

SONOCO/WEIDENHAMMER MERGER INQUIRY

Summary of hearing with United Biscuits on 6 March 2015

Background

1. United Biscuits (UB) regularly looked at a range of suppliers and packaging for its baked food snacks, such as Twiglets and Mini Cheddars. Presently Weidenhammer supplied its composite cans, but it had also used Sonoco in the past. The composite cans themselves were 99 mm, multi-layered with a membrane seal, plastic over-cap, and metal base. Weidenhammer also used to supply in-mould injection, plastic packaging with injection mould labelled lids, but UB currently used other suppliers for these items.
2. As they were not stackable, storage and transportation of composite cans was expensive. UB placed an order at the beginning of the year for what it thought it would require for the following season. The forecasts were regularly updated and the cans were produced a week prior to needing them. [X]
3. There was a steady, flat trend in sale volumes for UB's baked goods. [X] Price varied depending on the location they were delivered to. Transportation costs could make a significant difference in delivery price. For example, UB's Harlesden site was further away from Bradford (where Weidenhammer's plant was located) than its Aintree site and therefore it was more expensive per unit [X].
4. Everything that UB put into composite cans was also available in a flexible, such as a crisp packet. UB considered the composite can as a separate part of the market, with very little crossover between those buying in the cans and buying flexibles. The buying decision depended on the occasion that the product was bought for. The composite can format was more shareable, so it was seen as being a Christmas item that could be passed around or shared. Flexible packaging couldn't be used in this way; it didn't stand on its own, you got much smaller packets and therefore it was not really in a format that people bought for that reason. Because of this there was very little crossover between the purchasers of the cans and the purchasers of the flexibles.

Competition

5. UB did consider other forms of packaging on an annual basis. The main reason that UB used composite cans was consumer preference. The baked

products available in composite cans were a traditional, seasonal item that was re-sealable and shareable. UB had looked at a range of alternative packaging materials, shapes, sizes, including stackable, and the feedback was still that the composite can was the consumer preference.

6. A switch to other forms of packaging would need years of testing, trials and significant capital expenditure to move to the new format. The capital investment required would significantly outweigh any benefit of the transport costs that would be reduced by a stackable item. As the consumer still preferred the composite can over anything else, there was no drive to move to a new format.
7. UB had considered alternatives to Weidenhammer and Sonoco, [✂] but no other companies could currently offer the membrane seal that would have an impact on the shelf life and quality of its product. Barrier properties of alternative packaging, particularly with plastics, was a concern; it was one of the reasons UB used metal lining and the foil membrane, to improve the barrier properties and protect the product for longer.
8. The foil membrane was very important to UB as it provided a better barrier property than paper, preventing the ingress of moisture and oxygen, which could cause the product to become stale. [✂]
9. UB had looked into making its own cans, but the technical requirements for that membrane seal and the capital expenditure required made this option prohibitive. It also never stored more than a day's stock as it didn't have the space for storage required. Ultimately, the cost of storing the empty composite cans, which were mostly air, was prohibitive.

Role of imports and transport costs

10. UB didn't use co-packers due to the additional transport costs involved, which would have to be passed on to the consumer, and there was an increased likelihood of breakages from increased times of moving the product. This would be detrimental to the quality of the product reaching the consumer.
11. UB had looked as far as Asia and the USA for suppliers of cans but the suppliers either couldn't deliver against the specification that UB required, or the transport costs became prohibitive.

Likelihood of entry

12. UB didn't see any potential for new entrants. This was due to a general trend towards consolidation for all packaging materials. What new entry there was

tended to be in places like Turkey or further afield, with the format of the can and transportation costs being prohibitive. There were similar trends for the flexible and tin market.

13. UB also considered that the competitors of Sonoco and Weidenhammer identified by the Competition and Markets Authority weren't big enough to afford the capital expenditure required. The technical expertise needed for providing the membrane seal was also prohibitive. Otherwise you would need to look overseas and then you had the increased transport costs that would make it uncommercial.
14. UB would not be interested in sponsoring entry. It manufactured in two separate locations that would double the capital expenditure required to support such a move and would make this uneconomical. Also, as its products were seasonal offerings, the lines would be sat for half of the year doing very little.

Potential effects of the merger

15. UB were concerned that only Sonoco and Weidenhammer could provide the composite cans with foil membranes that it required within the UK. Effectively the merger meant that there was only one supplier for these items, with the impact of transport costs prohibiting looking further afield. This reduced its options and negotiating leverage. It was therefore concerned that Sonoco could dictate market price.
16. UB's move to Weidenhammer was driven by Sonoco's failure to remain competitive. Last year it had tried to get a quote from Sonoco but it hadn't responded. It looked at other providers within the UK, but none were able to do a membrane seal unit.