

SONOCO/WEIDENHAMMER MERGER INQUIRY

Summary of hearing with Premier Foods on 17 March 2015

Background

1. Premier Foods (PF) used composite cans for its Bisto, Saxa Salt and Bird's Custard products. These products were also available in other forms of packaging.
2. Purchases of composite cans by PF had remained relatively flat. Purchases had decreased slightly in 2014 [redacted] but this had mainly been due to the disposal of the Knighton business which was disposed of halfway through the year [redacted].
3. PF had also consolidated other elements of its business in order to de-risk, reduce its balance sheet debt and reduce costs in its supply chain. For instance, data showing a reduction in PF's use of ridged plastic containers, paper board and flexible packaging was due to a number of divestments in 2011, namely Bury, Histon, Middleton and Hovis. In light of these divestments, PF's business had shrunk quite significantly. At one point it had about 10,000 suppliers and was spending about £1.6 billion. Today it only had 1,231 suppliers and spent over £550 million on goods and services.
4. PF's contract with Sonoco was for the supply of composite cans [redacted].
5. [redacted]
6. [redacted]

Competition

7. [redacted]
8. [redacted] PF had actively looked to rationalise its business and simplify its supply chains. When choosing a supplier, PF was also mindful of its brand integrity. For instance, it wouldn't want to spread the production of its composite cans across numerous different suppliers, as it wanted to maintain a consistent approach for each of its brands. In this respect, PF tended to have a sole supplier for its main substrates because of consistency and commercial reasons.

9. [✂]
10. [✂]
11. More generally, the cost of switching to an alternate type of packaging was dependent on a number of factors. These included an origination cost, where the supplier would possibly incur the cost of a new label printer or for new printing plates, stereo, cylinders, cutting forms etc. [✂] There would also be tooling costs that would depend on the type of packaging to be produced. [✂]
12. There would also be trial costs, with different types of packaging, depending on the volumes and machine speeds required, needing different types of trial. [✂]
13. The machines might also require modification. The cost of this was difficult to predict, [✂] and until a proper assessment of the implications on the current production lines was made, it wasn't possible to be certain about the cost. [✂]
14. [✂]
15. [✂]
16. [✂]
17. Most of PF's brands were available in other forms of packaging. This was often driven by consumer preference. For example, custard was now in a pot that could be microwaved and more suitable for storing in a fridge. The size of packaging was also a consideration. A sachet was for a single serving, whereas a carton or can was used for more than one serving and had an associated shelf life. Different forms of packaging also gave PF multiple locations on shopping aisles, helping brand awareness and sales.
18. PF hadn't actively considered single wrap food cans [✂]. The type of packaging produced by [✂], for example, wasn't a direct comparison in terms of the format in which it was available. To use these suppliers would require significant changes to PF's machines and lines because of the conical way the product was packed and supplied. Other suppliers such as [✂], [✂] and [✂] wouldn't be able to supply composite cans in the volume that PF required without investment to their capacity. They also tended to focus on different markets (drinks packaging) than PF did (food).
19. [✂] For contingency reasons, PF preferred suppliers to have more than one approved production site. For example, if there was a problem with production at one site it could still receive product from the other plant. [✂]

Role of imports and transport costs

20. The highly seasonal nature of Bisto meant that PF had always favoured UK based suppliers with shorter supply chains. PF had also made the strategic decision to support UK suppliers and was proud that approximately 87% of its total spend was with UK based suppliers.
21. PF's Ashford site used to import packaging from Sonoco's French plant. However this was only for very low volumes [£] and following the divestment of PF's Boyne Valley Foods business it was no longer a going concern. PF hadn't heard of Can Packaging.
22. PF had used co-packers in 2007/08 but, as Bisto was an important brand, it preferred to keep its packaging in-house. Additionally, PF was unlikely to move production of composite cans in-house. The percentage of its total spend on packaging was relatively small [£] and PF considered itself a food manufacturer, with a speciality in sales and marketing, brand building and production of food, not a packaging company.

Potential effects of the merger

23. Because of its long-term relationship and current situation with Sonoco, PF didn't consider that the merger would have a detrimental impact on its operations. When its contract expired, PF would assess the cost of different packaging options, including the cost of importing packaging, and then decide which supplier best met its needs.