

Radio Brews News
S02 Ep01
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Start of Audio

Interview starts at approx 20:20 of the audio. Add 20:20 to the time stamp.

- Matt Kirkegaard:** [00:07] Yes, now I'm joined by Peter McLoughlin, Director of Marketing for CUB. Peter, welcome to Radio Brews News.
- Peter McLoughlin:** [00:12] Great. Thanks. Great to be here.
- Matt:** [00:14] Congratulations on the new job. You've only taken over this year?
- Peter:** [00:18] Yes, I have, mate. I've been with SABMiller for 23 years in various different roles, including marketing in the South African business, but only with CUB since the acquisition. So it's really exciting to be part of this organisation.
- Matt:** [00:30] But you were with Pacific Beverages for a period before the takeover of CUB, before SABMiller's takeover of Foster's?
- Peter:** [00:39] Yes, I did. I came from our business unit in Latin America, based out of Bogota, Colombia. I looked after sales and distribution for that business unit, which ... we were a \$1 billion profit unit, and came into a reasonably small JV in the Australian environment with Coca Cola Amatil. We were effectively a start-up organisation, a handful of

employees, and fighting for a space of the premium sector at that time in this market.

[01:05] We really had two ambitions. One was an organic growth ambition, and the other, obviously, we'd always had our eye on acquisition into this market, and CUB was always a target of that acquisition.

Matt: [01:18] Just for those listening at home, they can probably tell you're not a local. Whereabouts you from originally?

Peter: [01:23] Born and bred in Zimbabwe, or Rhodesia. It was supposed to be Rhodesia in those days. It became Zimbabwe. I did all my schooling there, then went down to South Africa, did University in Durban in South Africa, in Cape Town, and spent most of my working life in the South African business.

Matt: [01:39] The and SAB and SABMiller is South African breweries, obviously? You've been with the company for a long time. Tell us a little bit about that – the complex agglomeration process that saw you grow into an international brewing concern.

Peter: [01:50] It's been a fascinating journey, to be honest. I started in 1991 with the organisation. I remember our Chief Executive, Graeme Mackay, who was CEO until ... still is CEO, has some health issues at the moment ... but Graeme said to us in one of those early days in mid-90s, he said to us, "I'm going to help set a vision for this organisation. I want it to be amongst the top five brewing businesses in the world by any measure."

[02:18] At that time, we just thought [indecipherable 02:21] we're a tiny brewery in the southern tip of Africa, and here you're talking about global aspirations and being in the top five by any measure. And true to his word, he led the organisation to be able to do that.

Matt: [02:34] This was not long after Australians such as Alan Bond had charged at the world and built big breweries, largely funded by debt. That all came crashing down. What's been the difference with SABMiller's approach?

Peter: [02:46] It's a really interesting point. Graeme always said, and I think rightly says, that we had a brand-led approach, as opposed to ... sorry, a people-led approach as opposed to a brand-led approach. I think, largely, the success was sending preachers out to survival, if you like, to go out and spread the word, and carry what we considered to be best practice into, largely, emerging markets to start off with. That was a little bit of a cookie-cutter approach.

[03:13] We found as we went into markets like Eastern Europe, which were one of our early markets, is that the formula, if you like, was reasonably simple. We had to get production right. The production quality wasn't right. We had to get that right. We then had to get

sales and distribution right. So you get the product out into the market, and then layer marketing on top of that to create demand. It was a fairly systematic approach, and in fact, what we've done subsequently is codify that approach.

[03:38] We've got seven, what we call 'ways'. We've got a manufactured way. We've got a talent way. We've got a marketing way. Those are codified practices now, which travel with the people. They never travel one without the other. We like to try and do both the personality of the organisation infused into the countries we go into, and the codified practices as well.

But we're in 75 countries now, over six different continents. By and large, if you travel around a lot of the countries, which I've done, the culture is reasonably similar, which is fascinating.

Matt: [04:09] Give us a sample of some of the breweries that you've owned in that process of getting bigger. You own breweries through Central Europe. You've got partnerships in the United States.

Peter: [04:18] If you break it down over the six different continents, Africa has always been, as Mark Connor **[sp]**, ex-Chairman, used to say, is the real roots of the business. We grew up in Africa.

[04:31] So we own ... we're in 29 different countries in Africa, some directly and some through our joint venture with the Castille group, which is a French brewing group. We have a very good working relationship with cross shareholding in our businesses. They largely do Francophone Africa and we do Anglo-Africa.

[04:50] Our first foray outside largely ... I mean, there were some small ones, but our first foray was really into Eastern Europe, into Hungary, and I think we ... because Hungary is very competitive and the three big breweries in Hungary hold a third share each, we really found what it was like to compete. Hungary, for those that know the market, is actually a very competitive market.

[05:12] We expanded outside of that, to where we own eight different businesses within Europe, all Eastern Europe, but also we've also got businesses like the Italian business that brought Peroni to the table. So we got both sides of the fence there.

[05:28] At the same time, we ventured into India and China, in fairly early days. We are now the biggest brewer in China through our joint venture with CRE, China Resource Enterprises, there. We're about 20 share of that Chinese market. Again, it's been an interesting journey. It's been choosing the right partners certainly, and it's being able to catch that whole wave, as the Chinese market became more modernised, if you like, and converted as a country. We've been able to capitalise on that.

[06:02] India, we got in reasonably early, so we're the second biggest brewer in India. Our venture into Central America was before our venture into South America. We went into South America in 2008 with an acquisition of four countries there, under Bavaria, headquartered out of Bogota, Colombia, added another two ... the Central American countries came into that business, then we added Argentina more recently.

[06:25] Then, of course, the USA acquisition in 2006 was the Miller business – 2005, I think it was – and we then subsequently JV-ed with Coors. So an 11-share player and a 9-share player to give us a little bit more scale as a second-tier challenger to Anheuser-Busch, which is 50% of the market.

