

OUTLOOK

AIB's Series of Sectoral Research Reports

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THE LICENSED TRADE

In association with:



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SUPPORTING THE DEVELOPMENT OF THE IRISH LICENSED TRADE SECTOR

Welcome to the fourth in our series of reports covering key sectors within the Irish economy.

The aim of these reports is to analyse key components of the Irish economic landscape and provide expert opinion, guidance and advice from some of the stakeholders within each sector. They also provide some important insights into how AIB is working to support the growth of these sectors. We are pleased to partner with the Licensed Vintners Association (LVA) and the Vintners' Federation of Ireland (VFI) on this report.

As with previous reports in this series, an important dimension is the specially commissioned in-depth research which has been carried out by Amárach Research. The research findings highlight the key issues that are impacting on the licensed trade sector and the measures that businesses are taking to deal with these issues.

Clearly, the past few years have been very difficult for the licensed pub trade. AIB recognises the importance of the sector to the bank, the drinks industry, our vitally important tourism industry and the wider Irish economy. The sector supports circa 50,000 jobs in cities, towns and villages throughout the country, contributing in excess of €2 billion in tax receipts annually to the Exchequer.

The research shows that there is a polarisation of performance taking place with some pubs in urban locations, particularly Dublin, experiencing growth with the majority of pubs experiencing a decline. Reduced consumer spending combined with changing consumption habits have resulted in a 34% drop in on-trade sales in the last 5 years. A key challenge for all pubs is



PADRAIG CRIBBEN, CHIEF EXECUTIVE VINTNERS' FEDERATION OF IRELAND, DONALL O'KEEFFE, CHIEF EXECUTIVE LICENSED VINTNERS ASSOCIATION AND AIB'S HEAD OF BUSINESS BANKING KEN BURKE PICTURED AT THE LAUNCH OF THE AIB OUTLOOK REPORT ON THE LICENSED TRADE.

attracting and being relevant to the 25-35 year old market and this report outlines some of the measures that progressive pubs are using to attract this demographic. Competition from cheaper off-trade sales is another key challenge facing the sector. There is also a significant debt burden on a large percentage of pubs and it is very important that pubs continue to engage with their banks in this regard.

The research demonstrates that publicans are resilient and are adapting to changing consumption habits through a revamped food offering and creating a pub "experience" through events and entertainment. With overall tourism numbers on the increase more and more publicans are also tapping into the tourism market for customers and it is no surprise to learn that a visit to an Irish pub is cited by tourists as one of the top "things to do in Ireland".

AIB understands the licensed pub trade and is committed to supporting our licensed pub customers. We have dedicated relationship managers across our corporate, business centre and branch banking networks with the knowledge and expertise to support licensed pub customers in dealing with the challenges and opportunities that lie ahead.

The outlook for the sector looks challenging. AIB will continue to work with the licensed pub trade to provide credit to viable businesses, whether that is to new or existing customers to support the sector, and its future development as it responds to those challenges.

I hope you find this report useful.

KEN BURKE
HEAD OF BUSINESS BANKING

RESPONDING TO CHANGE

The Irish pub sector has experienced considerable difficulties in recent years but there are varying degrees of optimism within the sector according to research carried out by Amárach Research on behalf of AIB.

The research shows a degree of polarisation emerging between pubs that are responding effectively to the recession and those who continue to experience decline. Food, in particular, is seen as a necessary part of the successful pub's offering in 2013 and the research shows that the stronger pubs are growing their food offering and seeing it generate a rising share of turnover. Some pubs are

struggling to grow despite having a food offering. Food will continue to play a key role in future success, but it has to be accompanied by better service, entertainment and a compelling range of products.

Similar to the hotel sector – which was covered in a previous AIB sectoral report (www.aib.ie/outlook) – pubs need to constantly renew and upgrade their amenities and facilities in order to keep customers coming back. A key vote of confidence in the future is the fact that nearly half expect to improve/renovate in the next 3 years. The majority of pubs will make these improvements using their own resources.



Other key findings from the research include:

- 30% of pubs reported an increase in turnover in 2012 when compared to 2011, however 50% reported a decrease.
- 6 in 10 publicans believe the pub industry will take more than 5 years to improve. Publicans are more optimistic about their own business with 52% feeling that their own economic situation will be better within the next 3 years.
- 60% of Dublin pubs now offer lunchtime food while 41% offer a Sunday carvery. Outside of Dublin, 38% of pubs offer lunchtime food while 29% offer a Sunday carvery.
- Almost 8 in 10 publicans have organised an event in the last twelve months to attract customers.
- The three top concerns for all publicans are local authority rates, the availability of cheap alcohol in supermarkets and rising labour costs.
- The profile of pub-going customers has changed – 1/3 of customers are under 30 and 43% of publicans are not doing anything to target this market.
- Many publicans are planning to improve/renovate their business over the next three years. Measures will include upgrading the pub's interior and exterior, targeting new markets, improving staff training and developing partnerships with suppliers/providers.

REASONS FOR OPTIMISM

THE IRISH PUB SECTOR HAS EXPERIENCED MORE THAN ITS FAIR SHARE OF DIFFICULTIES OVER THE PAST FEW YEARS. WHILE THERE ARE STILL MANY CHALLENGES AHEAD, THERE ARE REASONS TO BE OPTIMISTIC, ACCORDING TO THE FINDINGS OF THE LATEST AIB/AMÁRACH RESEARCH SURVEY.

The pub sector has borne the brunt of the recession in Ireland's domestic economy these past few years. One indicator is the volume of sales in bars, published every month by the CSO. In Q2 2013 the volume of bar sales stood at just 64% of their level in 2005. The value of bar sales (when inflation is included) fared slightly 'better', standing at 72% of their 2005 level by mid-2013.

So, Ireland's pubs have experienced significant turbulence these past five years, as economic recession has exacerbated the impact of a falling youth population (made worse by emigration), a widening price gap between on-trade and off-trade alcohol prices, the implementation of the smoking ban and tougher drink driving laws.

Our survey of 200 publicans explores how Irish pubs are faring and how they are responding to the crisis by changing, investing and cultivating new sources of revenue as they face up to the fact that there is no going back to the way things were at the height of the boom, some five years ago.

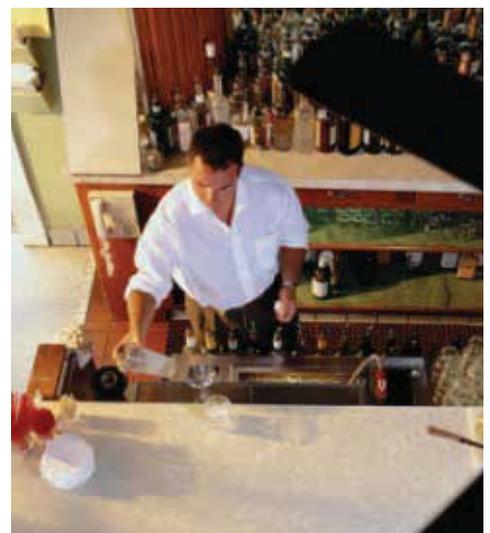
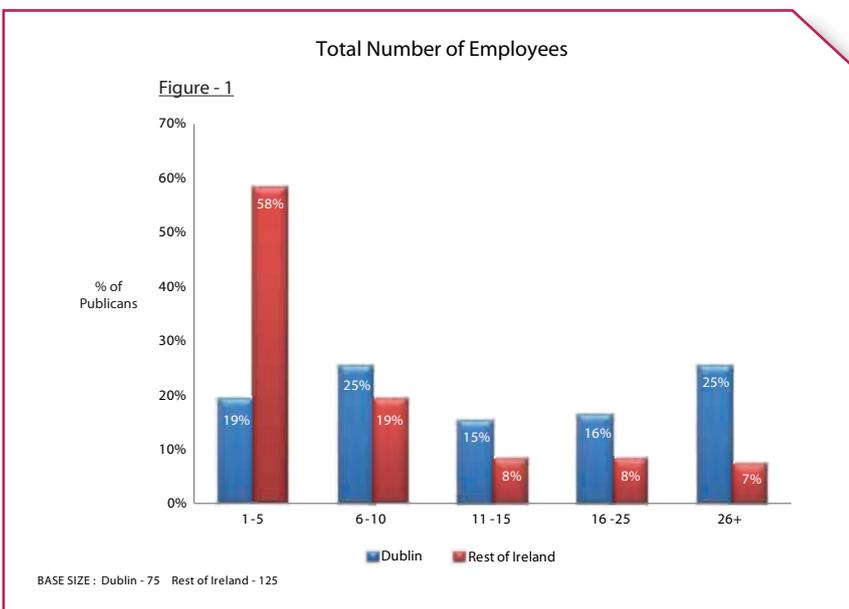
10% of all pubs in Ireland, we have boosted the sample for Dublin pubs to enable valid comparisons between Dublin and the rest of the country. As is widely recognised there is a growing divergence of pubs in Dublin and those outside Dublin. Therefore we have reported the survey findings in terms of Dublin vs. Rest of Ireland throughout the report.

Interviews were conducted with those responsible for decision making in relation to the business operation of their pub. Some 71% of those interviewed were owners or co-owners of their pubs, 21% were managers, with leaseholders and other arrangements making up the balance.

The overwhelming majority – 91% – of those we interviewed own or manage just one pub, 7% have two pubs and only 2% have three or more pubs.

METHODOLOGY

Amárach Research conducted a telephone survey of 200 publicans throughout Ireland in July 2013. Of the 200 pubs surveyed, 75 were in Dublin, 25 in urban areas outside Dublin, and the remaining 100 were in rural areas. Although Dublin pubs make up just





PERFORMANCE & PROSPECTS

PUB PROFILE

Pubs are a significant source of employment in Ireland. While the majority of pubs employ fewer than 10 staff, that still equates to nearly 50,000 jobs across 7,400 pubs. (Figure 1).

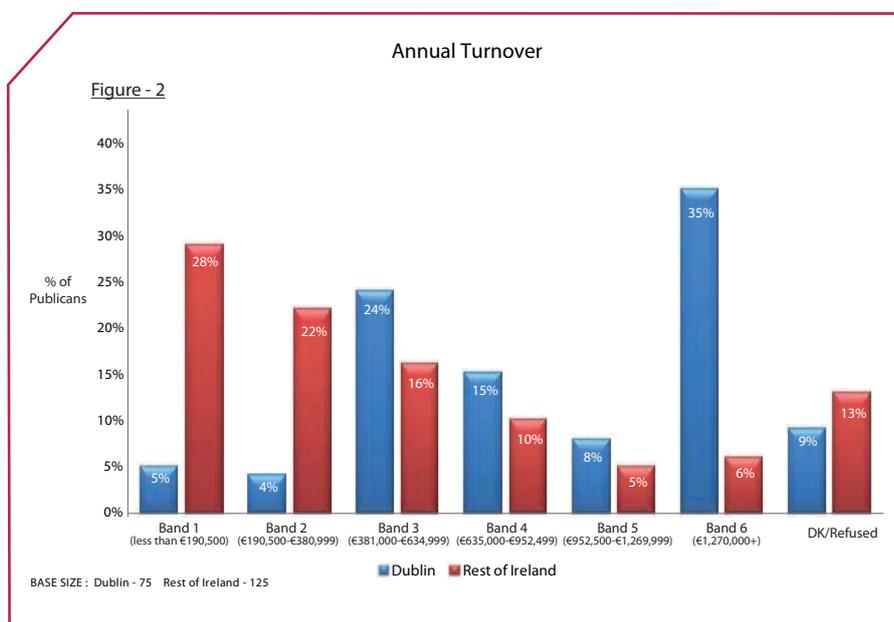
The majority of Dublin pubs employ more than 10 staff, while in contrast the majority of rural pubs employ fewer than 5 staff.

A similar urban/rural divide emerges when we examine annual turnover. The majority of pubs in our survey outside Dublin are in turnover bands 1-3, while the majority of Dublin pubs are in bands 4-6.



However, it should be noted that data from the Revenue Commissioners indicates that up to 80% of pubs in Ireland are in Band 1 and 2 so the sample in the survey is drawn mainly from larger than average pubs in this regard. (Figure 2).

