CMA
Competition & Markets Authority

PORK FARMS CASPIAN / KERRY FOODS MERGER INQUIRY

Summary of hearing with Walker and Sons, Ginsters of Cornwall and Tamar Foods, divisions of Samworth Brothers Limited on 4 March 2015

Background

1. Samworth Brothers (**Samworth**) said it was a privately owned business operating primarily in the manufacture of chilled food. Samworth ran a number of operating divisions which all had a high degree of autonomy.

2. Samworth explained that within the CSP market it operated three main divisions which supplied a wide range of major retailers:

   (a) **Walker and Son (Walkers)** predominantly manufactured own-label and branded pork pies ([✂]% of output).

   (b) **Tamar Foods (Tamar)** predominantly manufactured slices and pasties.

   (c) **Ginsters of Cornwall (Ginsters)** predominantly manufactured the Ginsters Brand ([✂]%), although there was some own-label production ([✂]%). Other divisions within the Samworth Group manufactured some branded product for Ginsters.

3. Samworth explained that one Division would respond to tenders for limited business.[1] In tenders for cross category business Samworth would try to create the best customer proposition for the retailer, presenting a single offer. Samworth said that it tried to avoid duplicating investment around the Group by taking into account which Division / site:

   (a) should lead the negotiation as they had a trading relationship with the retailer, even if the product would be manufactured elsewhere in the Group;

   (b) specialised in manufacture of the particular product; and

[1] For example, if the tender was for cold pies, then Tamar would respond.

(c) had the capacity to handle the potential new business.

4. Samworth explained that, within savoury pastry, [✂] at that time. However, [✂], simply a reflection of the then current trading position.

5. Samworth said that distribution of CSP products was different for each channel. Multiples ordered and then distributed themselves, whereas distribution to the impulse sector[2] was through van sales directly to the retailer's regional distribution centre, to wholesalers, or directly to stores.

6. Samworth explained that the CSP sector as a whole was static. Volumes were growing, but were driven by promotions (60-70% of the UK CSP volume was sold on promotion). Samworth said that this had led to overall deflation within the market, so although volumes were rising, overall turnover was static. Further, Samworth explained that growth within the branded sector had tended to be at the expense of the own-label sector.

7. [✂].

8. Samworth explained that:

   (a) the demand for pork pies was very seasonal. Summertime and Christmas were the peak selling periods;[3]

   (b) pasties and slices were not a very seasonal business;[4] and

   (c) hot pies tended to have weaker sales in the hotter (summer) months and stronger sales on the colder (winter) months.

Customer behaviour

9. Samworth explained that there was no common approach to tendering from major retailers. Some regularly benchmarked their suppliers against potential competition.[5] Other retailers were more willing to tender (formally or informally) for business. Contracts were typically supply contracts with a [✂] exit period, although increasingly, retailers had shown a willingness to enter into longer term [✂].

10. Samworth explained that retailers faced additional costs for managing a large supplier base. Hence, retailers tried to focus on building a strategic

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[2] Defined as anything that was not connected to the multiples.
[3] [✂]
[4] There was a slight dip at Christmas where customers appeared to buy other CSP products, but no other real seasonal effects.
[5] In terms of price, quality of products and supply arrangements, etc.

relationship with large national suppliers, which would have been lost if the retailer were to move. Samworth said that retailers also face a number of costs if they move own-label supply, including:

(a) development costs as retailers tried to match the new product to the old; and

(b) some of the cost of redevelopment and design of the packaging.

11. Samworth explained that specifications for branded products were less onerous, so smaller manufacturers could be awarded contracts in this area.

Demand-side substitution

12. Samworth observed that the largest switch in demand was in pasties and slices. An increase in demand for one (due to promotion) would always lead to a fall in demand in the other. Customer switching was much less visible between other CSP products. Samworth also explained that there was a large degree of switching between branded and own-label products.

Supply-side substitution

13. Samworth said that within each factory, there was the ability to move production resources to meet demand. In general, it would be difficult to adapt specialised production lines from one product to another, the exception would be from sausage rolls to/from pasties and slices. However, Samworth explained that if a business had different production lines, switching manual resources from production on one line to another was straightforward.

Competition in the supply of CSP products

14. Samworth noted that it was not important to be able to provide all products to the multiples, although, in the convenience sector, the retailers were looking for a total solution from the suppliers' van sales delivery. Samworth explained that generally, suppliers would be invited to tender for contracts by multiples, however, suppliers could, and did, approach retailers to pitch for contracts they did not have.[6] In the recent past all Samworth's gains and losses had been to/from Pork Farms and Kerry.

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[6] This could be driven by the supplier identifying business they believe could do better, spotting a gap in the retailers' portfolio, or offering new products that the retailer did not currently have.

15. In cold pies, Samworth explained that the market had consolidated over time, so that, in the scale area (the own-label market), there were only four manufacturers able to supply the large contracts of the multiples: Samworth, Pork Farms, Kerry and Vale of Mowbray.

Countervailing buyer power

16. Samworth explained that when suppliers tried [✂]. Conversely, when raw material prices fell, the retailer would try to negotiate a price decrease. Samworth said that if either side was dissatisfied with the outcome they could [✂]. One option for retailers was that they could always switch some, or all, of their contracts to a different supplier. Samworth said that there were credible suppliers in all areas that retailers could move their contracts to.

Capacity

17. Samworth said that its spare capacity [✂]. Samworth had not recently faced a situation where it had not had the spare capacity to bid for a contract where it had been invited to tender.

Expansion

18. Samworth explained that new lines were a considerable capital investment, and involved multi-million pound pieces of equipment. The lead time on new equipment was also large – up to a year in some cases. Although there was some second hand kit available, most new lines had to be bought new, as they were bespoke pieces of equipment.

Entry

19. Samworth noted that if there was a high capital cost of entry, it would have cost millions of pounds of capital investment to compete in the volume areas. This could have been prohibitive for smaller manufacturers. Further, as well as the capital investment, manufacturers also had to build a relationship with retailers. Samworth said that that a manufacturer entering from a standing start would struggle.

Exit

20. Samworth said that recent exits had included RF Brookes, George Adams and Northern Foods (who sold Pork Farms to Vision private equity).

Category management

21. Samworth explained that it was [✂] for a [✂] in the savoury pastry area. [✂] was a mutually beneficial arrangement for both the supplier and the retailer and developed the [✂].

Counterfactual and the acquisition

22. Samworth said that that the Merger would result in greater commoditisation in the CSP market. This would result in a reduction in competition as it would be more difficult to smaller/regional suppliers to expand and compete in a market that had become more commoditised.