Matt: [06:46] That's recently created a fairly interesting conundrum, because you were partnered with Coca-Cola Amatil in Australia before the Foster's purchase ... or the CUB purchase. They've been out of the market since, but they're about to re-enter with Coors, who's your North American joint venture partner. So is it fair to say that you're going to be competing against yourself in some respects? Or some of the beers that you market jointly in America?

Peter: [07:12] Yeah. The American JV was always set up with a ring fence around it. It was intended when the deal was done. It's been a very good partnership for both parties. They've managed to extract synergies, grow volume, and capitalise on the craft revolution in the US, and all sorts of things. But it was exactly that – it was ring-fenced to the US.

[07:30] There are other places in the world – for example, if you take, in the UK, they actually own Grolsch, as a brand in the UK, and they obviously market, and we compete in the UK market, and that's what's going to happen in the Australian market as well.

[07:45] The intent is still positive. I mean, we're distant cousins I guess, in a way. Yes, we think they've got great brands, we will always look at them as an opportunity, but it's not inconceivable to end up in a situation like what we have down here.

Matt: [08:01] Okay. I guess the end result was 12 months ago, you took the keys to CUB in Australia. It's been a fairly big year. We've seen apologies. We've seen restructures. We've seen brands. What would have been the highlights ... what has been the strategy over the first 12 months in CUB?

Peter: [08:23] Look, I think at the core of that, and probably one of the most exciting things with the CUB business itself, the focus in CUB, are just very relieved, I think to be back into brewing. At the end of the day, the organisation had lost its way a little bit in terms of, "Do we make wine? Do we distribute spirits? Are we brewers?"

[08:44] I think SAB is, in that sense ... SABMiller is, in that sense, quite a simple company. It's about beer. It's about beer passion, it's about quality of beer, and it's about quality of brands, and the CUB organisation's responded beautifully to that.

[08:56] One of the big things, I think, initially, was setting up the organisational culture that goes behind that, which includes development, understanding of brands, understanding of beer, understanding why it's important in our consumers' lives, and all of those different aspects. It was quite a change in a lot of different ways for the CUB business, I think ... or a change back to what it used to be, perhaps, is a more accurate way of saying it.

[09:23] The second thing, I think, what we've managed to do is to bring in some manufacturing principles. I think it would be fair to say that the quality had slipped on a number different counts. Again, if you come back to the earlier statement around the manufacturing way, there are brewing standards that have been honed across the 75 different businesses by a central technical team, and are applied across all of our businesses.

[09:44] It helps eliminates bad brewing practice. It helps get rid of additives and preservatives. It helps get rid of reclaimed beer, for argument's sake. It helps get rid of ... or standardise on times, fermentation time, storage times and those different elements.

[10:00] Slowly but surely, it cranks up the quality of, and the consistency of your product, which is really important to us from a quality perspective.

Matt:

[10:07] I want just to jump in there, because that brings in something that I was going to get to a bit later. I guess the biggest example of one of the things that has led to a little bit of friction between me and the company over the last two years is Crown Lager, for example, which ... I don't think I've ever had a go at the beer itself, but there has been some marketing around it that I have had a few issues with.

[10:29] It's interesting to hear you talk about some of the brewing practices probably weren't the best. Is that a polite way of saying that maybe Fosters ... that Crown wasn't Australia's finest lager for a long period there?

Peter:

[10:44] Well, what we prefer to say, I think, in Crown's particular case, is, we prefer to say we dusted it off. It's always been a very good liquid and it's been perhaps a little bit unfairly treated, or would be thrown into that same bucket unfairly.

[11:01] Crown wasn't a major revamp for us. Whereas we did a lot of work with the VB recipe, Crown wasn't a major revamp for us. But it would be fair to say that we did tighten up on quite a few aspects of it.

[11:13] We also ... I think at the end of the day, as we chatted before the interview, Matt, I think at the end of the day, the quality of the beer, and what the beer is has got to be at the very heart of it. Before you put any marketing story about it, around it, before you put any packaging around it, the most important thing is the liquid itself.

[11:30] One of the observations I made when we first started, as I was chatting to the brewers, trying to get to know the CUB brands. When I asked about Carlton Dry, they were very quick to tell me what made Carlton Dry special. When we chatted about Crown, for argument's sake, the packaging came ahead of the liquid, you know? It was packing that was done for this particular [inaudible 11:52] packaging that's iconic in the environment.

[11:55] I think you've got to start with the beer. I think at the heart of a successful brand has got to be the beer, the liquid itself. Which is why in Crown's case, we really drove to understand that intrinsic appeal, and we drove to make sure that it had the finest hops and the finest barley.

Matt:

[12:11] I guess that was the point that I was making, is, haven't they always claimed to use the finest hops and the finest barley, when it was pre-isomerised hop extracts ... and when you've got a highly processed ingredient, it can be a very good quality. But it certainly ... I think, the consumer, when they see 'flowing fields of barley' and 'hop plants' and marketing lines that talk about Australia's finest, they expect that it's actually not fundamentally a highly processed good.

[12:44] Was the change in the formulation of Crown a quiet way of CUB apologising again, the way they did with VB, or at least backing down from some of the claims that they've made? Or "making good on the claims" might be a better way of putting it?

Peter:

[13:00] I think that's probably the right word – we're making good on some of the claims. I think it's a case ... in VB's case, there were distinct decisions taken as part of the previous management team, which were, in our opinion, quality-negative and unacceptable for the consumer.

[13:17] In Crown's case, the intent was always there. There was always care taken with the product. There was always a sign-off from the brewmaster. There was always some of those things. What we really did was dial up the stakes in Crown. We said ... at great cost, we said, "We want the supply chain to be very distinctive, so you can follow grain right through to glass," in Crown's case.

[13:38] We, I guess, just made absolutely sure that when you stood up and said, "This is Australia's finest," you could say it had Australia's finest ingredients, and that would become your intrinsic underpin.