Our survey findings confirm the CSO's assessment of the pub sector's performance. Half of those pubs we surveyed saw their turnover decrease in 2012 when compared to 2011, although 30% actually saw their turnover increase. >>



► AIB / AMÁRACH RESEARCH SURVEY

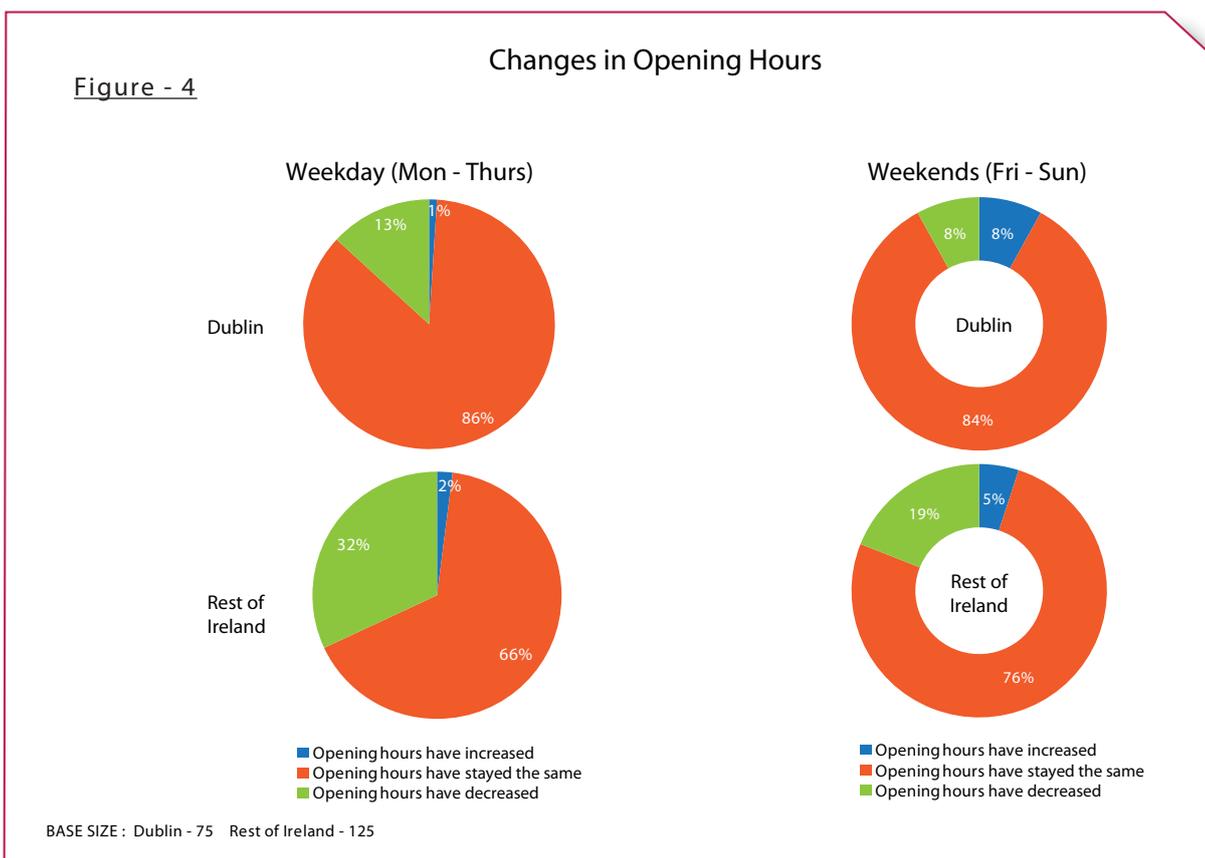
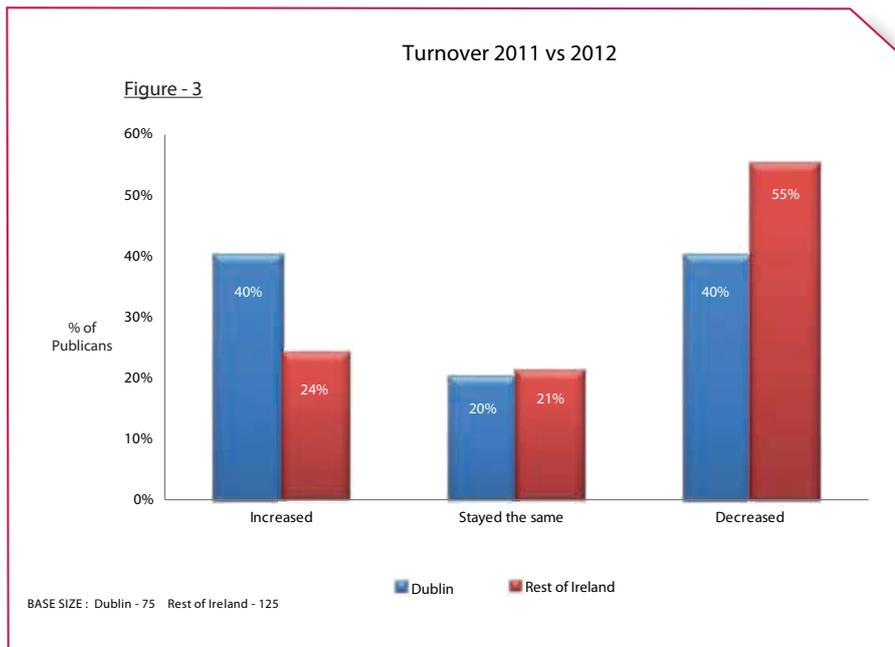
Some 40% of Dublin pubs in our survey experienced an increase in turnover in 2012, compared to 26% of rural pubs. (Figure 3). Other indications from the trade point to a

less positive trend, suggesting that just over a quarter of all pubs in Dublin saw growth last year, and fewer than 20% of all pubs outside of Dublin.

According to the research, there is a polarisation of performance in the pub sector, with the majority suffering from the recession while a significant minority is bucking the trend. The latter appear to be more concentrated in urban areas, especially Dublin. Among those experiencing an increase in turnover, the average increase in 2012 was a very positive 9%. However, for the 50% who experienced a decrease in turnover, the average decrease was 15%.

This broadly indicates a net decline in sector turnover, in line with CSO trends. It should also be noted that some turnover growth may have come from price increases driven, for example, by increases in excise duties. However, the volume of sales may have continued to decline even in pubs that saw a growth in turnover. Indeed, other data from the Revenue Commissioners and from Nielsen indicate that the on-trade has seen continuous decline in the volume of sales right through to mid-2013.

A related indicator of business performance is that of opening hours. On balance there has been an overall reduction in opening hours. 1 in 4 pubs have reduced their weekday



opening hours (Monday-Thursday) in the last year rising to 1 in 3 in rural locations. In addition 1 in 6 pubs have reduced their weekend opening hours. Pub closures in recent years have been concentrated in smaller pubs, including those in more rural areas around Ireland. (Figure 4).

Given this trend, we should not be surprised to learn that publicans are less optimistic than some other sectors surveyed in this series of sector research reports about the timing of recovery. Indeed, they expect Ireland's economy to recover sooner than the pub sector. Indeed some 60% of the publicans surveyed expect the economy to be better in the next 5 years compared to just 37% expecting the pub sector to be better. (Figure 5).

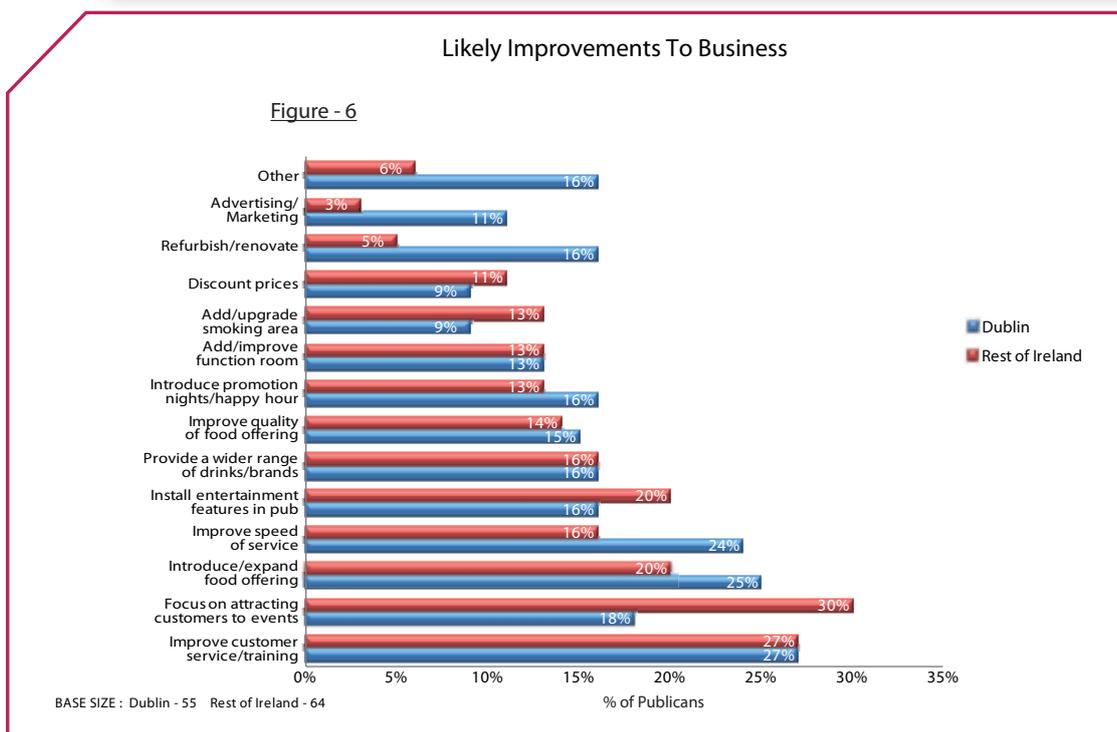
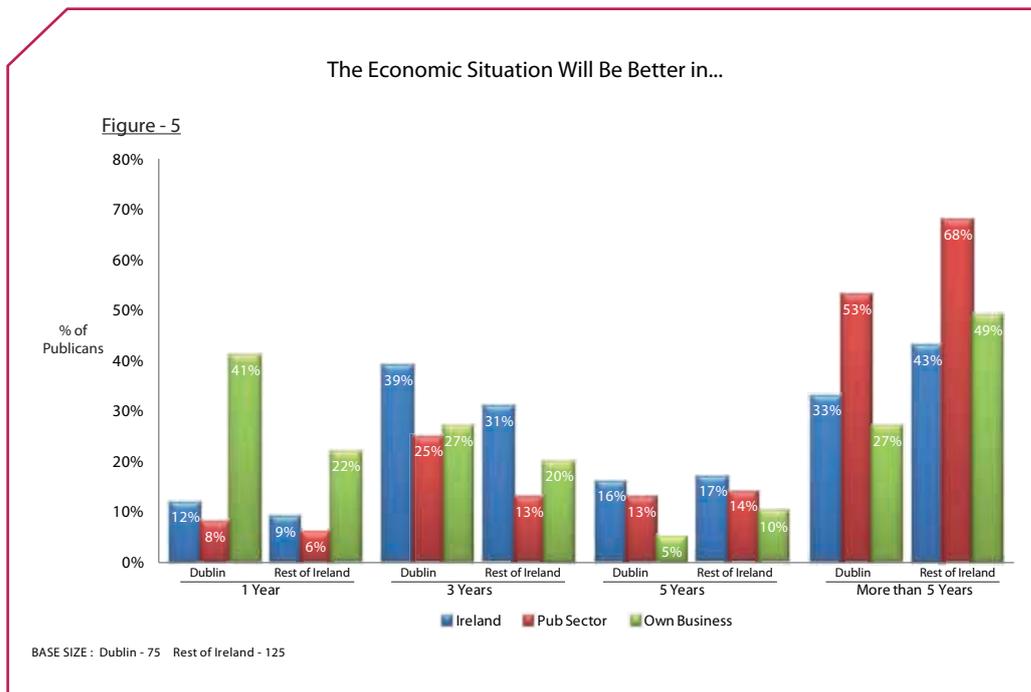
Nevertheless, they are far more optimistic about their own businesses, with the majority – 52% – expecting their pubs' performance to be better in the next 1-3 years.

Dublin publicans are more optimistic than most – with 41% expecting their business to be better in the next year. In marked contrast, 54% of rural pubs expect it will take more than 5 years for their business to get better. The good news from an economic perspective is that it is the larger pubs (by turnover and employee numbers) that are most optimistic about

their business prospects – suggesting that a sizeable share of the jobs in the sector may be relatively secure (with a stress on relatively).

As for what will drive better business performance over the next five years, food, events and better customer service are among the key anticipated changes. Larger pubs are

especially focused on improving service and providing entertainment – all of which bodes well for job retention and creation in that part of the sector. In the case of food, it is the smaller pubs (by turnover) that are more likely to see the introduction or expansion of their food offering as an important element in recovery. (Figure 6). >>



► AIB / AMÁRACH RESEARCH SURVEY



PUB SECTOR INSIGHT

The pub sector is seeing a degree of polarisation between pubs that are responding effectively to the recession and those who continue to experience decline. A key challenge for the latter category is to copy where possible what the more successful pubs are doing to keep and grow their customer base despite weak spending levels.

