

## **SONOCO/WEIDENHAMMER MERGER INQUIRY**

### **Summary of hearing with Nestlé on 12 March 2015**

#### **Background**

1. Nestlé used composite can packaging for three areas of its business in the UK: Beverages (Coffee Mate), Nestlé Professional (coffee powder in 500 g, 1 kg and 3 kg out-of-home catering tubs) and seasonal tubes for confectionary ('stocking fillers').
2. Historically, Nestlé had purchased all its composite cans from Sonoco.

#### **Packaging decisions**

3. Nestlé also used a standard 'project brief' to brief potential packaging suppliers about what Nestlé was looking for in terms of potentially renovating its packaging and requiring new concepts. This brief would be sent to suppliers of packaging with roughly the look and feel they wished to have for the product and the required physical properties, such as robustness, durability, re-sealability and differentiation from the competition.
4. The aluminium seal was important for the user friendliness of opening the can, to keep the product fresh, and to hold the aroma that was released when the can was opened. [✂]

#### **Competition**

5. [✂]
6. Nestlé continuously reviewed the composite can market and its purchasing options. [✂] Nestlé regarded 10% of the composite can market as unsuitable to its needs as it related to speciality, luxury and spirit can suppliers that didn't fulfil Nestlé's industrial needs (speed and size requirements), and didn't include direct food barriers to maintain freshness.
7. Nestlé expected the composite can market to grow in Europe between now and 2020, due to the sustainability advantages of composite cans and the mixture of components (for example, plastic cap, aluminium peel, paperboard body, tin bottom) making them less vulnerable to an increase in cost of a particular base material than other packaging solutions.

8. [X] The risk for composite cans packaging was regarded as relatively high due to the high level of investment for entry and the strong position of the only two suppliers suitable for Nestlé's needs.
9. [X] Nestlé had started the process of introducing Weidenhammer products into UK plants as a second supplier, but after the Sonoco/Weidenhammer merger put these plans on hold.
10. [X] It was difficult to find alternative suppliers due to Nestlé's industrial scale. The capabilities of alternative suppliers needed to be investigated [X]
11. Nestlé knew there had been developments with single wrap cans and planned to look at this form of packaging in more detail. [X]
12. Another option was the [X], which was looked at as an innovation in the marketplace, where flat material was delivered to the plant and the cans were formed on the premises. [X]
13. [X]
14. The use of co-packers varied according to the nature of the product, the nature of the customer base, seasonality and volume. Co-packers were used [X] when there was innovation or frequent changes to the product portfolio, but where the changes were not of sufficient scale to justify expenditure on new machinery or production lines. [X]

### **Switching between packaging types**

15. [X] Nestlé noted that there were differing levels of engagement by suppliers in relation projects.
16. [X]
17. Coffee-Mate was [X] in composite cans. [X]
18. Nestlé's packaging decisions included a number of factors. It wasn't always about cost, but was about what was right for the consumer, what it could sustain, and what the market wanted. A marketer might believe that by changing the format of a certain can or packaging it would drive higher volume and more sales, but it was also important to look at what the competition was doing. [X] In catering coffee, the brand was compared with other brands and differentiation was important.
19. Nestlé provided examples of the costs of installing new lines from its previous experience. A [X] production line [X], whereas a more [X]. It would take

nine to 18 months to commission the equipment and to be ready for full commercial production [✂].

20. [✂]

21. Nestlé made the choice on the physical consumer unit, but retailers could have a big impact on the size of the case or tray that held the individual units. This could affect the choice of packaging, if it affected 'pinch points' on the filling line.

22. [✂]

### **Role of imports and transport costs**

23. Nestlé had evaluated bringing in composite cans from outside the UK, but it wasn't cost effective due to the transport costs [✂]. It depended on what was available in the UK, the pricing, lead times and flexibility of how quickly the material or substrate could be supplied.

### **Potential entrants and barriers to entry**

24. The reputation and auditability of a supplier needed to be in place before it was considered as a potential supplier, with evaluation processes within Nestlé to make sure that its standards in terms of health and safety and packaging solutions were up to a high level. Recyclability was also considered in the audit – the sustainability of the packaging [✂].

### **Potential effects of the merger**

25. Nestlé expected there would be an impact from the merger as 100% of the can supply [✂] would be sourced from one supplier. [✂] The aim was to ensure supply and keep the lines running. [✂] Nestlé had never in the past used the threat of potentially switching away from composite cans in order to negotiate prices with Sonoco. [✂]