

Darren Jones MP
Chair, BEIS Select Committee
House of Commons
London
SW1A 0AA

Tuesday, August 16, 2022

Dear Chair,

Thank you for the opportunity to give evidence to your committee last month. I apologise that I wasn't able to be there myself due to international travel. My Operations Director, Mick Howard, recorded two specific points that you asked us to follow up on. We hope the below answers your questions, but if there is anything else, please do feel free to contact me again. We note that the BBPA has sent you a more detailed response covering a number of wider issues.

Firstly, we know that you and other committee members were keen to know more about the nature of tied pricing versus free of tie pricing. Therefore, please find attached Star Pubs & Bars' (Star) current price list (in the industry this is commonly referred to as the "wholesale price list"). I would appreciate that this information is kept confidential.

In respect of our tied leases to which this pricing relates, tenants enter into these agreements with us by choice and negotiation, and we provide complete transparency in relation to the commercial terms. We have not enclosed our free of tie/independent free trade wholesale price list. For the reasons set out below, our position is that it is not possible to meaningfully compare the two sets of prices.

1. The price list attached is fixed. However, discounts to the prices are negotiated on a case-by-case basis with the tenant. This will depend on the position reached in commercial negotiations when entering into the lease and factors such as the rent, capital expenditure and volumes being sold in the pubs.
2. Star seeks to maximise sales into its pub estate and sales of its brands to its tenants to generate a better margin. Star (as with other pub ownership companies with a tie option) offers (i) higher pricing for products in return for lower rent; or (ii) higher discounts on products but with a higher rent. The choice is for the tenant to make – whether they would like to have more control over their fixed costs or their variable costs in negotiation with Star. Star's standard leases therefore permit considerable variation between pricing and rent. Generally speaking, tenants' preferences are for higher discount/higher rent.
3. As explained in para 2 above, the extent to which tenants have (i) higher pricing for products in return for lower rent; or (ii) higher discounts on products with a higher rent, varies across Star. Consequently, as the tied drinks price is a constituent element of the overall rent charged by a pub ownership company (i.e. low discount / low rent versus high discount / high rent), it is not possible to meaningfully compare the prices of drinks offered under a tie with those offered to free of tie/independent free trade customers. That is to say, it is not possible to compare the price a tied tenant would pay for a keg of Heineken from Star with the price a free of tie tenant would pay – the model is completely different.

Star Pubs and Bars Limited

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4. The overriding commercial objective is that Star is successful in attracting customers and generating high levels of sales (including of Heineken UK products) – for the benefit of Star and its tenants. This success is in part dependent on each pub stocking an attractive range of products, including where appropriate, third-party brands.
5. Star (through Heineken UK) seeks to supply a compelling product offering through its tied arrangement. Naturally, Heineken UK brands feature prominently on the price list; however, as mentioned above, third party products also feature. We recognise the importance of delivering local products to consumers to enhance the total pub offer, and we want to make that process easy.
6. To help with the delivery of local products, we partner with SIBA through their [Beerflex scheme](#). As an example of this, Tonia Antoniazzi MP asked Mick about the availability of products from the Gower Brewery in our pubs. Coincidentally, we have only recently started selling 'Gower Gold' in four pubs in and around Tonia's constituency: Bishopston Valley Hotel; Halfway Hotel Llanelli; Poundffald Inn Swansea and Waterloo Stores Mumbles. These products are purchased from the brewery and are then sold with a markup to the pub. Just as with one of our own brands, the price of the cask is a variable cost and will be higher than if bought direct from the brewery.
7. In certain instances we facilitate a 'free of tie line' for a tenant by negotiation. That would then in turn impact their corresponding rent line – the more free of tie lines, the higher the rent. This is again a choice a tenant will make.
8. A successful pub will stock a variety of drinks and brands and this is why Star's price list includes third party brands and a rotating seasonal beers list. The tie is not, therefore, a mechanism by which Star/Heineken UK is either guaranteed or in fact achieves absolute brand penetration in its estate.

Additionally, Q54 of the Committee Evidence made reference to *"being asked to make a referral to the Competition and Markets Authority"* (CMA). We would like to point out that our acquisition of Punch (Securitisation A) was subject to merger clearance by the CMA in 2017 and was cleared at Phase 1 (subject to a limited number of pub divestments). Information on the case and the decision can be found here: [Heineken / Punch Taverns merger inquiry - GOV.UK \(www.gov.uk\)](#). Finally, Mick talked to the Committee about the number of MROs we have granted through the process. To clarify, that number included those which we inherited from Punch in the acquisition.

Yours sincerely,

A handwritten signature in black ink, appearing to read "L Mountstevens", written over a horizontal line.

LAWSON MOUNTSTEVENS
Managing Director

Cc: Tonia Antoniazzi MP

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