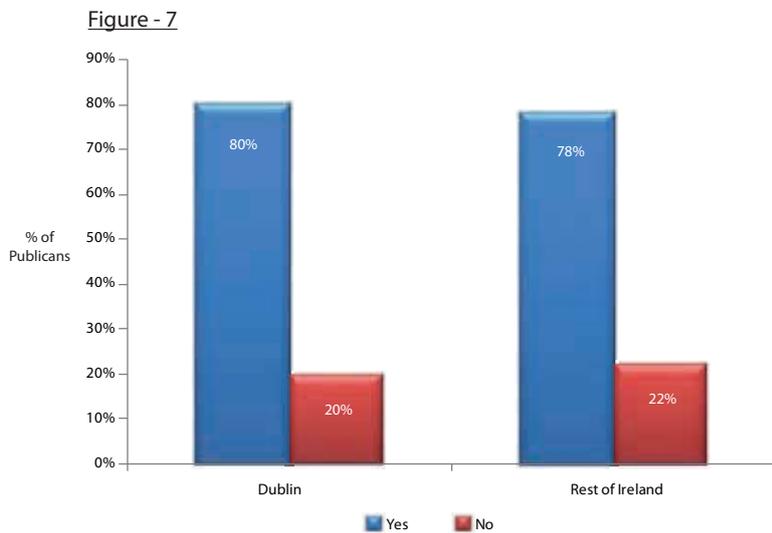
CHANGING CUSTOMERS

Of course, publicans are not responding passively to the trends they see, many are already investing in marketing and promotional activities to reverse the decline or support growth where increases are underway. Our survey found that the vast majority of publicans had organised events such as quizzes, music and comedy nights specifically to attract customers to their pubs. This is particularly relevant for the younger market. (Figure 7).

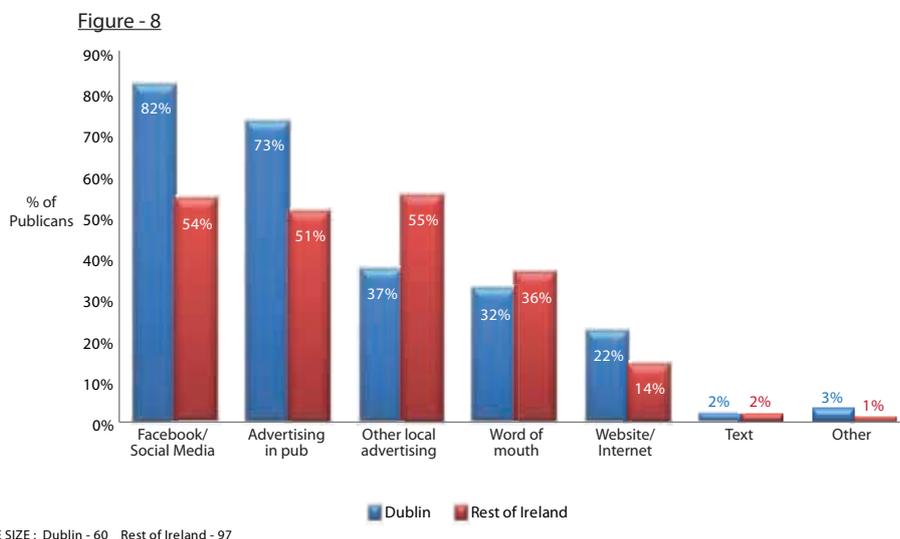
Moreover, they are getting smarter about using low cost but effective means of reaching potential customers, especially social media such as Facebook. (Figure 8).

Although Dublin pubs are more likely to use social media and their websites than pubs outside Dublin, the latter are more likely to

Organised An Event To Attract Customers



How Event(s) were Publicised



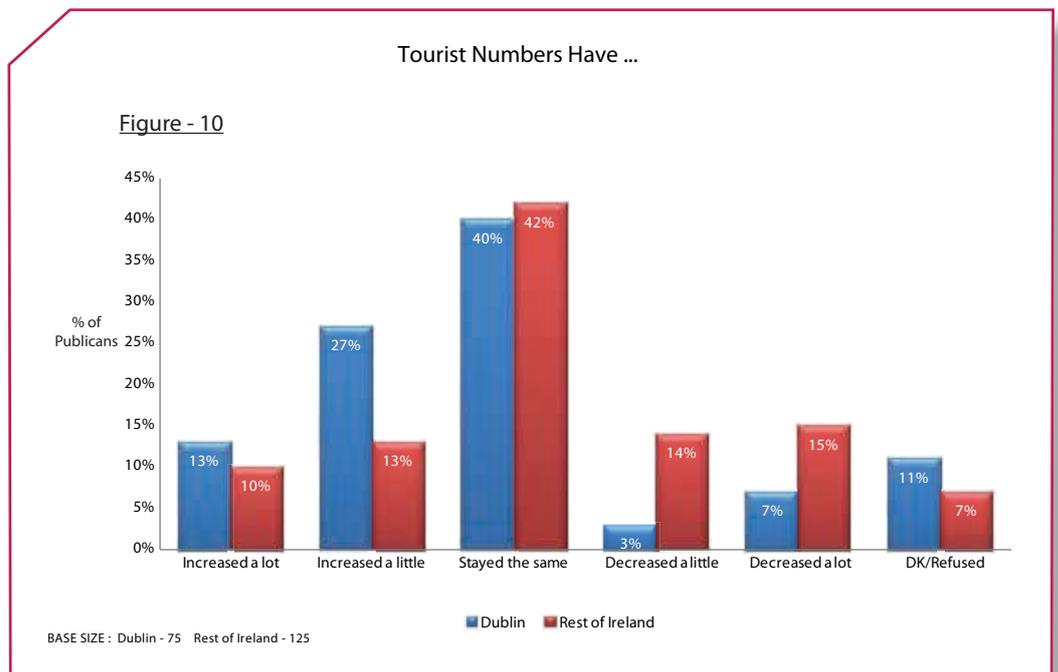
use local advertising and word-of-mouth promotions to drive attendance at events etc.

The profile of the pub-going customer is changing. Right now, approximately a third of the customers of the pubs we surveyed are aged under 30, a third are aged 30-50, and a third are aged over 50. The problem for many pubs is that their customer base is ageing and there is an insufficient intake of younger customers to maintain the age balance. (Figure 9).

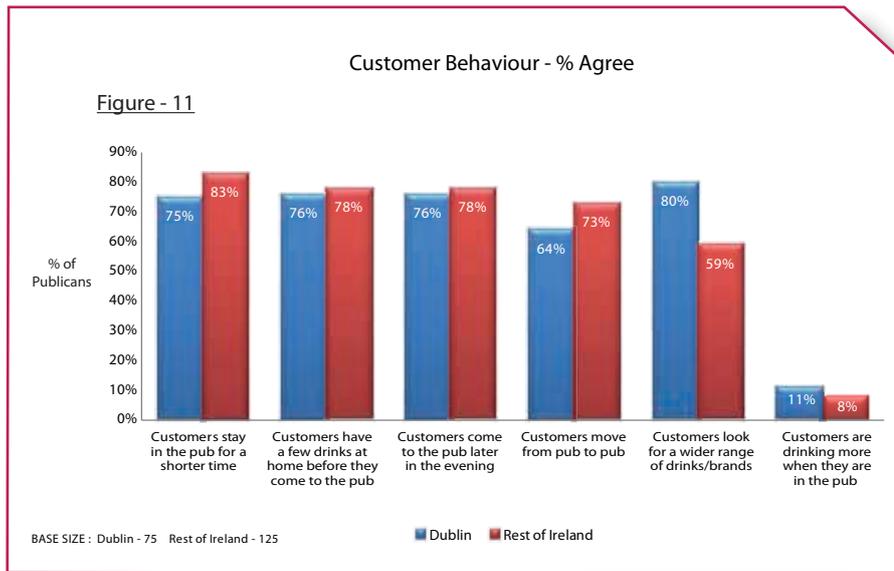
Attracting younger customers is particularly a problem for pubs with lower turnovers. Among pubs in Bands 1 & 2, some 22% of customers are aged 60 and over, while for those in Bands 5 & 6 the share is nearer 14%. The larger pubs also have a higher share of under 30s in their customer base (nearer 40% in some instances), which bodes well for their longer term prospects assuming they can retain such customers as they grow older.

Publicans have taken a number of initiatives to attract younger customers, including more live entertainment, theme nights, greater use of social media and even providing a wider range of drinks and cocktails. That said, the fact is that 43% of the publicans we surveyed admitted that they are not doing anything to attract younger people to their pubs.

Another key customer group, is tourists. On average, tourists make up 17% of their customers (including domestic tourists from other parts of Ireland). 1 in 4 Dublin/urban pubs have seen an uplift in tourist customers. Rural pubs were more likely to have experienced a decline in tourist customers. The research also shows that tourist numbers rise significantly by turnover, with tourists making up 23% of customers for those in Bands 5 & 6. (Figure 10). >>



► AIB / AMÁRACH RESEARCH SURVEY



Against the background of The Gathering, it is reassuring to see that the number of tourists visiting pubs in Ireland has, on balance, increased over the last year.

Ultimately, however, pubs can only survive and thrive by meeting the needs of their regular customers. Publicans are seeing significant changes in customer behaviour, many of which reflect the impact of the recession on consumer spending power. The research shows that customers are spending less time and money in pubs while at the same time demanding a wider range of services overall. (Figure 11).



Though pub-goers are still keen to go to the pub, they are seen to be 'managing' their time and money in ways designed to keep within budgets and to complement spending in pubs with spending in off-licences as well.

PUB SECTOR INSIGHT

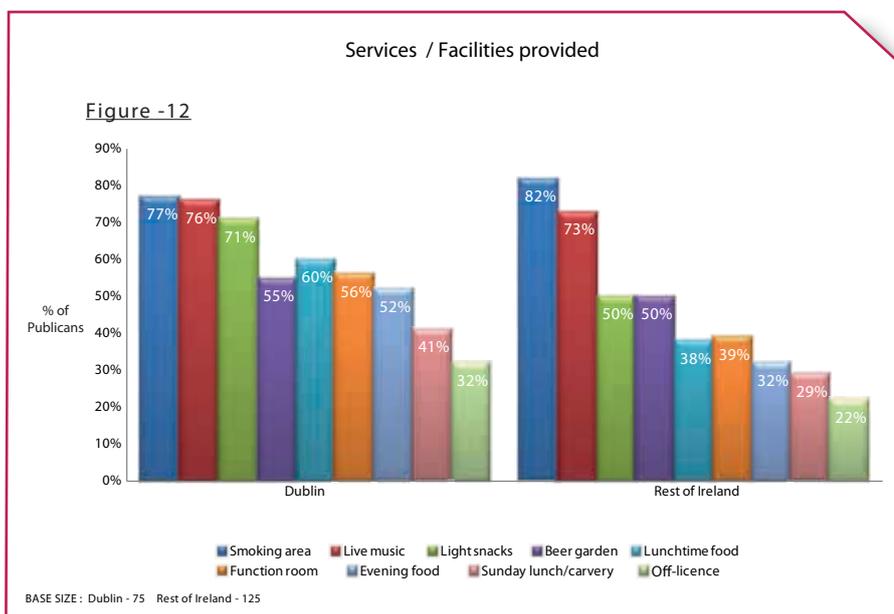
Pubs need to win back the hearts and minds of younger consumers. Some have already succeeded in replenishing their customer base with younger consumers who will provide the basis for sustainable growth in the future. But today's 18-25s are a harder demographic to please than previous generations. Food, entertainment and service will win many back.

FEEDING GROWTH

We noted earlier the role food is expected to play in business recovery for many pubs. The food offering in pubs is already well established, with the majority offering light snacks including coffee, pastries etc. Almost half offer lunchtime food, and slightly less offer evening food. A third offer Sunday lunch or carvery. (Figure 12).

Among those pubs in our survey offering any food (including light snacks), food's share of their turnover averages 32% of the total. That share falls to 29% of Dublin pubs offering food, and rises to 40% of the turnover of rural pubs with a food offering. Typically, the share of food as a percentage of total turnover declines the higher the annual turnover.