Matt: [13:48] You made the comment before that VB was a major review of the recipe and the ingredients, and Crown lager wasn't. Can you explain the thinking behind that statement? Crown has dropped cane sugar entirely, which was ... I don't know exactly how much, but it was a substantial part of the recipe.

Peter: [14:10] Yes.

Matt: [14:10] You've gone to kettle hops rather than pre-isomerised hop extracts.

Peter: [14:13] Correct.

Matt: [14:14] That's not ... looking at it that way, you've actually made far fewer changes to the recipe for VB, because it still has pre-isomerised hop extracts and it still has cane sugar. You've gone back to a stronger formulation.

Peter: [14:31] Yeah.

Matt: [14:32] There really are bigger changes to the liquid in Crown lager than VB, aren't there?

Peter: [14:39] Those are certainly good observations. The use of cane sugar in beer is not a negative issue.

Matt: [14:44] No, I wasn't suggesting that ...

Peter: [14:46] Yeah, I realise you weren't, but just to qualify that, that's just ... that depends on what type of beer you're trying to brew, and obviously, there are full malt, and there are beers that use liquid sugars. For us, that change wasn't about taking bad out. It was about modifying and making sure that it was right relative to the brand. Whereas some of the practices that were evident in VB are ... in our opinion, were unacceptable – things like additives and preservatives, the use of foam stabilisers.

[15:14] Certainly, we are big advocates of kettle hopping, as opposed to pre-isomerised hops, etcetera. Some of those things were changes that we felt were negative and therefore less subtle, if you like, whereas other changes are slight modifications, and therefore more acceptable.

[15:31] The other point that I think is very important, which maybe is linking the liquid a little bit back to what the beer stands for. At the end of the day, when you peel everything back, the real beauty of VB is that it's got that real full flavour and bitterness at the temperature that Australians love to drink it.

[15:48] Of course, we all know that the characteristics die back substantially, of any beer, as it gets colder, and that's a combination of cold and that full flavour, with the unique bitterness, that we think

gives the consumers what they're looking for. It was also making sure that the marketing proposition and the liquid itself tie pretty closely.

Matt:

[16:07] I know that when we've spoken previously, before actually recording this podcast, on a couple of occasions, we've talked about ... you've acknowledged it's very important that the marketing is honest, that the marketing gives honesty to the brand.

[16:24] As a marketer, would you have taken the tact of running, for example, "the fifth ingredient is time" for a brand like Crown lager? I mean, I hold the view that it wasn't, in any sense, true, and I know that there's cases you can make for it. But do you think that it was a mistake from the brand's perspective to come out with that campaign, when it might have been more suited to the beer as it stands now?

Peter:

[16:49] Well, I think if we establish ... and actually take the brand out of an established time as ... whether time is or isn't important to the brewing process. You know that you can get brands that spend a lot longer in fermentation. You can get fast fermentation, slow fermentation, get different esters, get different characteristics coming off the beer. In maturation, you can get an improvement in your chill hazes and all those sort of things by different temperatures and by different lengths of time.

[17:20] In my humble opinion, yes, time is an element in brewing, and I think any brewmaster would say that relative time has changed is a change in my recipe at the end of the day. There are brands around the world – if you take Amstel lager in South Africa, for argument's sake - slow-brewed, extra-matured, and it is matured for ... or the process, let's say, the FESV **[sp]** process is a lot longer and provides certain characteristics into the beer.

[17:46] So as a marketer, if you can capitalise and grab [indecipherable 17:48] capitalise on it, and it makes sense in terms of your position on the beer, then I think it's fine to use it.

Matt:

[17:52] And Pilsner Urquell is one of your brands that's marketed very heavily as the time that it spends lagering.

Peter:

[17:57] Well, correct. It is a very long process ... a 42-day process, in total, for Pilsner Urquell. In Crown's case, let me be honest, I actually pushed quite hard to get time in, because I do think that ... as I just explained, I do think time's relevant. Although when we looked at the relativity of time, it was half a day. You've got to stand up and you've got to say, "Is this genuine?" If I'm chatting to a Matt [inaudible 18:23] of the world, is he going to look at it and say, "That's marketing puffery," or is there something really in there?

[18:28] At the end of the day, two things persuaded us to go the route we went. One was that particular element, to say, "We have to be

true. We have to market what we fundamentally believe to be true.” The second one was, in research, to be frank, the ingredients came out so much stronger than ... time was the first element. It was just far more compelling to ...

Matt: [18:47] Well, I guess the actual time ... time was always one of the things ... it was matured longer, and I did have issues around that. But it was also the fact that I'd always seen that time being the fifth ingredient was like the full-stop on the end of a sentence. Even when I've put it to the then communications manager, I said, “Well, if time's the fifth ingredient, what are the other four ingredients?” He said, “Oh, malt, water, hops and yeast.” “Where does cane sugar come in?” “Oh, that's number six.”

[19:10] And isn't that ... there's no kinder way of saying it – isn't that fundamentally misrepresenting what the brand was, when a lot of beers are marketing themselves as malt, water, hops and yeast, and to say that time is the fifth ingredient isn't the logical or the natural understanding to come from that, that it's malt, water, hops and yeast and time?

[19:31] So yes, you've explained that time maybe was relative, but it was completely ignoring a whole other ingredient, that wasn't there.

Peter: [19:40] That's very difficult for me to comment, not being around at the time. I mean, your logic stacks up to me.

Matt: [19:43] Okay.

Peter: [19:44] I think the points to be made are ingredients are really important, and honesty in marketing. It's got to have a very definitive hook that traces back to the product and the product quality, no argument.

Matt: [19:55] On that, you've shot some beautiful commercials at the moment, and you have very much looked at the ingredients and the things which have made those ingredients, and it's backed up by actually occurring in the kettle. [chuckles]

[20:05] Is it a little bit ironic that the music accompanying it is *Don't Change*, though? There is a classic Australian song called *Don't Change*. Is there some irony or, some ... we haven't actually ... because a lot of the marketing communication has not highlighted the actual changes in Crown lager. Were you painted into a corner?

