by customer, by channel in our company.

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Alexis Nasard, President Western Europe & Chief Marketing Officer
Let me maybe make a broader comment in terms of SKU management in the consumer goods industry, SKUs are there to service consumers and to service customers. The consumer in the beer and cider industry today wants more choice and that is why we are increasing the number of SKU offerings.

The customer today in beer and cider wants bespoke solutions to their own needs which also yield to an increase in SKU in the category. Now when you look at the beer category and you look at the SKU range as a percentage of size of the category in terms of revenue or volume, versus the rest of the FMCG categories, actually it's still pretty low. And remember that even the innovation rate; whilst we're doing great progress in the beer and cider category in terms of the innovation rate, we're still far beyond some of the FMCG categories.

If you take the typical FMCG category the innovation rate is between 20 to 25%, if you take cosmetics is it above 60%, so we are really, really in a catch up mode in terms of having the right SKU offering down the table.

Now of course at some point, when enough is enough is when you start getting into the lower diminishing returns and as David said we do have the analytics and metrics to address that and we do that in the context of joint business planning and category management conversations with our customers.

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Robin Asquith, JPMorgan Asset Management
That was a very strong and powerful presentation about the UK market, you also mentioned Scottish and Newcastle, is there any way you can give an idea of the return on invested capital of that acquisition? I know a lot of things happened, I know acquisitions have been added on, etc, but just to give us a clue; because at the time obviously the initial return on invested capital was very low. How has that return improved, given all the things you've talked about?

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David Forde, Managing Director, Heineken UK
I can't give you specific numbers, but all I can say is that over the period, lots has changed, but the performance and the financial performance of the company is improving steadily and structurally since we acquired the business and overcame what was a severe, what I would call external shock. But once we've - as I say come to terms with that, restructured the business and now if you look at what we're doing I think we're starting to get to acceptable returns on the investment. George I don't know if you want to?

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George Toulantas, Director Investor Relations
What I would add to that Robin is we clearly did see the return on investment capital take a dip in 2009 following the year of the acquisition. We did target at that time, for the deal to become value accretive by year 4 which would have been 2011, I can confirm that we're still not there that there is still a gap but as you've seen there's been a great deal of progress in terms of the margins. The return on invested capital is improving but I think we need a few more years to get there but that's pretty much where we are.

Tom Russo
I was curious with the slide that you showed on the best in the class off trade where you made several points about Proctor and Gamble's low position, deservedly so. But anyway what I was surprised at is positions number 3, 6 and 11 were held by AmBev Molson and Carlsberg and as we've heard you describe you're fast improving customer service and attention, I'm surprised to see that the other three are still so lofty even many above P&G. So can you just talk about what it might be in this survey that would lead the beers to so over index?

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David Forde, Managing Director, Heineken UK
I think what happens the first thing is if you're in the beer business and you see a beer company number one it makes life a nightmare for your competitor colleagues because their boss is coming and going, when are we going to get up there. So I think that the level of improvement and also the level of competition, I mean there's intense competition in the beer category and the cider category in the UK and I think that just forces companies in this category in this market to be quite strong commercially.

I think people would acknowledge that not just ourselves are strong but many of our competitors have really upped their game and that I think is just a reflection of the intense level of competition in the market and that combined with the demands of our very, very powerful customers.

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Alexis Nasard, President Western Europe & Chief Marketing Officer
If I can add a point on the advantage survey okay, the advantage survey is an assessment by our customers which is to a large extent quantitative, but also quite a bit

qualitative. And there is a measure that we are very heartened with and we are very pleased with the progress we're doing on this across the board including the UK.

However this for us is not a dogmatic barometer because we have to bear in mind that in the situation of collaboration with customers you do have moments in time where you have disagreements or conflicts and as a result of that your standing might have a dip from one year to another.

So what I would say is that we are extremely encouraged by this but I don't want anybody to think that this is going to be a sole barometer according to which we're going to assess our business performance so you have to take it with a grain of salt.

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Jon Fell, Ash Park Capital
One of the things that's very visible in London at the moment is craft Beers, does your data show that type of beer category having a similar impact or starting to have an impact in the rest of the UK? And to the extent that it is do you think you've got the tools and brands in your portfolio to go after those consumers or is it going to take something different?

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David Forde, Managing Director, Heineken UK
I think the answer is yes and yes. Firstly we see that there is a growth in craft type beers in the market and again going back to Alexis' point we see consumers are looking for more choice. We also see that our customers are looking to differentiate themselves across the market so every on trade outlet or chain is saying how can I be different both to the off trade but also to my outlet and to the guy next door. So certainly again that's good complexity that we're going to have to cope with.

Within our own business we also have craft brands; we've Deuchars which is a beautiful craft brand from Edinburgh. We've just launched a brand called Three Hop which is a lager styled beer from the Caledonian Brewery in Scotland. We've brought the Montieth's portfolio from New Zealand which again came as part of the acquisition, a range of four or five different types of beers into our portfolio.

So we do feel that we have the capacity, Affligem a genuine abbey beer, a real genuine abbey beer not kind of a fake brand but that's there and that's something that's very, very powerful. So what we have to try and do is make sure that, how do we answer the need for diversity, the need for fuller flavour or not with consumers whilst still using and exploring our business model. And that we think we can do with the Heineken portfolio around the world we have access to about 300 brands, the trick is can we get them through our supply chain and into the market in a way that's gross margin accretive and that we think we can do.