Nevertheless, food turnover has – on balance – increased over the past year in pubs with a food offering. According to the research, on





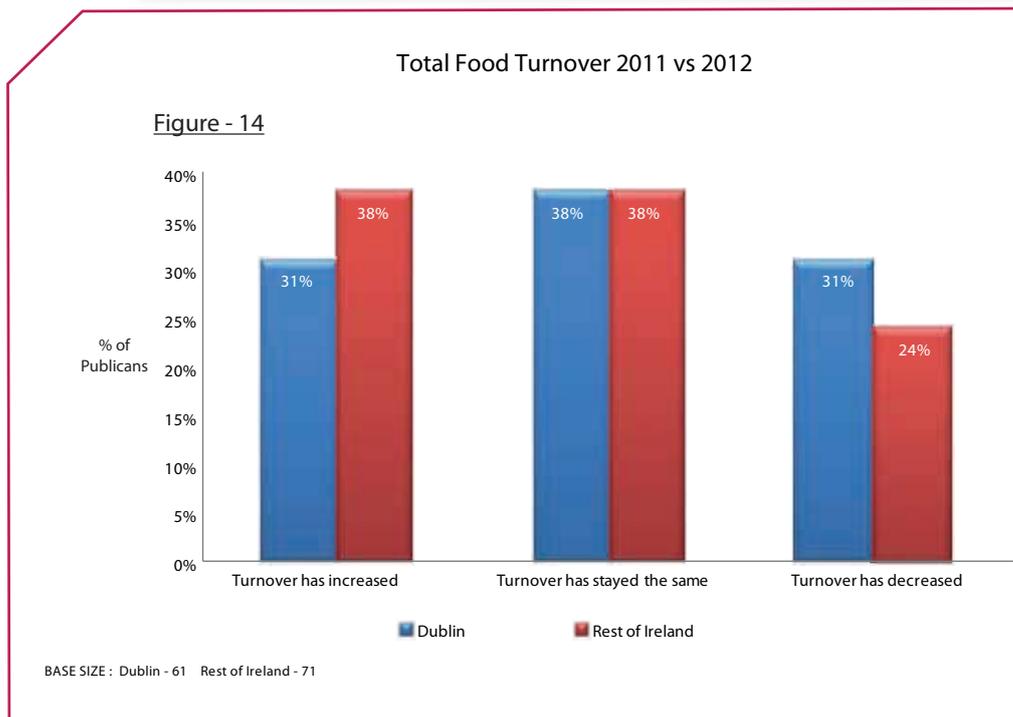
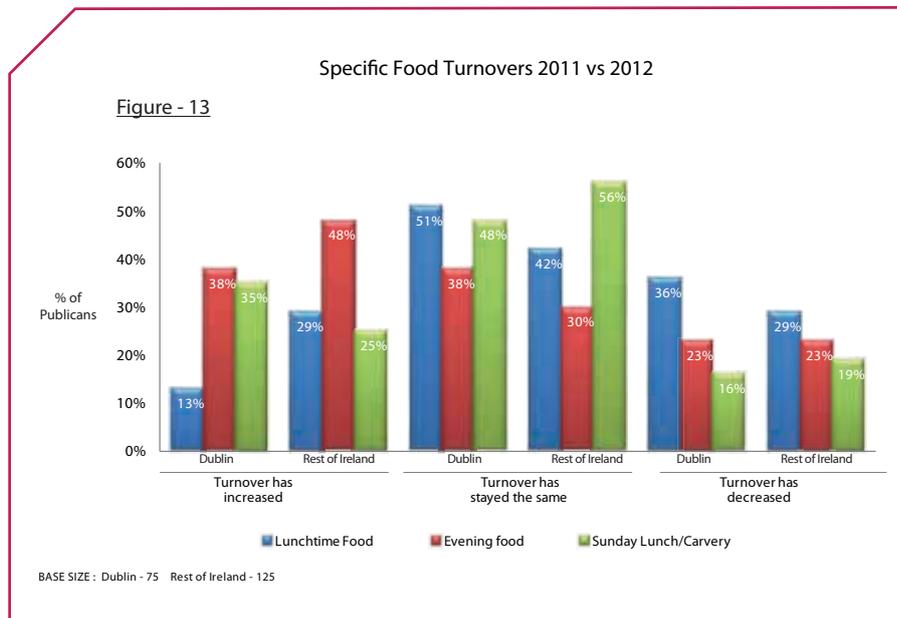
average, for the 35% of the pubs in our survey seeing an increase, the annual rate of increase has been 15%. Larger pubs by turnover and employees were more likely to experience an increase, as were pubs whose turnover generally rose in 2012 vs. 2011. For the 27% who saw a decrease in food turnover, turnover declined at a rate of 25%. Pubs experiencing a decline in overall turnover were more likely to also see a sharp decline in food turnover therefore showing a clear link between the success of a pub and the success of its food offering. (Figure 13).

The pattern of change in food turnover is not uniform by time of day. Pubs selling food are more likely to report an increase in turnover from evening meals, followed by Sunday food sales, and then by lunch food.

As with total pub turnover, we appear to be witnessing a degree of 'polarisation' between those who are building on momentum, using food to drive sales and profits, versus a larger cohort who appear to be going backwards. (Figure 14). >>

PUB SECTOR INSIGHT

Food is a necessary part of the successful pub's offering in 2013 – but it may not be sufficient. Good pubs are growing their food offering and seeing it generate a rising share of turnover. But poorer performing pubs are struggling to grow despite their food offering. Food will play a key role in future success, but it has to be accompanied by better service, entertainment and a compelling range of drinks as well.



LOOKING TO THE FUTURE

We noted earlier the importance of the pub sector in terms of employment. Not surprisingly, wage costs are significant in pubs. On average they equal 24% of turnover across the pubs in our survey. This rises to 27% in Dublin pubs, and falls back to 22% in rural pubs. Not surprisingly, pubs with above average levels of staff and turnover see the

share of wages rise well above the average.

This indicates that a return to growth in the pub sector will – other things being equal – provide a significant boost to employment levels and disposable incomes in the economy. The top concern currently facing their businesses is local authority rates, followed by access to cheap alcohol in supermarkets – wage costs coming in third. (Figure 15).

Ominously, it is those with the higher staff levels and turnover who are most concerned about

local authority rates. Lower turnover pubs are as likely to be concerned about competition from cheap alcohol in supermarkets as rates.

Despite these pressures and concerns, many pub owners are already anticipating how they might accelerate the pace of recovery for their pubs in the months and years ahead. Pubs, like any hospitality business, need regular investment in refurbishment and other capital expenditure. Excluding repairs, the average annual spend on capital and refurbishment expenditure is just under €23,000 per pub, rising to €43,000 in Dublin, and to €54,000 per annum in pubs in turnover Bands 5 & 6.

Looking ahead, almost half – 46% – of the pubs in our survey are planning to improve or expand their business in the next 3 years. This jumps to 63% of Dublin pubs, and again to 67% of those in the highest turnover bands. Many are investing in momentum, with 65% of those who saw turnover rise last year planning to invest in the next 3 years, compared to just 33% of those who saw turnover fall.

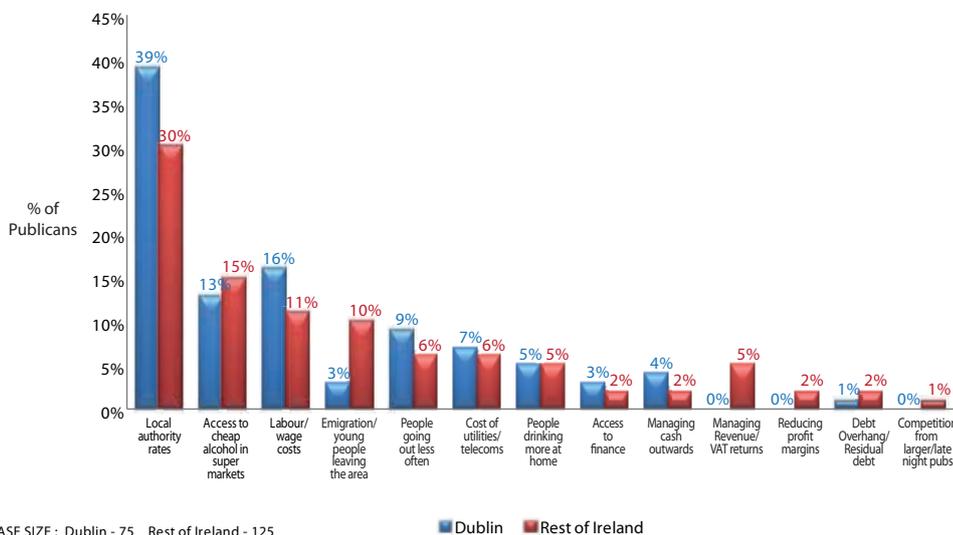
Those planning to improve or expand expect to prioritise upgrading and renovating their pub interiors, followed by a focus on improving customer service and staff training (presumably related in part at least to their plans for their food offering) and offering new services & attractions to target new markets.

Rural pubs are more likely to prioritise internal and external upgrades to urban/Dublin pubs; while urban pubs (outside of Dublin) are more likely than others to target new markets and to develop partnerships with suppliers. (Figure 16).

PUB SECTOR INSIGHT
Like hotels – covered in a previous sector report – pubs need to constantly renew their amenities and facilities in order to keep customers coming back. A key vote of confidence in the future is the fact that nearly half expect to improve/renovate in the next 3 years.

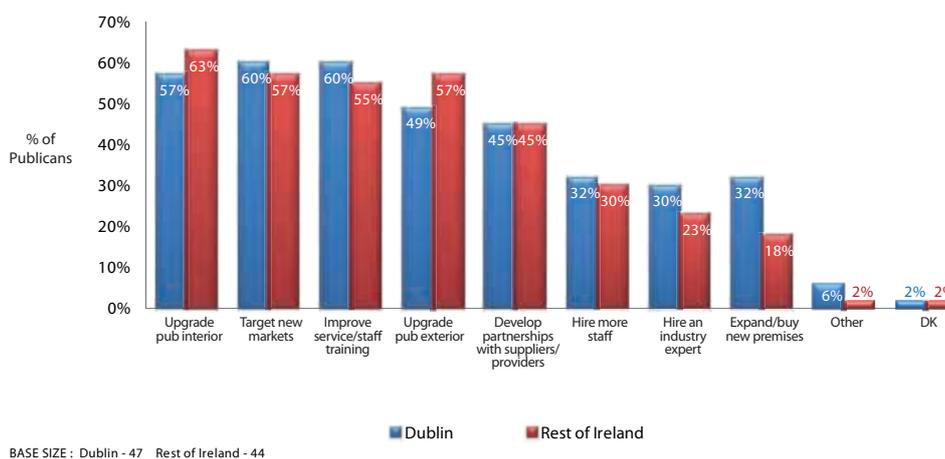
Top Concerns For Your Business

Figure - 15



Measures Likely to Adopt to Grow Your Business

Figure - 16





FUNDING GROWTH

With most pubs already committed to recurring levels of capital expenditure, increasing expenditure will demand access to a range of resources. For those planning to improve/renovate, the primary resource for additional expenditure will come from the reinvestment of profits from the business, followed by a bank loan. (Figure 17).

Urban pubs (outside of Dublin) are most likely to fund expansion from profits (67%), while Dublin pubs are more likely to seek a bank loan (38%). Bank loans are also more likely to figure in the expansion plans of pubs with higher than average levels of employment and in the top turnover Bands 5 & 6.

Obviously, the recession has put pressure on relations between pubs and their banks, especially in relation to debt. Total direct lending to pubs – according to Central Bank data – stands at just over €2 billion. This compares to €2.8 billion in lending to hotels, and €0.5 billion to restaurants. This excludes lending for other purposes (e.g. the purchase of land or property) that might also potentially be secured on the pub.

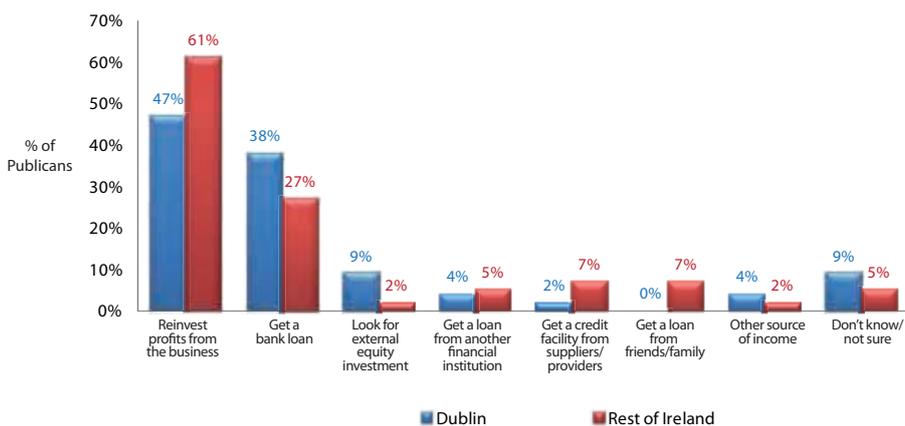
Nevertheless, the majority 53% of pubs in our survey describe their current relationship with their main bank as good, but 18% describe it as poor.

Overall, though, there appears to be a high degree of interaction between pub owners and their banks, and a general sense their banks are genuinely engaged in addressing their business needs. (Figure 18).