Peter: [20:22] No, the *Don't Change* actually came from a slightly different angle. We were always of the belief that Crown wasn't fundamentally and isn't fundamentally broken. But in the research groups – and I've sat through many of the research groups – what we established quite early on was that there were two things that came out very strongly.

[20:46] One is that there wasn't a [indecipherable 20:48] defence for the brand. A lot of Crown drinkers were loyal, but not fiercely passionate. When pushed, they said, "Yeah, I really like this tippie, and it's great, and I enjoy it. I enjoy a Crown ... but I don't really know why it's that special. It's just because I've grown up and we always do that for celebrations," etcetera.

[21:06] So starting point for us was to say, "What's special?" and the second thing was, "Actually, I like a lot of components of this. Don't fundamentally change anything." Whereas again, if you go back to the VB liquid, a lot of the VB consumers, or the ex-consumers, the lapsed consumers would say, "Hey, you messed with my liquid, therefore I walked away from it."

[21:24] A lot of the Crown consumers were saying, "Don't mess with this. Don't change what's not broken." Again, to make a point, we feel we dusted Crown off. We were more subtle in terms of our changes, and if we thought the change was dramatic, we would have made that statement more clearly.

Matt: [21:43] Okay. Yeah. As I've said, I am always fascinated by the world of marketing, but it's ... yeah ...

Peter: [21:49] The problem is, when you are that overt, and you come out and you say, "Hey, I've slightly dusted the recipe off, I've changed it," and what have you ... you can change consumers' perception. It's like changing bottles. I've done many label changes in my life, and haven't so much as touched the liquid, and the consumers' response is, "You've changed the liquid." So the perception that's created ...

[22:10] There is a little bit of needing to manage perception in the whole process. We did do quite a lot of research, taste research, and we knew that we were close. We knew that we had what we considered improved the liquid without dramatically changing it. We made a conscious point not to talk ... We haven't denied it. I'm not denying it now. We haven't denied it at all, and that wasn't the intent.

[22:33] But the intent is not to get the wrong reaction from it, because by and large, the consumers were saying, "I'm very happy with ... I'm happy that you're dusting it off." There was no question – we got a mandate, we thought, from consumer research, to be able to make the change. But having said that, we didn't want the change to be dramatic.

Matt: [22:49] It's interesting, because I guess that's really what I was ... the point I was trying to make is, yeah, that there does seem to be a stream of communication that is minimising that change, even though, as a lay person or as an outsider watching it, the change seems to be much greater to Crown than there was to VB. But I think we've got that topic on the ground now, and it's well and truly done.

[23:12] Tell us a little bit about how VB has gone ... the changes you made to VB, the big campaign, the big apology. We've seen it reclaim its number one position, although I guess that it's duelling quite nicely with Forex Gold as the number one beer?

Peter:

[23:28] Well, look, it's number one by value by an order of magnitude. It's the volume that you play with between VB because, obviously, VB is a full strength versus the mid-strength from a Forex perspective. So the value, there's some comparability in terms of that issue.

[23:47] But the nice thing about VB – and it's really a clean and easy story to tell. In fact, we have a global competition called McCartis **[sp]**, which is global marketing awards. In writing up VB, it was actually one of the easier stories to write up, which I think makes a good marketing story, because it was easy to identify what was wrong. It was easy to identify what we did to fix that, and it was easy to show the results. Therefore it made a compelling, 5-page, interesting reading story.

[24:18] But at the end of the day, I think that the big success behind it was making sure that we lined up all the dots. We got the liquid right. We got the organisation to believe in the brand again – because if your sales folks don't believe in it, you can't expect your customers to. We got the customers behind it. We made a change to the packaging.

[24:34] We went back to what made the brand great. We went back to the truth behind the brand. We went back to targeting older males, 35-plus, blue-collar males, which was the heartland of the brand.

[24:47] The interesting thing is, in doing that – because the brand wandered for a number of years, as you know, and it tried to target younger. Some of our greatest incidence now, use incidence are coming from 18-to-24-year olds, because we're targeting back to the heartland of what made the brand great.

[25:02] We're into our fifth period now, our fifth quarter of growth after a decade of decline. So obviously, consumers are voting with their feet, which is very positive. And we've got some wonderful properties to work with. I mean, VB, in terms of everything from the state of origin and NRL properties, from the cricket property, which particularly good at a time like the Ashes now ... it's fantastic.

[25:28] The Raise a Glass campaign, where we can ... we're the single biggest contributor to RSL programmes, where you really go back to the core of what makes Australia great. Very few brands can play that particular role in Australian history, and that's part of Australian history. So hopefully, it's one of those brands that you can pick up and really associate with being proudly Australian.

[25:52] Having grown up in the South African business with Castle lager, and having watched Castle go up and down, as big brands do, the one thing that always struck me with Castle lager was, as a South African travelling abroad – you might not have drunk it at home, but when you were abroad you were only too happy to pick it up and beat your chest a little bit, in that show of national pride. That is what VB is to Australians, I think.

Matt:

[26:18] I guess it's a really fascinating marketing case study, because I think that The Regulars ad campaign was one of the cleverest ad campaigns, it's up there with the big ads and some of the great Australian beer commercials, in terms of entertainment and identifying Australian humour and all of those things. But it didn't really succeed with the brand.

[26:39] Marketing is a bit of a black science, isn't it? You're trying to capture lightning in a bottle. You can have the best ad campaign, but if you move away from what people see as the brand ... and consumers, I guess, do have some ownership over the brand that brewers or marketers such as yourself lose control over. If there's a disconnect between there, you can have the best ad campaign in the world, but it's just not going to be effective.