I think the other thing we should remember is this is a good news story for the category, we have dreamed about a day when people will be excited about talking about beers and ciders. And there's never been such a discussion around a variety, around the diversity, around the quality, the execution around the category has never been better, glassware execution, temperature has never been better. The industry for the first time is collaborating on advertising, the five major global brewers have got together and we're advertising the characteristics and the benefits of just the entire category at this moment in time.

So this is an interesting and rich and powerful time for beer primarily but also cider in the UK.

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Trevor Stirling, Sanford Bernstein
David clearly a lot of the innovation's taken place in the bottle, fridges are getting more and more crowded presumably that makes for a lot of pressure on pubs to actually extend the fridges, to have cold rooms, instead of taking product at ambient and trying to cool it down rapidly do you see that happening and therefore a big need for capital investment from the on trade to address this?

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David Forde, Managing Director, Heineken UK
For certain, sure I think one of the great debates we've had with on trade customers is how passionate are they about delighting their punters' needs, the people that come into their bars day in, day out. And in many cases with certain customers for too long it's been taken for granted, we really delight in people with perfect beer and cider experiences.

And to give you an example of the huge change we're seeing, when we install Heineken serve extra cold into an outlet we insist that also that the publican installs a fridge into which we put the glassware, because we take the glassware down to about -15 degrees so the glass comes out of a freezing cold fridge and then we pour the beer. And we have seen 1,000 publicans in the UK that are willing to do that, now two or three years ago they would have said, no it's not important enough, now they see that delighting their customers to win in the on trade is going to be absolutely critical.

The other thing though just like the fridges in the off trade, the fridge in the on trade is becoming a battle ground and you will only survive if you're rotating and to rotate in there you have to have the brand pull, you have to have the investment, you need brands that companies are really getting behind and I think that we can do but I think that is a constant battle Trevor for sure.

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Question
Question on pricing per hectolitre has traditionally been modest in the UK; can you give us any colour on how this has progressed over the years?

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David Forde, Managing Director Heineken UK
I think certainly over the years our pricing per hectolitre has been improving as we premiumise our portfolio that drives us. It's a constant battle I mean with big pub

companies and that once you've done a contract there's price growth often linked to CPI or RPI so once you're locked in you can get the price growth.

The pubs of course are a big part of the business in the free trade it's been quite strong, premiumisation will help us. And the battle ground has traditionally been over the last number of years in the off trade where retailers, I think somebody said earlier on today, have using the category to fight very hard amongst themselves and that's where it's been slightly more challenging.

Question
Say if you compare the UK to your other European markets say over the last three years have you been able to do better in the UK than the other big markets out there say France or Spain?

David Forde, Managing Director Heineken UK
I would certainly feel that we're not disadvantaged in the UK versus the other markets.

George Toulantas, Director Investor Relations
Thank you very much David.

Applause

Summary

Alexis Nasard, President Western Europe & Chief Marketing Officer
So we're close to the end of today and I just want before we close and go for some drinks, we're going to go for some drinks after that so we can taste our amazing products and you can get to continue torturing us after that.

But let me wrap up a little bit on the key highlights of the day as a closure. What are our key messages going forward is first as a company in order to have a properly risk balance profile for growth we have to grow in both developed and developing markets for all the reasons we have outlined.

A very significant part of the Heineken company's revenue and profit is Western Europe, it is a strong position where we are well established since a very long time and we are very uniquely positioned to win in that market place.

We have an ambition and a growth strategy which is behind balanced growth in terms of revenue and profit. We want to continue to drive balanced growth, revenue and profit growth down the road and we have demonstrated that we can do it and it can be done. And frankly without wanting to be presumptuous we are one of very few companies that have demonstrated that it is possible.

Our growth model is essentially built on one corner stone which is cost management. Cost management is going to be the engine through which we will fund our ability to grow top and bottom line in a concomitant way and the main pillars of that are gross margins and support functions.

We believe we have a potent and clear strategy to win, you know I always like to say it's potent, it's not only clear as just clarity is insufficient and that strategy is complex to execute, I wouldn't hide from you, this is not an environment in which we can have win with the customers, win with the consumers and win on cost type of strategies, we have to be a lot more granular, a lot more sophisticated to be honest.

And we have elaborated it in six points in a strategy of unapologetic discrimination. One which is about systematic revenue management, one which is about commercial assertiveness, one which is about cost for revenue, i.e. cost for purpose, one which is fighting for the category and taking responsibility for it. And last but not least one where we have organisational excellence so we are able to execute relentlessly and leverage all the scale opportunities that a truly integrated region like Europe represents.

We are far from being in a position to claim that we have turned the corner and we have identified the holy grail, but we can say with confidence that we are passed the stage of green shoots and the breadth of our wins across the regions, be it on the top or bottom line, be it in the off trade or on the on trade, and being represented by market share gains in every single market gives us some confidence about our prospects going forward.

I hope that was an interesting day for you and I look forward to seeing you over the drinks. Thank you very much.

Applause

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