But it is by no means a unanimous view, half of all pub owners disagree that their main business bank 'makes me feel like a valued customer'. >>

Likely Sources of Funding for Improvements

Figure - 17



BASE SIZE : Dublin - 47 Rest of Ireland - 44

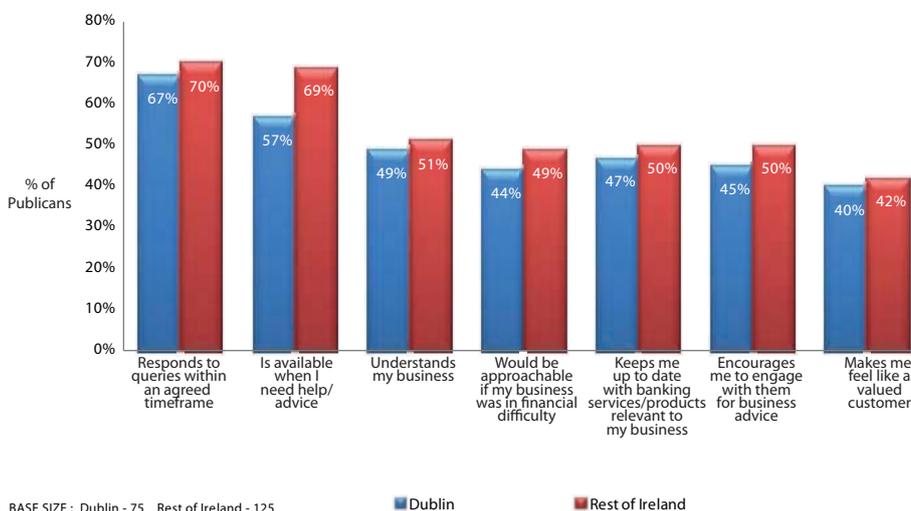


PUB SECTOR INSIGHT

Pub owners' relationships with their banks have been sorely tested by the recession and its impact on business performance. Despite everything, most continue to have a good relationship, with a generally positive though varied customer experience. This bodes well for those pubs that have mapped out a clear path to success in partnership with their banks.

Rating of Main Bank - % Agree

Figure - 18



BASE SIZE : Dublin - 75 Rest of Ireland - 125

SUCCESSION

Finally, our survey explored the succession or exit plans for pub owners. As the chart shows, a large minority are undecided. (Figure 19). This isn't surprising perhaps in the face of considerable uncertainty – we have seen similar trends in other sectors explored in this series of sector research reports.

Of the pubs surveyed, 36% will be taken over by other family members. Dublin pub owners are more likely to expect another family member to take it over 40%, closely followed by rural pubs at 39%, but it falls to just 12% of urban (outside Dublin) pubs. Those who saw their turnover fall in 2012 are hoping to sell their pub 24%, while those who saw turnover rise expect it to be taken over by another family member 50%.

As noted earlier, the pub sector has been caught in a turbulent period of change. While a significant minority are experiencing a pick-up in growth – helped by food sales, events and tourism – most are still struggling to hold on to the business they've got let alone plan for expansion.

We can expect further significant changes in the sector in the years ahead – some positive and some negative. It is widely recognised that Ireland has an over-supply of pubs, especially outside of Dublin, and that further



consolidation of the stock of pubs will be an inevitable feature of a recovery in the sector. The profound, structural changes that have affected Ireland's pubs these past five years mean that there will be no return to the levels of on-trade expenditure on alcoholic drinks

that characterised the boom years.

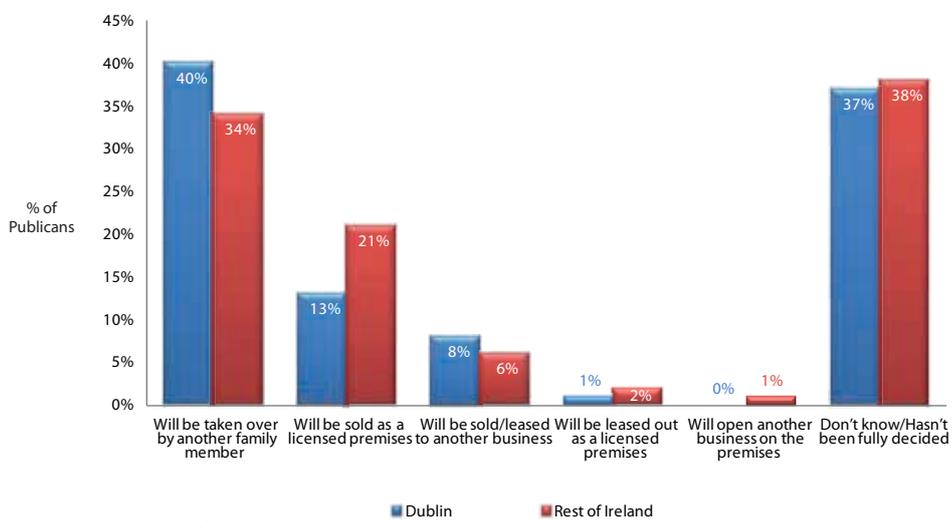
Consumer confidence tends to drive sales in pubs as people become more willing to spend than to save. Other things being equal, a return to consumer spending growth over the next few years will support recovery in the sector. But publicans cannot afford to wait, the better ones are already fighting for their share of wallet and purse against other entertainment and leisure service providers.

The pub will continue to be an integral part of Irish social life in the years ahead, even if the experience of going to the pub sees a growing emphasis on entertainment and eating out, rather than simply drinking with friends and family.

We can be optimistic about prospects for the sector, even if we can't be so optimistic about all pubs in general. The research presented in this report points to the reasons for optimism as the sector begins to emerge from this period of significant turbulence.

Succession Plans

Figure -19



HALF FULL OR HALF EMPTY?

SOME OF IRELAND'S LEADING EXPERTS ON THE PUB TRADE SHARE THEIR VIEWS ON THE MANY CHALLENGES AND OPPORTUNITIES FACING THE SECTOR.

DONALL O'KEEFFE
CHIEF EXECUTIVE
LICENSED VINTNERS
ASSOCIATION

There is no doubt the Dublin licensed trade has endured a very traumatic five years. However it is extremely encouraging to note that good Dublin publicans are now succeeding in growing their businesses again. They are doing this by improving their customer offer and by demonstrably improving customer service. They are simply doing the right things to a higher standard.

The trade is often guilty of looking for "a silver bullet" to solve its problems – it doesn't exist. There is a bright future for publicans who are professional in their management, focus on excellent staff and service, provide good facilities and a high standard of food, drink and entertainment. Dubliners still want to go out and socialise but you have to make a greater effort to make your pub relevant to them. Accordingly, continuous improvements and changes to your offer are central to this.

The reality, however, is that the pub sector in Ireland is being rationalised. There is simply not enough consumer demand to support the 7,400 pubs plus another 1,000 hotels nationally. There has been an 11% decline in the number of pubs since 2007 nationwide, and it looks set to continue. Some 50 pubs have shut in Dublin over the past 5



DONALL O'KEEFFE

years, and the number of licences in Dublin now stands at about 730. That said, Dublin has far fewer pubs per capita than the rest of the country so I still expect that we'll have 700-750 pubs trading in 5 years' time, with some closing and others opening. The reasons for the decline are obvious: less disposable income, greater competition for the 'leisure Euro' and a widening gap between on-trade and off-

trade prices. However, Dublin is doing better than the rest of the country and its medium-term prospects are bright.

There is no doubt food will continue to be an engine for growth. Pubs are ideally positioned to gain from increasing consumer demand for quality, convenient and competitively-priced meals. Ten years ago food accounted for 15% of an average pub's turnover, with 85% coming from drink. Now it's more like 30% for food and 70% drink in the pub, and in some, food has already reached 50% of turnover. We expect food's share to rise because of the opportunities for pubs to offer a better value eating experience to customers in competition with the restaurants. Whether it's lunch in the city centre, or evening and Sunday meals in suburban pubs, there is still room for growth.



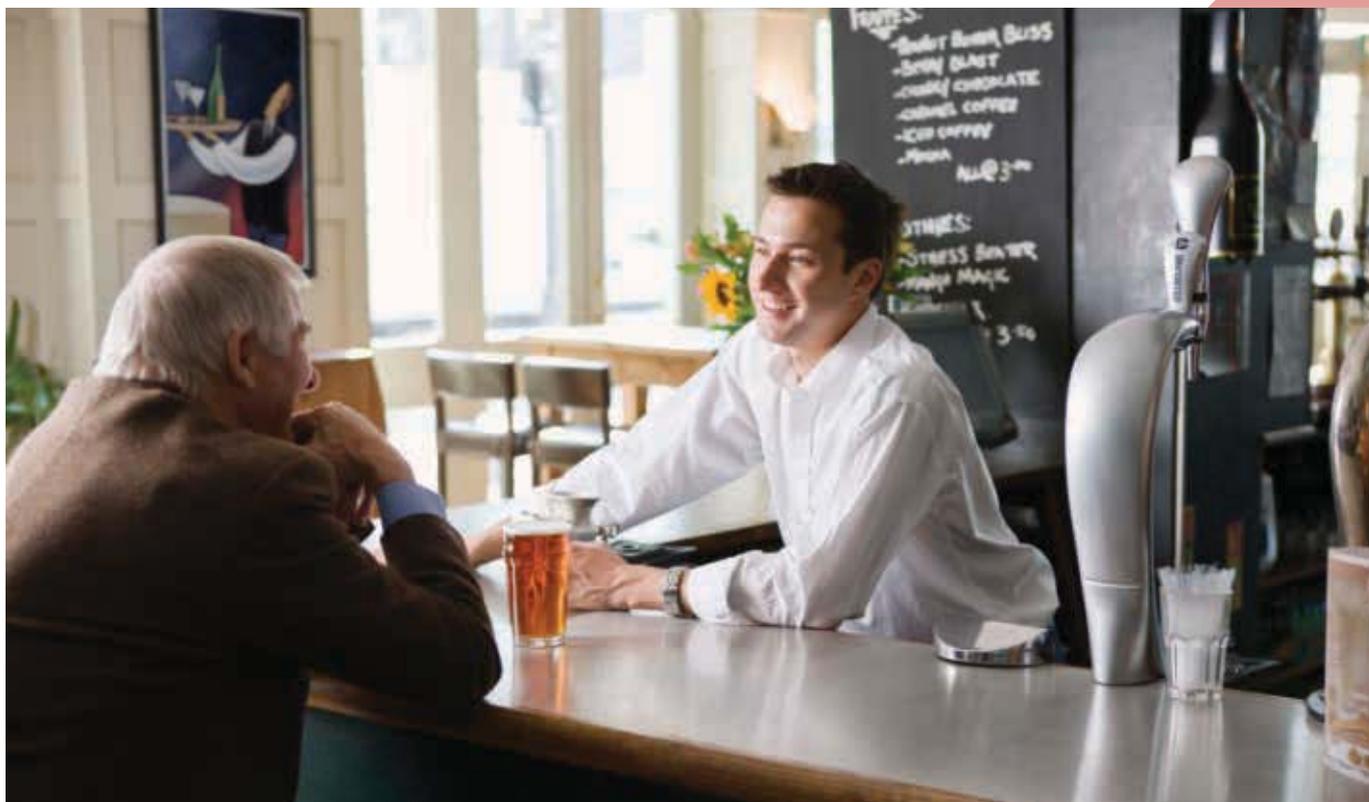
Within the drinks portfolio there are also several obvious growth stories. These include the growth in sales of craft Irish beers on draught, the introduction of packaged "new world" beers as well as the increase in people consuming wine either by the glass or the bottle. In addition, there is now strong consumer interest in Irish whiskeys.

In terms of both food and drink, the "Irishness" of the offer will continue to grow in importance.

The ongoing support of our main suppliers is also a growth opportunity for publicans, if they can leverage the relationship for their mutual benefit. We appreciate their ongoing brand investment, technical support and business development activities. Product quality is very high and is a core strength of the draught business in particular. Ongoing product innovation also stimulates consumer interest and is of real benefit to the trade. On the down-side there remains a huge challenge regarding on/off pricing and the suppliers have a central role to play in this.

Marketing will also play an increasingly important role in generating business for your pub. Social media, and Facebook in particular, offer opportunities to connect to your customers and to drive ongoing engagement with them.

Other drivers of change and growth in the sector in Dublin have been the emergence of late night bars, and the growth of tourism in the city. The former has meant that bars are competing directly with nightclubs, and many have >>



done so very successfully in recent years. As for the latter, tourist numbers from the UK and northern Europe have been relatively positive, and they tend to love Dublin pubs.