Peter:

[27:02] But I think that's the difference for me between entertainment versus advertising that really works. There has to be a core truth, and many, many times, you'll watch an advert, and you say, "What a great advert," but what does it say about the brand? How do you remember the brand? What is the branding capability of the advert, etc?

[27:20] There's a huge amount of science, as you know, that goes behind all of that work. Some of the work was interesting to watch, but really didn't hone down ... I mean, that particular ad, for me ... I mean, that said, "This is the beer for everyone. This is the tasting beer for absolutely everyone." Now, there isn't a brand in the world that can target absolutely everyone successfully. It's just not possible.

[27:41] In fact, really strong brands, people hate them for the same reason others love them. You just have to be able to choose to go after what you think suits your brand.

Matt:

[27:50] But in that case, wasn't that the ad agency delivering on what their brief was at the time? They did want to expand the brand out of its heartland very much, and make it the beer for everybody. How much was that driven by the business? I know you aren't here to really comment on it, but ...

Peter:

[28:10] Very difficult for me to comment, in fairness. But let me say in advance, it's never the fault of the agency in isolation or the company in isolation – the agency and the company work hand-in-hand. We're only as good as each other are. So I don't think it's a case of pointing

fingers. I think it's a case of learning from the past and making sure we don't make the same mistakes.

[28:30] And it's not unusual. What happened is not unusual. You'll find many brands, many countries, many categories that have done the same thing. When your brand is starting not to work, there is an inclination to go and try something different and pick on a new consumer group or ... which is exactly what happened with the brand.

[28:48] But time and time again, I think, particularly in beer, but in many categories, history has shown us that being true to what your core grouping is, and your core position is, is fundamentally the most important thing that you can do.

Matt: [29:01] Which I guess leads us nicely to Cascade, which is another brand that you've very recently revamped. Cascade, under the old regime, for want of a better term, before SABMiller took it over, they did dabble, four or five years, when they moved away from the cool Tasmanian Tiger campaign, they did start looking at their heritage. They brought out [indecipherable 29:26] brewer's nose that I'm always a little bit uncomfortable holding up as a great thing, because I was involved in doing some copywriting for it, so I've always found it ...

Peter: [29:30] Oh, wow! I didn't know that. I've still got that ...

Matt: [29:35] Yeah. It was something to me that I always found there was a real disconnect, because you see something there, where for a long time ... for a period of 12 to 18 months, Cascade was really saying, "[indecipherable 29:48] stack up with everybody else's. We [indecipherable 29:49], that just makes us one of a number, and we want to educate the beer market."

[29:52] There seemed to be so much good around that, and yet it didn't really captivate anybody at that time. In some ways, I see that what you've done now, and going back to the history, the themes are coming out from the marketing lines are very similar to the story that was being told then – "We're going back to basics. We're going back to the essential history of the brand."

[30:13] What's different now, over the last incarnation of the "brewed-by-feel" advertising, for example?

Peter: [30:21] Again, Matt, you must excuse me, because obviously my knowledge of some of the history is a little bit patchy. So I'm not sure I can comment specifically on the variations. I simply don't have the knowledge. But again, the Cascade story is no more complicated, in my opinion. Cascade is really built on people, provenance and product.

[30:43] We think that if you go back to ... and we can talk about 24 versus 1832, but if you go back to when Cascade was ... the inception of Cascade, at the end of the day, Peter Degraes, as the founder,

brewer, wanted to make a beer that was excelled within the colony. He wanted to make great beer. That's at the heart of what he did.

[31:00] And he wanted to make it out of Tasmanian products, wherever possible, and he wanted to make it out of the richness ... and we've used the tagline 'brewed on the edge of the world,' which is not dissimilar to some of what you're seeing from Boags, because we think that some of the qualities around Tasmanian raw materials allow you to make a great brand.

[31:21] On top of that, you put brewing heritage. We've got great brewers down there. We got third generation brewers, which is fascinating, I think – probably one of the breweries in the world that's got the most third generation. Maybe some American breweries, but certainly a lot of brewing provenance that comes out of just the people, and great products.

[31:39] So it was quite simple. Let's put all that together. Let's tell people where we come from. Let's stay very true to how good beer is made, and let's start using those different styles. I think the styles are quite an important discussion around category, because I think part of the problem, as craft starts to emerge in Australia, it's still quite confusing, if you like, because everything gets lumped into craft.

[32:06] There doesn't really seem to be a way to navigate the beer categories. Something like Cascade does it quite nicely, going from the lager right through to the stouts – so sort of an entry level, if you like, entry level tasting product, right through to a more challenging, more interesting, more flavoursome type product.

[32:23] That's what Cascade is, plain and simple. It's not ... it shouldn't be difficult to dissect it. It should be one of those beers that you enjoy, and you're able to say, "This comes from great people, provenance and product."

Matt:

[32:36] We might just take a quick detour, because you did raise a point about how craft can be hard to negotiate. I think craft is one of those things that everyone can have their own little view, but ultimately it's the consumer buying beer at the end that has their view about what craft is.

[32:51] I've noted recently that, for example, Stella Artois is running a big campaign at the moment, "Originally Crafted for Christmas," which is an odd choice of words for a brand like that, and even when CUB relaunched Carlton Cold as a mid-strength in the last week or two, it's got a line there, "crafted at ..." whatever degrees, or the process, it's crafted, it's not brewed.

[33:15] It seems to be something, one of those touchstone phrases like 'eco' or 'green' or ... having a 'green bottle' ... that you can make. It's almost like subliminal marketing. If you throw that word in there,

you're taking some of the emotional impact of what people see as craft. Or you put in a green bottle, they start thinking ... you don't have to make any claim about it being eco-friendly, but the consumer projects their own hopes onto it.

[33:48] How much blame do you big multinational brewers ... this isn't something that's looking at the quality of beer, or the politics or anything like that, but ... isn't one of the games of marketing to muddy those waters a little bit, so you can play in that pond as well for all of your brands, not just the Matilda Bays of the world?

