

The Aussies really are different

In other markets, other rules apply, discovers Lion Nathan

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What's old hat in New Zealand seems to be de rigueur in the state of Victoria: it's the one place where the avowed "we-don't-own-pubs" Lion Nathan owns, well, pubs.

Even as late as the middle of 1999, brewer Lion Nathan couldn't get out of the property business fast enough. The concept of breweries owning pubs was about as 80s as drinking Moët at lunchtime. Discerning beer drinkers want choice, said brewery marketing executives; tying pubs to breweries denied drinkers choice, so out they go, they said. "The local owner operator, backed by a committed supplier is a winning formula and a cost-effective alternative to direct retail involvement," said Lion in its 1992 annual report. Lion, which that year owned 230 pubs, now owns none at all — in New Zealand.

So what's going on when Lion does an about-face and spends \$A60 million acquiring 40 pubs in the state of Victoria, giving as its rationale that owning the distribution channel is the only way to make inroads against the dominant incumbent Fosters? The company has also spent \$40 million on "contractual arrangements" with another 220 pubs to stock Lion beers, and an unknown sum sponsoring 30 out-of-town racing clubs in return for tap deals. Is Australia — or Victoria at least — really two steps behind New Zealand when it comes to drinking patterns?

Apparently, yes.

Lion first went on a hotel-buying spree in the 1970s and early 1980s in New Zealand, discovered pubs do nothing but dent earnings, and gradually rid itself of the same watering holes throughout the late 1980s and 1990s. When it was forced to take a 50% stake in 100-odd South Australian hotels in 1993 (as part of a finance deal to acquire South Australian beer brands) it quickly announced it had agreed to sell them after five years, and finally flicked them back to licensees in August last year.

Now it seems hotel-hater chief executive Gordon Cairns has been forced to accept that a perceived outmoded strategy, which happens to be part of the strategy that has won Fosters over 90% of the Victorian market, may be the

only way forward.

Although Lion is still a reluctant pub operator, says company spokesman Warwick Bryan, management reckons pubs are the Trojan horse needed to crack open Victoria. As one analyst remarked, when all else fails, you have to do something drastic.

Lion has done well in Australia — hence the decision to move its head office over there. Take Victoria out of the picture, and Lion Nathan has a 50% share of the total Australian beer market. Include Victoria and the figure is 41.6%, up marginally from 40% in 1992, compared with Fosters Brewing's 56%. But Lion has been totally unable to get a hold in Victoria, Foster's birthplace and stronghold.

In fact, despite first launching in Victoria not long after taking a 50% stake and management control of Bond Brewing's assets in 1990, Lion has only a pathetic 2.6% share of the on-premises (or tap) market, 15% of the pack market and an overall share of 12.5%. Fosters, on the other hand, makes 50% of its total Australian beer sales to Victorian drinkers. And, with Foster's brewing and entertainment unit, Carlton & United Breweries (CUB), also holding the Australian licence for most foreign beers, the group controls around 88% of Victoria's total beer market.

Hotel ownership is part and parcel of Foster's overall strategy "of servicing the beer, leisure and entertainment market in Australia", says CUB spokesman David Park. CUB has owned hotels for decades, Park says, and now has 160 throughout Australia. "We see all sorts of synergies between brewing and hotel ownership; our competitor doesn't. It's not just beer, but the leisure and entertainment part."

Warwick Bryan says there are no plans to replicate Fosters Brewing's strategy. But the parochial nature of Victoria's drinkers and the fact Lion is locked out of the Foster's-controlled pubs, is a significant reason for its poor performance, he says. "Distribution is significantly lower in Victoria due to limited choice. This is because most pubs have established relationships with Foster's Brewing that they're not prepared to break."

Not unless the price is right, apparently. In addition to the 40 pubs, Lion has invested another \$A40 million in contractual arrangements meaning Lion's Aussie beers will flow at a further 260 Victoria-based pubs.

"Up until now, Victoria's publicans were fearful of being seen to take on Fosters Brewing if they switched brand loyalty," says Tim Buckley, a Sydney-based equities analyst with broker Salomon Smith Barney. He believes Lion now has sufficient critical mass to capture 25% of Victoria's beer market within three to five years.

Cheaply too. Another analyst, ABN Amro's John Lake, believes it would have cost Lion heaps more than \$100 million to create similar brand equity in Victoria using more conventional advertising.

Buckley shares these sentiments. "Representing around six months profit, \$A100 million works out to around 14 cents a share. If Lion can get a 20% return, that gives it \$A20 million at the EBIT level. That's a great return in anybody's language."

Instead of simply ripping out its rivals' taps, Lion's Australian beers will stand alongside Fosters, VB and Carlton. "The idea is to start weening the market over, especially younger beer drinkers, before they become life-long stalwarts of a rival brand," says Bryan. Outside the cities, Lion has sewn up deals with 30 rural racing clubs to serve Lion's beer under new sponsorship arrangements. And there's speculation Tooheys will also replace Fosters as the official sponsor to the Melbourne Cup. Lion's big turnaround in policy is earning points from analysts like Buckley. In the end it was unrealistic, he says, for Lion to think it could crack Victoria (as it has other states) without owning distribution channels.

But distribution isn't Lion's only bungled strategy in Victoria, Buckley says. Using a discount strategy as a battering ram was counter-productive. "Around 80% of Lion's Victoria sales were discount brands like Toohey's Blue and Red that offered neither brand equity nor any margin."

Lesson learnt, says Bryan. Toohey's Blue and Red will still be part of the mix, but alongside Toohey's New, Hahn Premium, Hahn Premium Light, Toohey's Old and Pils. There is also a new, long-term strategy to sell all its beers at a price on par with Foster's brands.

With capacity at its South Australian and West Australian breweries running at around 50%, Lion is unlikely to contemplate brewing in Victoria. So will Victoria's notoriously parochial beer drinkers embrace beer shipped-in from another state if it's being sold in their own hallowed local drinking halls?

We shall see.