Entertainment, particularly music either by live bands or DJs, and in-pub functions and events are all critical in terms of driving business. Strong operators are devoting significant time and resources to promoting this element of their business. The trade must also continue to leverage the major national sporting, music and conference events that regularly take place in Dublin.

Progressive publicans are also focused on the things they can change to attract and retain customers. They recognise the

role of staff and customer service in driving repeat business, hence investment in training staff to deliver a better product.

Some of our members feel that the banks have been slow in regards to credit and restructuring applications. Too much lending to the sector in the past was based on the value of the pub as property, which now constrains the ability of some banks to lend to publicans (and those wishing to buy pubs) and there remains a pressing need to resolve these debt issues.

It is important for the banks to engage with publicans, focusing on the quality of the operators and the business fundamentals of their operations. The sector will need investment in the coming years both to facilitate succession

and to enable publicans to refurbish and redevelop their pubs to meet changing customer needs. Ultimately, the sector needs to bring in a new generation of pub operators who can secure and grow its future, but that will only happen if the banks provide liquidity to facilitate transactions.

The LVA has no doubt that there will be a strong, vibrant and profitable pub scene in Dublin in ten years time. By staying close to your customers and remaining responsive to their needs, you will ensure that your own pub remains a key part of this valuable sector. However, you will need to change and improve to ensure this. We remain absolutely convinced the trade will succeed.



PADRAIG CRIBBEN

have been well documented in recent times but this research, based on the sentiments of two hundred publicans, reinforces the widely held view of the challenges but also emphasises the ways in which publicans are meeting up to these challenges and endeavouring to address them. In particular, the research copper fastens a certain level of polarisation within the trade where certain geographic spots are performing somewhat better than others but within those geographic spots there are also what could be termed 'winners and losers'. The research also highlights the opportunities that exist and how those opportunities are being grasped by certain segments of the industry.

A major challenge for pubs today

“It is extremely encouraging to note that good Dublin publicans are now succeeding in growing their businesses again”



PADRAIG CRIBBEN
CHIEF EXECUTIVE
VINTNERS' FEDERATION
OF IRELAND

The Vintners' Federation of Ireland is pleased to be associated with this research on the trade. The research confirms the very serious challenges facing the industry at this point. Those challenges



is to remain relevant to those under forty. A very real concern for the sector is that we will lose a generation as younger people stay away, or simply come less often than before. Pub going is something people develop as a habitual part of their social life. If you don't get to appreciate the pub then you may never develop the habit of frequenting. Failure to engage the younger generation will not bode well for the future of Irish pubs.

The research shows the importance of events in attracting people to the pub. Of course pubs haven't been standing idly by waiting for things to happen or to improve. Many now cater very successfully for events like birthdays,

anniversaries, re-unions etc. with special offers like free room hire and other add-ons. Better still, many are creating events to plug the gap on early weekday nights when it is quieter. These events are as diverse as hosting black and white movie nights, Irish language nights, cocktail nights etc. Meanwhile, the old reliables of quiz nights and dart competitions and the likes still continue to draw customers to many pubs.

The bottom line is that pubs have to give people a reason to go to the pub. This is a relatively new challenge for the trade. Discerning publicans are now focusing on customer groups with real potential and having a closer look at their target

market. They are seriously asking "What's my market?" and acting accordingly. There is little choice as customers are more demanding and have more options so publicans have to compete more than ever for their money and their time. The real competition for the publican today is not the pub down the road. It is the gym, the cinema, the restaurant, the racing track and most of all the home couch and the supermarket. The research would suggest that some pubs are making real progress in this area.

Rural pubs are especially challenged by population decline. This decline is most marked in the younger generation who have sought employment and alternative lives in far flung places like Australia, Canada, America etc. These would normally be the spending class and also those that might frequent the pubs. Their loss is sorely felt. When this is allied to all of the other challenges facing rural pubs it puts them in a particularly negative position in terms of stability and survival.

Publicans have had to change the way they do business as a result of the recession. They have tackled their cost base focusing on labour, energy, utilities etc. Many publicans are now more involved in running their pubs working very long hours with little support. While on balance this is a good thing if it improves

customer interaction and service, it can also be a negative in so far as publicans will not have enough time to set aside to manage their pubs as a business rather than just doing the pub work. Not surprisingly many are stressed by time pressures and financial pressures as they try to juggle multiple demands at the same time.

Cost control is very important but you can only take cost out of the business once. To grow the bottom line you need to grow the top line once you have got your costs under control. Most have taken out the cost that they can take out without actually damaging the consumer experience and expectations about service and facilities.

As we see it there are a number of distinct categories of pubs in business terms. First of all there are the pubs that are doing well. Then there are pubs that are doing well but have high pub-related debt like a mortgage on the property. Then there are the pubs that are doing well but have high non pub-related debt but which may be secured on the pub itself. Finally, there are the pubs that are not doing well at all.

Many publicans are in the same position as a lot of small retailers – their core business was doing well during the boom years which enabled them to borrow for other purposes and now they find themselves financially stranded in the recession. The bottom line is that some publicans may need to get out of the business as the business is not going to come back to viability and profitability for them.

The research shows that food is becoming an increasingly important part of the consumer offering in pubs. This is as it should be. What we have seen in recent years is an enormous >>

"Discerning publicans are now focusing on customer groups with real potential and having a closer look at their target market. They are seriously asking "What's my market?" and acting accordingly"

▶ EXPERT VIEWS

improvement in both the quality and the range of food being offered by the pub sector. This has manifested itself right across the country. There is one word of warning. Food is not for every location and for every publican. The management skills and controls to run a food business are considerably different to those that are required to run a straightforward pub business. If the right controls, buying policies and customer offer are not in place then getting engaged in food will accelerate the demise rather than reduce it.

The pub sector still suffers from a lack of joined up thinking on behalf of the Government's policy on alcohol. The 9% VAT rate has helped in terms of food services but the recent 25% jump in Excise Duties has been very unhelpful. Furthermore, in the absence of a ban on below cost selling of alcohol in supermarkets, policy continues to favour alcohol consumption away from the pub even though the pub provides a controlled environment that diminishes the risk of alcohol misuse.

When it comes to the banks, many publicans have seen their credit facilities and overdrafts reduced or even removed in recent years as part of restructuring arrangements. Moreover, fees for lodging cash have increased significantly in some instances, where previous discounts have been removed, which is especially onerous on pubs since they remain one of the few cash intensive sectors in the economy. The pub trade needs to see a different attitude and level of engagement from the banks. Publicans in turn need to provide information to the banks that reflects the new banking lending model which has moved away from asset-based lending to "ability to pay" lending.

Ultimately, it is in the bank's



best interest for the sector to survive and succeed into the future. Hopefully, banks don't want to end up running pubs – the experience of receiverships and examinerships has been unpleasant for all concerned so far – so they need to provide the right level of support. Of course the banks and the pubs can't deliver recovery for the sector on their own. Consumer confidence is key and crucial to the future. Rising consumer confidence and spending power will, other things being equal, benefit the trade. It behooves Government to look at policies that will work towards reviving consumer confidence in the very short term.

While not every pub will gain from such a recovery in the economy, it certainly will help to sustain a more viable, successful, if somewhat smaller, sector.

BILL MORRISSEY
DIRECTOR
MORRISSEY'S

The Irish property market on the whole, including the hotel and pub sector, is currently experiencing its most difficult period since records began.

Since 2008 the volume of sales/turnover has declined considerably throughout all

sectors of the retail market, including the pub trade. Changes in personal spending consumption habits and lifestyles, lower discretionary spending and an increase in off-trade trade volumes, which now make up around 45% of total alcohol sales, have all contributed to make trading conditions very difficult to the pub trade.

According to the most recent Drinks Industry Group of Ireland (DIGI) report, annual volume decreases for the on-trade during 2012 were estimated nationally at a rate of 8.2% and cumulatively at a rate of 34.2% since 2008. In anybody's book, this is a substantial decline.

Declines of this scale have obviously had a knock-on effect on potential vendors, purchasers and professionals alike and it has

BILL MORRISSEY



been difficult, in many cases, to gauge precisely what is a "maintainable turnover" for a pub. It has therefore become more difficult to assess a pub's true market value.

One could argue that the market began to turn in and around 2000 when it was then at its peak. This was a long time before any banking crisis or economic slowdown recession. Back then profit margins and volumes were high while demand for quality pub properties reached extraordinary levels with hefty sale prices achieved in many urban areas.

However, over the next few years, labour costs continued to increase, licensing legislation was amended and the Groceries Order was abolished in 2005. Add into this mix the introduction of tougher drink-driving and anti-smoking legislation and reduced personal spending, and it was evident that the market had irreversibly changed.

The net effect of the abolition of the Groceries Order, in particular, was a resultant significant price difference being established between the "on" and "off" - trade and in turn a reduction in volume of sales enjoyed by the on-trade. This has led to a situation where it is estimated that nearly 55%

of all alcohol sold in Ireland is through the on-trade with the balance through the off-trade. This compares with a 75% for the on-trade and 25% for the off-trade in 2001.

All of these factors have affected the volume of activity in the licensed premises property market over the past five years. Throughout 2012 market conditions did little to instil confidence in the market place which resulted in, a further deterioration in capital values and in turn subdued activity. This is evidenced by less than 1.6% of the Dublin market changing hands for the fifth year running compared to 4.77% at the peak of the market in 2006. This has more or less continued into 2013 as the market continues to adjust to a changed business environment.

There are considerable challenges to overcome when it comes to valuing a pub and there are many different variables that can influence this process, not least of which are the vendor's own expectations and their personal circumstances. Over the past few years, we have worked with other industry specialists to establish a number of different approaches that take into account the underlying business and its profitability. However, the process of valuation is by no means an exact science.

One method of valuation is the cap ratio/multiple of turnover approach which applies a multiple to the different profit centres of the business. For example, wet on-sales could in the current climate expect to achieve a multiple of between 0.75 to 1.5 times net turnover while for wet-off sales, it can be anywhere between 0.1 to 0.5 times net turnover. For food, meanwhile it could range from 0 to 0.75 times net turnover, while for other business sectors such as door admissions to a live

music event or a night-club that might be part of the business, it could be anywhere between 0 and 0.75.

In terms of using the multiple of EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation), we are witnessing multiples in the current climate of between 5 to 8 times.

Of course these cap ratios and multiples are only applicable to pubs where the business is already exploited, the property is in good repair and takes into consideration the size and throughput of business and in turn profitability as well as consistency of trade. Cap ratios and multiples that are in excess of these are achieved for pubs that have strong future growth potential or have already achieved substantial bottom line profitability and are currently generating a strong cash flow.

Generally speaking, pubs that are well located in populated districts enjoy a viable business model. However licensed premises located in trading fringe /sparsely populated areas or premises

which do not enjoy an optimum floor plate have been hardest hit. This is emphasised in the provincial / rural market which has been particularly difficult over the past few years and unfortunately it seems inevitable that there will be more licensed premises closures in the future.

We find that the greatest demand is for premises which are well located in established areas with good transport links, whether they are located in city centre, mid-town, suburban or town locations. These premises typically enjoy a good population mix with a good mix of office, residential and retail trade nearby.

CONOR DILLON
DIVISIONAL SALES MANAGER
HEINEKEN IRELAND

In the past year, we have seen some stabilisation in the beer market in terms of the balance between on-trade and off-trade. However, this is partly driven by a faster rate of decline in



CONOR DILLON

the off-trade relative to the on-trade – a trend that has become more marked in the past six months or so. This is good news for the pub sector because a halt to the migration of beer consumption from the on-trade to the off-trade could represent an important turning point. However, some of the recent trend is also driven by keener pricing by publicans – some 13%-14% of draught lager in pubs is now sold at a discount or on promotion. But publicans are still under pressure from falling sales volumes in most categories e.g. wines, spirits, ciders and stouts. >>



► EXPERT VIEWS



Of course there won't be a recovery until sales pick up. City and town centre pubs throughout Ireland seem to be doing better than those in the suburbs or the countryside. Dublin is clearly outperforming the rest of the country, with new investors and operators entering the market. Rents have also come down for new leases. Dublin is also benefiting from job creation, rising tourism numbers and big events that draw in crowds for a day or a weekend. That said, any improvement seems concentrated between the canals, with too many sub-urban pubs built for the era of Italia '90 than for the different needs of today.

However, we shouldn't underestimate the resilience of publicans. Only a few years ago we were seeing forecasts of thousands of pubs closing. It hasn't happened. Yes, there have been closures of course, but a lot of small pubs have low or no

debts, and the labour is provided by family members. Even when some pubs do close, there are often other, entrepreneurial publicans interested in taking on the lease.