Peter:

[34:10] Look, I'm sure we'll get back to Cold separately with an interview. So we'll chat about your reference to craft, which is absolutely not intentional or intended to try and put into that space at all. But if you come back to craft, part of the problem, I think, in Australia ... then I'll try and answer your last question there. Part of the problem, I think, in Australia – we've almost got to a model that is lager and non-lager.

[34:31] I mean, if you ask people – and your point is right: craft becomes a little bit like culture, and it gets used interchangeably, and nobody really knows what it was. If you had a magic wand, I'd actually like to throw craft, the name, out the window, and bring in different styles of beer, so that we can have a navigation that makes more sense.

[34:50] So if you think about it, starting with lagers, then you go to ales, and then you go to wheats, and then you go to stouts ... if you've got a beer category that's better laid out, then I think it'll be better for the consumers in the long run. So what is craft? Where does craft stop and start?

[[35:08] In blind tasting, if you take some of the ... I mean, firstly, a really interesting stat is that five of the single brands in the craft category make up about 70% of the volume. If you have a look at those brands, and you look at them on a spider diagram, and have a look at their ... they are not particularly challenging crafts. They're definitely kind of the entry level crafts.

[35:29] So I think largely, Australians are seeing craft, but still drinking quite close to lager. They like the aromatics. They like the extra nose on it, and like a little bit more flavour, but it's certainly not too far along that spectrum.

Matt:

[35:44] Very, very much, but I guess craft – there's a qualitative thing. There is a percentage, a fairly small percentage of the beer drinker that says craft is being the extreme IPAs, and they're very experimental and experiential drinkers, whereas a lot of people don't necessarily want to change vastly what they drink, but it's the Stone & Woods, it's the Fat Yaks, it's those sorts of gold, light golden ales that give them the characters that you raised.

Peter: [36:12] Yeah.

Matt: [36:11] But also, a big part of marketing is the emotional pull – and VB is a great example of that, the emotional pull that it has. You see farmers' markets, for example, and if you gave people a blind tasting of two apples, one from Woolworths and one from Farmers' Market, they probably wouldn't tell the difference. But yet, people choose to go to buy the more expensive, sometimes not-as-good quality apple from the farmers' markets, because it's a political decision, it's an emotional decision, and when you bring in the perceptual characteristics of that product, they feel better and they enjoy it more for that reason.

[36:48] Craft – undoubtedly, Matilda Bay makes some of the best quality craft beers, and you've been recognised at [indecipherable 36:55]. But doesn't there come a point where part of the marketer's job is to try and play in the same pool as the small, independent guys, and have that emotional pull of the small independent guys, whilst still having all of the volumes and benefits of being the largest brewery in Australia?

Peter: [37:14] I'm not certain it's a 'big guy-small guy' thing. I think at the end of the day, the consumers got to win over what the consumer wants to drink. I think, fundamentally, one of the big differences between the big brewer and a small craft brewer would be consistency. I mean, part of what we do is we try and brew beers exactly the same each time, to spec, and have a lot of money invested in equipment and processes, to be able to do that.

[37:38] And part of the mystique and the beauty of the smaller craft brewers is that they don't always get it exactly perfect, and they get some good batches, and some bad batches, and that sort of thing. I think there's a space for both of those people in the industry. For me, it's ... as I've said, fundamentally, I don't think it's about big and small. I think it's about a consumer being able to navigate the category and understand what they're looking for, what they like, and if ...

Matt: [37:57] But I guess that's my point – because sometimes they are looking ... and just this week, I got a media-release from a local tourism PR person who wanted to [indecipherable 38:09] the new craft beer bar. I think it's very exciting that tourism bodies are jumping on craft beer bars as a source of tourism.

[38:17] She wrote gushingly about how this new craft beer's got no [inaudible 38:20] or CBBs [sp], and "You've got to try this new beer called Itchy Green Pants." That to me, highlights, in a nutshell, that there are people who see value in drinking, buying from the farmers' market. If you told them that, "None of the people here are farmers, they've actually just gone out to the local wholesalers and bought that day," they would feel cheated.

[38:44] There is increasingly a segment of the market that feels cheated when they find out that Peroni is no longer brewed in Italy. You can explain to them the quality differences of that, and how it doesn't really matter, but ...

Peter: [38:56] But the real point I'm trying to make is that it's the consumer choice at the end of the day. So should a consumer be ... if somebody says, "Itchy Green Pants is a great brand, and I really enjoy it," for me, that's the most important thing. This is ... because we're not all the same, we don't all like the same liquids.

[39:13] For me, the acid test is when I put that in my mouth, does it say, "Drink some more," and does it say, "I want to go back and look for that"? Whether or not it's made by one of the big brewers or a small brewer, for me, is very much a secondary thing.

[39:24] If it's a secondary thing in terms of the consumer, then so be it. They should be able to trace it back. You shouldn't have the camouflages on it. But Itchy Green Pants is very proudly part of Matilda Bay, which is ...

Matt: [39:37] That was one ... it's very clear, so ...

Peter: [39:39] ... it's very proudly part of CUB, and that's not something that we hide or try and deny.

Matt: [39:42] No, I wasn't suggesting that in that case you were, because Matilda Bay is very clearly, and has been for a long time, part of the CUB stable. But to me, it was illustrating that even where something is so clearly CUB, people don't identify it as a core CUB brand.

[40:00] But it does raise something else that I've banged the gong about this year, and that was the Byron Bay lager, where we talked about, if it matters to people, they should be able to determine. That was fundamentally the point that I was making when I wrote about Byron Bay lager, which was a brand that CUB licensed at the start of the year, but yet, nowhere ... you couldn't find out anywhere that it was a brand that was brewed by CUB, being distributed and marketed, the communications around it was CUB.

Peter: [40:33] It did say it was brewed at Warnervale, it didn't say it was brewed at Byron Bay, if you look at the label.

Matt: [40:40] No, it says it was brewed in New South Wales, brewed under license in New South Wales ...

Peter: [40:44] Brewed under license in New South Wales, but that's not Byron Bay.

Matt: [40:48] Well, Byron Bay is in New South Wales, and it had a map of Byron Bay showing where the brewery was, where Byron Bay brewery was on the carton. So no, from a ... legally, you're perfectly correct. It

doesn't say anywhere. But isn't that the careful construct of the way that all of the marketing was, that it's the Byron Bay brewery? The brewery is in Byron Bay, it's brewed in New South Wales? Wasn't that a way of hiding the fact that it was actually brewed by CUB. 'Wolf in sheep's clothing' is very pejorative, but wasn't that effectively the case?

Peter: [41:24] It wasn't. Dissecting it [indecipherable 41:29] that's the conclusion you may come to. Because of the highlight that it's had, I have dug quite a lot deeper into this, and that was never the intention. That isn't the intention. You do get a lot of brands ... some of the Matilda Bay brands are simply too big for the original Matilda Bay brewery. The original Matilda Bay brewery was in WA, as you know.

Matt: [41:45] Yeah.

Peter: [41:47] So some of those brands are brewed in other breweries, [indecipherable 41:47] some of those brands are brewed in other breweries, that's what happens. I think you've got to look at it from the other way, to be honest.

[41:52] What stops a lot of the craft brewers, the smaller craft brewers, getting any bigger or being more successful, are things like production capability, and distribution capability. I would again still argue from the liquid backwards. If the liquid is appealing to a consumer and you want to make it available, unless there is deceiving advertising involved that says ... you think that it's all coming from that particular little brewery, and you're deceived otherwise ...

Matt: [42:24] I'd actually argue that that was the case, and I did argue fairly passionately that that was the case, and the intention ... I appreciate that there was no intent.

Peter: [42:32] No. There was absolutely no intention.

Matt: [42:33] But under the trade practice or under the advertising standards, intention isn't an issue if the average consumer ... and I've recorded going into a number of bottle shops, and having the sales reps pointing to the carton, when I asked, "Where is it brewed?" they pointed to the carton and treated me as if I was stupid, because it's got a big map of Byron Bay, they ended up saying, "The brewery's here."

[42:54] So I really think you've ... really need to be blind to ... or at some level, blind to the perception that is created deliberately or otherwise in the consumers' mind.

Peter: [43:10] Let's work through all of those going forward. Again, you can't manage backwards, you can only manage forward. There are many, many brands, in this country, largely craft brands, that's have an

element of provenance within their marketing that are manufactured by contract brewers.

Matt: [43:27] Yes. And I've ...

Peter: [43:27] So let me just say at the outset that if Byron Bay is guilty – and it may well be guilty by ... might be found guilty unintentionally, as I've indicated, and what have you, then it brings into question a significant number of brands, and in fact the whole category,

[43:45] So I've always said that I think that the ACCC, if they're genuinely protecting the consumer, rather than go after a single branch should say, "Is this a practice? Is this something we've got to look at across the practice of the entire craft industry?" Because many, many brands are not made out of the small back of the restaurant that they often ...

Matt: [44:04] Undoubtedly. And I've had the same conversation with Chuck Hahn, and in fact I'm down in Melbourne today to have this conversation, because I was [indecipherable 44:10] yesterday, and had a 50-minute car ride from the airport to Geelong yesterday, in which Chuck and I discussed this issue very strongly, and the same with Mountain Goat and some of those other breweries that [inaudible 44:28]. This isn't an issue that I'm hitting up ...

Peter: [44:31] No, no ...

Matt: [44:34] ... CUB about exclusively, but it seemed to be, for me, the lowest ebb, because of a trend. When you read annual reports from companies – and I highlighted a lot of the statements that Graham Mackay had made, precisely about this issue – let people know, let the consumer decide, which is, if it doesn't matter to them, then the beer will do very well, because it is about the liquid.

[44:58] But this seemed to be a case where great lengths had been gone to, to hide, and even ... one of the things that I've been ... I'd lost friends about was publishing this stream of communication between myself and the PR agency that was involved, because it was like extracting teeth, that CUB was involved, from them.

Peter: [45:20] But again, Matt, we can only manage forward. Making beer, making friends, is part of who we are, so that's a good place to start. Secondly, I can unequivocally say we believe in the quality of the liquid, and the quality of the brands, and we would never intentionally mislead.

[45:26] For me, quite the contrary – as per what Graham Mackay was saying, we think that the consumer has a right to the information so they can make their choice. Having said that, I also think you got to balance that with education.

[45:45] For example, if you take something like some of the international brands, where people might start out and say, "Grolsch is brewed in Australia, therefore it's different." I think you need education to know that it's brewed under license, which means that each quarter we get an audit from the Grolsch brewers. Every month we send cases of beer, which is put up against the international taste panel, against where Grolsch is produced in the rest of the world, and we can deliver without any shadow of doubt, consistency against those brands.

[46:15] So it's up for us to ... again, of course, the consumer can vote with their throat and with their dollars. There's no question about that. But at the end of the day, in a blind taste, you should not be able to discern the difference between locally produced ...

Matt: [46:27] I agree fully about that. One of the things that I do in all of my tastings is when people say, "Crown is not as good because it's brewed over here these days," I tell them to buy two bottles of Peroni fresh from the bottle shop, put one in their fridge and one in their car for four weeks, and then taste them, and they will taste different.

Peter: [46:48] We're on your page. [laughs]

Matt: [46:50] Yeah, and that's exactly right. If it matters to you that's it's imported, then you're actually often putting up with a lesser product, and I agree with that. But when all of the bottles, brewed and bottled in Australia by CUB, even when it's under license ... that, with the Byron Bay logo, CUB, you couldn't find anywhere, CUB's fingerprints on it, or you had to actually go looking. Would you do it the same way again?