We are seeing a lot more innovation in pubs, and not just the gastro-pubs. Some pub operators are beginning to operate with the same sophistication as retailers, working on understanding their target market and marketing to them effectively. The days of just opening the door and switching on the TV are long gone. Good publicans are thinking strategically about their customers and their business, making sure that they deliver services profitably, and learning from the experiences of others in the hospitality industry, including restaurants and hotels.

Not all publicans see their business this way, with too many looking backwards rather

than forwards. But the reality is that pubs have to be run more professionally both because of competitive pressures and also because of the need for many to meet loan repayments and manage their debt obligations.

Suppliers like Heineken can and do play a role in helping to professionalise the sector by sharing ideas and supporting change. It is in Heineken's interest of course since the on-trade is and will remain a more profitable market for beer sales than the off-trade. We also have to take a long term view of the sector. There are too many licences in Ireland but there are also real opportunities for growth. There will be winners and losers in the years ahead, but the pub sector is and will remain very attractive, with good margins for well-run pubs.

We see a new generation of publicans coming through, who will breathe life back into the sector and bring a more professional approach to operations. By adopting best practices from retailing and protecting their margins while delivering good value, pubs will continue to be a significant part of the hospitality industry.

NOEL DELANEY
PARTNER CORPORATE AUDIT
GRANT THORNTON

No different to other industries, it has been a lot harder for publicans to access credit these past few years. Some of this is due to the debt overhang from the noughties and the pressures this has put on cash flows to keep debts serviced even as turnover declines. In our experience, publicans who work proactively with the banks are getting more joy than those who are simply reacting to circumstances. Banks are looking



NOEL DELANEY

to restructure debts for viable pubs where the underlying trade is good but in a large number of cases current debt levels are unserviceable.

We are seeing pub owners become more involved in their pubs, relying less on managers than before. This can be a good thing as a hands-on approach means that they get a better understanding of their customers and of opportunities to improve their business. But publicans also need to manage the financial systems of their pubs better, improving processes, information flows and cost controls. You can only manage what you measure and strong underlying reporting systems allow easy access to reliable information.

We are seeing different subsets of pubs within the sector emerge. There are what we call the 'export pubs' in the centres of the main tourist destinations who are benefiting from a steady flow of UK, European and American tourists who want a real Irish pub experience. Many of these export pubs are thriving right now thanks to tourist numbers, the Gathering and so on. But not all pubs can or even want to cater for tourists. Most pubs serve a local market, but they can't rely on the 'regulars' like before. They have to create reasons for people to go to the pub, through events etc that

promise a different and better experience to the past. Publicans have to focus on the three 'P's: people (their staff), punters (their customers), the property (the premises and the pub brand associated with it). That said, the number of pubs in Ireland are reducing. In some instances, rural publicans are becoming part-time publicans, earning a part-time income from their licensed trade activity while earning money from other activities when they can. It is inevitable that the ownership structure of pubs will change. It has already begun. We are seeing increased consolidation in the sector, with a growing number of publicans owning multiple outlets. The number of pub owners may even fall faster than the number of pubs.

However, we feel that this doesn't mean that we are going to see the emergence of pub chains like in the UK. Pub brands in Ireland are predominantly tied to the "name over the door". So those owning multiple pubs will leave the name over the door but run operations like a retail chain via financial and operational systems that deliver savings. These consolidated operations will also have better economies of scale.

We expect the pub to continue

to be a major sector, making a big contribution to the economy in terms of jobs, taxes and tourism. There is a lot more change to come as debt legacies are resolved, a new generation takes over and a different operating model emerges. The sector will always rely on the strength of discretionary consumer spending, so its fortunes are tied up with the overall economy. With the right offer in place at the right price, pubs will be among the first beneficiaries of a return to sustainable recovery in Ireland.

DAVID L'ESTRANGE
MANAGING PARTNER
L'ESTRANGE & CO

The pub sector in Dublin appears to have reached the bottom recently. Sales in pubs are down about 35% from their peak, while the average price of pubs themselves is down about 65%. One indicator of a turning point is the fact that the valuations for pubs on sale in Dublin are picking up. For example, The Globe in South Great George's Street received seven bids in excess of the guide price of €2 million late last year. Overall, pub prices have risen by 10% in some segments in recent months.

This recovery in pub valuations is being driven by publicans starting to buy again, sometimes in partnership with new investors, and often to build up holdings of two or more pubs with the potential for economies of scale in how they operate. Pub prices will start to recover modestly – perhaps by 2-3% per year – which means that pubs could be worth nearly 25% more in seven years' time at 3% compound growth.

Because of the dearth of property finance in recent years, pub prices have been over-depreciated due to a lack of liquidity. To put this in context, up to 40 pubs come on the market in Dublin in an average year. But these past few years the average has been just 4-6 pubs. With potential investors becoming more confident, and banks now more willing to finance good deals, you can expect to see some buyers making quick gains as prices recover. However, availability of bank funding to the market (even limited availability) should give a once off uplift in prices of up to 10%.

You have to remember that the pub sector peaked in 2000, not in 2006/2007. Drink driving legislation, the smoking ban, wage pressures, taxi charges and

the ban on below cost selling in the off trade all contributed to the decline long before the recession kicked in. So the sector has been dealing with profound change long before many others in the economy.

If anything, pubs have got their house in order sooner than some others; for example, wage rates have effectively halved since the peak, while staff numbers are also down. Other operating costs are also lower. In addition interest rates have fallen over the past few years, easing debt repayments and improving cash flow. The lower vat rate of 9% aimed at helping tourism has been beneficial; as has a low corporate tax rate is also vital since loans are effectively repaid from after tax incomes. Gross margins in pubs remain high (55%-70%), though margins on drink are considerably higher than those on food as the food has to be prepped and served, whereas drinks only have to be served.

We can be very optimistic about the future of pubs in Ireland. Out-of-home entertainment gains first from a recovery, and pubs offer a more appealing range of services (including food and music) than before. Well run pubs, focused on giving customers what they want, will be big winners in the years ahead.

We expect pubs to continue to be a strong sector, making a big contribution to the economy in terms of jobs, taxes and tourism. There is a lot more change to come as debt legacies are resolved, a new generation takes over and a different operating model emerges. The sector will always rely on the strength of discretionary consumer spending, so its fortunes are tied up with the overall economy. With the right offer in place at the right price, pubs will be among the first beneficiaries of a return to sustainable recovery in Ireland.



FINANCE FOR ALL SIZES

APART FROM OFFERING A RANGE OF INNOVATIVE DAY-TO-DAY BANKING SERVICES TO PUBS THROUGHOUT THE COUNTRY, AIB CONTINUES TO PROVIDE CREDIT AND RE-FINANCING SOLUTIONS TO A WIDE RANGE OF SMALL, MEDIUM AND LARGE SIZED PUBS, AS OUR FOUR CASE STUDIES ILLUSTRATE.

Running a Tight Ship

Making the right decisions at the right time, however difficult they might have been, has been a key factor in the survival of many businesses throughout the country for the past number of years.

For Paul Keaveny and the chain of pubs which he owns in Dublin, many of these difficult decisions were taken as far back as 2008 when the pub trade started to experience difficulties.

“We traded very well up until to 2008 and then we saw early on that things were changing very rapidly so we shrunk and cut our overheads dramatically in response to the changes that were taking place. When things went from bad to worse in 2009, we were essentially operating on a repair and maintenance basis and every additional cost had to be justified. Running a tight ship was the name of the game,” he says.

The business now includes a number of well-known and popular Dublin pubs including Dakota on South William Street, Four Dame Lane on Dame Lane and The Odeon on Harcourt

Street. In addition the company recently expanded its footprint by acquiring The Globe bar and Rí Rá night club on South Great George’s Street, both of which were in receivership since 2009.

“Thankfully we have managed to trade profitably through the period. We avoided any cash flow problems and we haven’t burdened the company with any speculative investments and debt. As a result, we have enjoyed a strong comfortable relationship with our bank, AIB, and they have supported us at all stages along the way,” he says.

“However if we didn’t make those important decisions back in 2008, it might be a different story altogether,” he adds.

Paul’s pub business is a long-standing customer of AIB’s corporate banking division and the bank has worked closely with him in providing day-to-day banking facilities as well as finance for capital expenditure and expansion when needed.

“We have found the team at AIB very informed and up to date with what is going on in the



PAUL KEAVENY

industry. Our presentations to the bank have always been strong and they have always understood our proposals and responded positively and rapidly,” says Paul.

“Obviously banks are looking for a lot more detail now than they would have six or seven years ago, but that’s a good thing because they can use this information to gain stronger insights into the industry. So when you are talking to them, they know and understand the business and all the issues surrounding it. That’s very reassuring and important if you are a client,” he adds.

Acknowledging that credit is not as freely available as it was five or six years ago, Paul points out that good pubs with a sound, viable and sustainable business plan should not have too much difficulty in accessing credit.

“A lot of people would say that is good traditional banking. Perhaps people lost the run of themselves in the past by taking on too much debt. The reality is we are now back to basics and if you don’t have a good solid proposal with some equity on the table, then you will find it difficult to borrow. That’s the way it used to be and I think that’s the way it should be.”



Food For Thought

AIB's dealings with Séamus Dunphy over the last eight years are a good example of a bank and a business recognising the mutual benefits of a relationship based on trust and commitment.

Séamus Dunphy was working in merchandising for Diageo in the late 1990s when the opportunity arose to become a pub owner with the acquisition of the Sweep Bar & Restaurant in Kilmeaden, Co Waterford. Despite being just 23 years old, he took the plunge with his sister Jean, who had trained as a hotel manager.

Six years later, in 2004, The Kazbar in Waterford's John Street Village became available. "We had increased turnover in Kilmeaden more than seven-fold. We were the right age for a younger venue and my brother Michael became involved at that time so we were able to spread the workload."

This enabled Séamus to explore other opportunities and within 12 months he had acquired another pub in Kilmeaden, O'Donnacha's Bar. "This pub wasn't doing food at the time,

so over the following couple of years we introduced food and about one third of turnover now comes from that side of the business."

The latest element of the Dunphy pub business is the Cove Bar on Dunmore Road. "We had looked at this business a number of times since 2000, but we had a price in mind and the figures simply didn't add up. We took a similar approach before buying the Kazbar where we considered a number of other premises but didn't feel the price was right. When the Cove Bar came back on the market as a bank sale in 2012, we decided it was time to move."

Finance for the acquisition was provided by AIB but the family's relationship with the bank extends much further back as Seamus explains.

"We come from a farming background and Michael and myself would have had our first loans from AIB. We knew the staff in Waterford so we had a personal relationship, but the most important thing was that they were able to offer a better deal."



SÉAMUS AND MICHAEL DUNPHY

Crucially, this competitive edge was maintained through the downturn. "Interest rates and fees were maintained at competitive levels and they understood that we were in the trade and knew what we were doing. We were able to demonstrate that this was our livelihood and that we were committed to the businesses for the long term."

Seamus acknowledges that the finance from AIB was secured 'against the odds', but the trust that was built up as a result of that deal bore fruit again last year when he decided to buy the Cove Bar.

"The bank knew that we would not pay over the odds and that we had a conservative business plan," adding that a realistic business plan and being prepared to reinvest has been crucial to riding out the downturn.

He describes the partnership between business and bank as being mutually beneficial. "We have worked hard to build the business and continue to work hard. We have reinvested heavily in the businesses and AIB could see from our accounts that turnover was increasing and that we are meeting our targets." >>

Perfect Timing

Maguire's bar is one of the most recognisable businesses in Moville, Co. Donegal. For the last 13 years the pub in the town's Market Square has been under the management of Benny and Diane McIntyre. When the opportunity to expand came around, the McIntyres thought long and hard about it.

"There was a building in the town that had been closed for about 18 months, having been leased to a number of different people over the last five years. We had considered taking it over when the previous leases came up, but this time it came up for sale and we decided to go for it."

Big Ben's is the name of the new business and it threw open its doors several months ago.

Diane and Benny had been SME customers of AIB's Ballybofey branch for the past 23 years and AIB has worked closely with the couple in providing a range of day-to-day services as well as finance to help them expand the business. Indeed Big Ben's is the McIntyre's third business venture that has been supported by AIB.

"We would never have been



BENNY AND DIANE McINTYRE

able to put the finance in place to acquire the new premises without the support of AIB," says Diane. "The team in AIB in Ballybofey have been really helpful and we never considered going elsewhere. I really don't think we would have secured finance for this project from any other lender.

"Because we were looking to

diversify we developed Big Ben's as a bar and restaurant and food is a very important part of the business. It is a much bigger premises than Maguire's and attracts a different clientele," says Diane.

The McIntyres have been proactive in maintaining trade in the face of economic circumstances that have seen many young people leave the area. The two hotels in Moville have both closed down within the last three years and a number of other businesses have ceased trading, which has had a direct impact on the number of people travelling into the town.