Peter: [47:17] Let's see how it plays out, would be the answer. I think, no, now knowing that there is a level of concern that's being discussed and debated around the whole thing, we'd go in with, I think, more knowledge the next time around. We would certainly be very considerate – not to say they weren't at the time. I don't know whether a conscious decision was made one way or another, but certainly going forward, we'll be very conscious of that.

[47:42] We are very proud of being CUB. We don't think that big is bad. In fact, in some cases, we think big can be very, very good.

[47:50] We think that with small brands like that that simply need a bigger production facility, as long as you can deliver the same liquid on the lips to the consumer, then that's the right way to go.

Matt: [48:02] You certainly won't have any disagreement here, and that's why I always say that there's a little bit of a disconnect between the statement that we've had and some of the efforts that seem to be gone to. But ... and I take your point, and in fact, it can be argued that a company like CUB has a much better capacity to manage the quality of their beers than a small brewery that's outsourcing to a

contract brewery, where they don't have the same control over the brewing process that you guys have.

Peter: [48:38] I'd also like make a point to that though, Matt, because I think it's a very interesting point. For me, all of us make up the beer industry, be it Lion Nathan, Coopers, CUB or, at the other end of the spectrum, some of the small brewers. I think the more we can work together to grow the industry, to make the beer category more exciting, more appealing, the better. I get worried when we squabble amongst us ourselves. As I said to the other industry players, "What we really want to do is fight on a rising tide." We want a healthy category.

Matt: [49:18] The rising tide of [indecipherable 49:18]?

Peter: [49:18] Yeah, with healthy brands, and between the two of those things, they end up with a better business for us, and they end up with a better result for the consumer. That's really where we've got to head as an industry.

Matt: [49:30] From a marketer, isn't some clarity in making a point that these products are fighting [indecipherable 49:37], because, "We are a big brewery. We have these quality controls and this consistency." Isn't that one of your strengths? One of the points I made during the Byron Bay thing is that brand does matter, and as a person who lives his life in brand, you know that that matters. For example, a brewer like Stone & Wood, they could have been much, much bigger. They've had continuing supply problems since they started, because they haven't gone the contract route, and that is a very important part of their brand.

[50:08] When they launch their second brewery, when they expand their brewery, they're going to change their branding to "Brewed in the Northern Rivers," because they can no longer say, "Brewed in Byron Bay". But it doesn't dilute the brand at all. It takes years, extends this ...

[background conversation]

Matt: [50:29] Brands such as ... and I've had this discussion with the guys from Mountain Goat, and they said, "Look, we don't hide the fact that we contract brew. We just don't advertise it." I said, "Well, that does put you ... it does dilute the brand somewhat, when people come to it ..."

[50:43] Do you agree that the consumers do have an expectation? Or that at the consumer level, not at a liquid level, or at a business level, but at a consumer level, if they have an expectation that something is a state of being ... that eggs are free-range, and that free range means that they actually get to go outside, that they're disappointed if free-range means that chickens can't actually spread their wings. Is the consumers' perceptions a right way to approach it?

Peter: [51:13] Look, I think it's a difficult question to answer ... I mean, in your case of free-range ... and I buy free-range eggs, I absolutely expect them to be laid by chickens that are roaming around and scratching.

[51:27] So I think there has to be an element of truth, but there's also an element of practicality around it. For breweries to grow, they've got to make commercial decisions, and it cannot ... sometimes, you simply can't just extend within the same brewing facility, etc., and you've got to have economies of scale and all sorts of things.

[51:47] So I think there's a practical element that gets put on it. The bottom line though, I keep going back, is the consumer can't be deceived. You cannot say something that is deceiving to the consumer. Sometimes you maybe just don't talk it up quite as much. You don't necessarily need to publish the fact fully that you're now brewed in a different facility if it's not part of your overall brand, and if you can still deliver the same liquid to people. For me, that's still their most important, critical part.

Matt: [52:15] Could a "Brewed and bottled by CUB" on Byron Bay label, for example, dispelled any notions?

Peter: [52:21] Yeah, "Brewed and bottled in Warnervale, under license by Byron Bay" or something of that nature. Because that's the reality. So I think we're probably in violent agreement at the end of the day. I think the important thing with Byron Bay is ... Barry was intimately involved. He was involved with the recipe. We didn't change anything. He was intimately involved.

[52:40] He just said, "Look, guys, I can't bottle. I don't have the facility. People are demanding. They want bottles of beer. I can give them kegs out of my facility here, but actually, if I'm going to grow, I need kegs and I need bottles, and you're in the business of branding and you've got a footprint. Isn't there something in that?" That's how we struck the deal.

Matt: [52:57] People are waiting to get into the conference room, Peter. We could obviously talk for hours. Hopefully, we'll get a chance to talk about some other things ...

Peter: [53:00] Yeah, chat some more.

Matt: [53:03] We can talk now or ...

Peter: [53:04] Oh, no, I've run out of time now, mate, but certainly very happy to chat anytime you ...

Matt: [53:09] Thank you very much. It's great to be once again talking to CUB after quite a while, and hopefully we'll talk again soon, but thank you very much.

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[background conversation]

Matt: [53:22] Peter, thank you very much, we've run out of time. People are waiting to use the conference room. Thank you for being so generous with your time. It's great to be talking to CUB again.

Peter: [53:30] Thanks, Matt, it's fantastic. Let me just reiterate that I think as we work on a healthy category, having people like yourself who are as passionate about the beer and the brews as we are is such a fundamentally important thing. You definitely have an open door here. I've said it time and time again, [indecipherable 53:48] be as completely transparent with you, and it's just really encouraging to have somebody that loves beer as much as we do.

Matt: [53:53] I might hit you up for some sponsorship dollars with an approach like that. Peter, great to sit down and chat. Thank you for your time, and hopefully we'll get to have a beer one day, sit around and just chat.

Peter: [54:00] I'll look forward to that. Thanks.

End of Audio