When the couple were setting up Big Ben's initially, Diane

says opening accounts with suppliers was a lot more difficult than expected – even those she has dealt with for many years through Maguire's. "Despite the fact that we have been doing business with some of them for 13 years, when it came to opening a new account for Big Ben's, which is literally only three doors away, we had to jump through hoops, providing solicitors letters and all sorts of other paperwork."

The day-to-day banking solutions that AIB offers have proved to be useful in this regard. "We couldn't do without these when it comes to managing payments to suppliers and paying staff," she adds.

"We would never have been able to put the finance in place to acquire the new premises without the support of AIB"

A Flying Enterprise

While the family behind the popular Flying Enterprise complex has been banking with AIB since the early days of the business, the bank's willingness to support and lend, including refinancing facilities previously with Bank of Scotland Ireland, has been a crucial component in its recent success.

The Flying Enterprise Complex is situated on a one acre site in the historic heart of Cork City. A family run business since 1979, Finbarr and Dolly O'Shea are joined in the day to day running of the business by their son Denis O'Shea and daughter Fionnuala Yates.

The Flying Enterprise Complex, which employs a total of 35 staff, comprises of the Captain's Table Restaurant, the Lounge Bar, the Cabin (a ground floor dining area), the Courtyard and Quarter Deck and Quay News (take away carvery and off-licence) as well as a number of apartments and penthouses.

Finbarr describes this mixture of businesses as a huge strength in the current economic climate. "Since 2006 there has been a noticeable lack of spending as a result of our customers' reduction in disposable income. The industry known as 'the pub' has changed over time and we have successfully changed with it. We have put substantial investment into our Cabin ground floor dining area and we also have invested

heavily in our Courtyard and Quarter Deck area, which now caters for private and corporate functions, including weddings, 21st birthday parties, retirement parties and company barbeques ranging from 30-300 people."

AIB was a vital business partner in bringing this vision to fruition, he continues. "They understood that we needed to invest in our Courtyard area to offer something different. This approach has proved successful and drink sales, both on and off-trade, are growing."

"When investing in equipment, we purchase the best quality available," Finbarr explains. "AIB recognises that this is necessary spending and all our equipment is maintained to the highest of standards. We have an ongoing maintenance schedule in place to ensure that large capital expenditure is avoided."

"We have been dealing with AIB since the 1980s and have found them to be an excellent bank to deal with. Our manager, Michael Hayes, is a very approachable man who has an excellent understanding of our business. AIB has shown huge confidence in our business and is aware that it is more than just a business to us. It is a way of life and we are determined that it continues to be successful for the O'Shea family and also for AIB as our banking partner," he says.

Suppliers are crucial to the business and the Flying Enterprise endeavours to support local suppliers as well as ensuring that everyone is paid in full and on time, says Finbarr, adding that one of the keys to success has been the financial information provided by the company's accountant in his weekly performance report.

"This report enables us to identify how different areas have traded and the margins in each area. Margins are vital to our business and our ability to buy in large quantities enables us to shop around for the best prices. Each cost and overhead is monitored and controlled on a weekly basis and we have succeeded in reducing all our costs with the notable exception of energy and rates, which continue to be increasing overheads."

Finbarr also points out that, like many other pubs, social media has proved useful in promoting the Flying Enterprise complex. The Flying Enterprise website (www.theflyingenterprise.com) is updated regularly with menu information and event guides. There is an active Facebook page, but Finbarr points out that it is also important to connect with those who don't use social media. For that reason the business advertises on local radio and in local newspapers, keeping business in Cork and also targeting customers who would be a different market to the online market.



FINBARR O'SHEA AND MICHAEL HAYES, AIB CORK

► THE SECTOR VIEW

DEALING WITH THE BANK



AIB HAS BEEN VERY ACTIVE IN SUPPORTING THE IRISH PUB SECTOR, PROVIDING CREDIT FOR WORKING CAPITAL, REFURBISHMENT, EXPANSIONS AND CAPEX INVESTMENT. BRIAN GALLAGHER PROVIDES AN OVERVIEW OF HOW THE BANK ASSESSES CREDIT APPLICATIONS AND WHAT CUSTOMERS CAN EXPECT.

There is no denying that the past few years have been very difficult for the licensed pub trade. On-trade sales have dropped by 34% over the past five years while alcohol consumption nationally has decreased by 11% since 2001. This has led to a significant number of pub closures over the past few years and it is widely accepted within the industry that there may be more casualties in the future.

For the pub sector, like many others sectors, the economic downturn has created numerous challenges including the reduced consumer spending and changing consumption habits. Other issues which have a direct impact on the sector are the introduction of tougher drink driving legislation, the smoking ban in pubs and the temporary 9% VAT rate. Any change to this rate would have a significant impact on the sector which would have implications for both the licensed pub trade and the broader tourism sector. These challenges have been further compounded by a sizeable debt overhang within the sector and the oversupply of pubs which is particularly pronounced in rural locations.

AIB recognises the importance of the sector not just to the bank but to the wider economy,

as well as the contribution it makes to our vitally important tourism industry. AIB understands the licensed pub trade and is committed to supporting licensed pub customers. The bank has been actively involved in providing both existing and new customers a wide range of financing solutions from working capital to funding acquisitions and capex investment. We have dedicated relationship managers across our corporate, business centre and branch banking operations with the knowledge and expertise to support licensed pubs customers and to deal with the challenges and opportunities that lie ahead.

In the boom times, business was so good for the licensed pub trade that the turnover

numbers spoke for themselves and the information required by the banks in support of credit applications was limited. Applications were based on the value of the asset not on the free cash flow available to service debt or the business and marketing plans that underpinned that cash flow. This approach had to change and AIB needs to help customers understand why, and outline what the bank now expects to see in important areas like financial management, business forecasting and in assessing an application for credit.

Repayment capacity is paramount in all the banks dealings with customers and we rigorously assess whether or not the business can repay the loan

without hampering its growth potential or its future viability. The bank will look at businesses' overheads to see if they are being managed efficiently. Items like wages, stock purchases, utilities, local-authority rates and insurance will have a significant impact on cash flow. Another key area that the bank will focus on is the current tax position, are taxes up to date and if not, has an arrangement been made with the Revenue.

The Bank will also seek confirmation that a current liquor licence is in place. It is also important that the bank takes account of the owner's personal drawings and any personal debt they may have and whether or not the drawings are being used to service this personal debt. Other areas of consideration are non-core areas that may be a drain on cash and whether or not these could be disposed of. Therefore, all of these should be factored into the cash-flow of the business and any credit application to the bank.

Capital expenditure is also an important part of the mix for some pubs, particularly those in more urban areas that may have to reinvent themselves every few years. The bank fully understands and appreciates the need for pubs to reinvest in their business and it is important that a business does not suffer because of a lack of investment.

Another key factor in the pub sector is that many licensed pub customers have invested in other non-core business related properties and this may now be impacting their business growth potential. In such >>





circumstances AIB will look at identifying the core sustainable level of underlying cash flow that underpins the business. This is also stress-tested for possible future factors such as interest rate increases. If the free cash flow can meet the repayment requirements of the credit requested then the bank will look to provide this credit in tandem with working with the customer to agree a solution for total debt.

It is very important that customers experiencing financial difficulties engage with the bank

as early as possible. Ideally they should meet with the appropriate person in the bank and provide all the financial information requested by the bank. Full disclosure is critical and the more information and transparency provided to the bank the better position the bank is in to make informed decisions on next steps. The bank will work with customers on a case by case basis to identify the optimum solution for the bank and the customer. The key focus for AIB is to sustain and support all viable businesses for the long term.

The research carried out by Amárach for this Sectoral Report shows us that there is a polarisation of pubs taking place with some Dublin pubs experiencing growth with the vast majority of pubs experiencing a decline. However, the research also shows us that publicans are resilient and are adapting to the changing consumption habits through improving /increasing their food offering and creating a pub "experience" through music/quizzes etc. Publicans know that they are competing with cheaper off trade sales and so the visit to their pub must offer more than just beverages. Many publicans have capitalised on this by running themed nights/parties etc. Publicans are also using both the old (advertising) and new ways of attracting customers i.e. social media. With overall tourism numbers on the increase more and more publicans are also tapping into the tourism market for customers and it is no surprise to learn that a visit to an Irish pub is cited by tourists as

one of the top "things to do in Ireland".

The outlook for the sector as can be seen from the research looks challenging. The decline in turnover and the economic outlook for Ireland in terms of growth levels will lead to consolidation of the number of pubs. Despite these challenges the pub sector is core for the Irish economy and is a significant employer. At a time when a number of the other Banks have been withdrawing from the market, AIB is actively supporting the sector providing credit for working capital, for refurbishment, expansion and Capital Expenditure investment (Term debt, leasing and asset financing) while also working with many pubs in financial difficulty. AIB will continue to provide credit to viable businesses, whether that is to new or existing customers, and to support the sector through these difficult times.

Brian Gallagher is a Senior Manager, AIB Corporate Banking.

The bank will work with customers on a case by case basis. The key focus for AIB is to sustain and support all viable businesses for the long term.

CHANGING CONSUMER HABITS



WHILE THERE HAS BEEN NO PROFOUND CHANGES IN THE OVERALL LEVELS OF ALCOHOL CONSUMPTION IN IRELAND OVER THE LAST DECADE, THERE HAS BEEN SOME VERY NOTICEABLE CHANGES IN WHEN AND WHERE IRISH PEOPLE CONSUME ALCOHOL, WRITES EIMEAR FAUGHNAN OF TGI IRELAND.

Kantar Media's TGI data tracks consumer behaviour around alcohol consumption in Ireland and the latest data shows that 83% of over-18s have consumed alcoholic drinks in the last 12 months – a proportion that has remained largely consistent over the last ten years.

However, drinking in the home has seen sustained growth, no doubt fuelled by wider access to cheaper alcohol direct from retailers as well as successful marketing campaigns from drinks companies.

According to the TGI data, almost 40% of adults now drink in the home at least once per week, up from 30% ten years ago. It will be interesting to see if the introduction of the additional

tax duty on wine by €1 this year will impact on the volume of consumption at home.

As both a driver and product of this increase in drinking in the home, the proportion of over-18s drinking elsewhere – at least once a week – has fallen from 35% ten years ago to 21% today. Given that overall levels of drinking have remained more or less the same, consumers are simply changing their drinking locations rather than changing their consumption levels. Whereas it may now be more expensive to drink in pubs and bars, drinking at home is cheaper than ever.

In terms of why they go drinking, the TGI data shows that the proportion of consumers who go out only for a drink has fallen

from 80% to 77% over the last three years. The proportion of those visiting pubs for a meal in general has also fallen, from 73% to 68% over the same period.

The most popular alcoholic drink and drinking occasion for Irish consumers both in and out of the home is wine with an evening meal. The data shows that 39% of over-18s drink wine at home when having a meal with friends and 36% drink wine when having an evening meal out. Other key drinking occasions when out of the home include celebratory events, going to a nightclub or a live music event.

Not surprisingly, drinking while watching sports is a key activity for many, and the proportion of those who do this at home and out of the home is the same at 24%. This indicates that when it comes to sports, the price of alcohol is not a deterrent to enjoying the atmosphere of being in a pub.

The past decade has also been a time of change in consumer tastes. Bottled lager, for example, has seen significant growth from 21% of over-18s to 37% in the latest data. It's canned equivalent, however, has experienced a decline of some 10%, dipping below 30% for the first time last year.

Cider has also grown in popularity from 18% ten years ago to 25% today. Perhaps due to the wider array of beers, ales

and bottled alcoholic drinks now available in pubs, draught bitter consumption has declined by 12% over the last ten years.

In terms of spirits, vodka consumption has remained stable at around 26% according to the TGI data. Gin, however, has experienced fairly significant growth from 9% of over-18s to 13% today. Dark and white rums have also both seen growth, perhaps due to increased availability and better marketing and promotion over the last ten years.

It is also worth pointing out that current overall drinking levels in Britain are broadly similar to that in Ireland at 81% of the over-18 market. Interestingly, however, drinking levels in Britain have fallen steadily from 90% of over-18s ten years ago. Like in Ireland, the proportion of consumers drinking outside of the home at least once a week has fallen in Britain. However, the proportion of those drinking at home has also fallen from 49% to 41%.

Social attitudes towards alcohol in Ireland have remained largely consistent over the last decade. If anything, various attitudes have become less prevalent. The proportion of those who agree with the statements "the point of drinking is to get drunk", "I really enjoy drinking for long sessions" and "I really enjoy a night out at the pub" have all fallen over the last ten years.

The alcohol industry continues to represent a lucrative market that includes some of the most well-known products and brands. Using quantitative data is crucial to determine how social trends are likely to influence this market in the future.

Eimear Faughnan is a director of Kantar Media – TGI Ireland.



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