

**THE OC&C GROCER  
INDEX 2015**



# FORAGING FOR NEW GROWTH

OC&C's annual review of the UK's top 150 food and soft drink producers





# Which way is growth?

Alec Mattinson

Sales and profit growth has slumped, the latest OC&C Index for The Grocer reveals, but own label is finding its way more successfully through a changed landscape than the brands

**C**onventional wisdom says own-label goods are the unglamorous, low-rent cousins of the all-singing, all-dancing and all-conquering consumer brands.

Yet the recent disruption to UK grocery has affected suppliers and retailers in myriad ways, and one of the most significant is that the rules around unbranded players have been rewritten. We are now living in the era of own label.

Own-brand suppliers are growing over three times faster than branded suppliers, largely because the sector has been better able to navigate around the roadblock of the price war and collapsing traditional supermarket sales.

That collapse is partly responsible for The OC&C Grocer Index 2015 painting a downbeat picture, where the woes of the supermarkets are splashed all over the canvas.

The annual rate of revenue growth across the Top 150 dipped to 2.9% – well below the long-term average growth rate of 4.2% and a big drop from last year's 5.8% growth. Profitability also remains squeezed – with margins remaining flat at 5.3%, well below the long-term average of 6.4% and bumping along at their lowest levels for 30 years.

So far, so grim. But there are pockets of light amid the gloom – not least that wider consumer expenditure has been on the rise since 2012 and disposable incomes are seeing a sharp recovery so far in 2015.

Although the somewhat historic nature of the Food & Drink 150 – collated from the most recently published annual figures of the UK's top suppliers – means the impact of improving sentiment and an apparent uptick in volumes have yet to be fully felt, some notable themes can be seen in the figures as the market gets to grips with the booming discounters, the growing power of convenience and online, and the fragmentation of traditional shopping habits. ➔

# oc&c top 150 index 2015



## THE TOP 150

RANK & YEAR CHANGE	COMPANY NAME & OWNERSHIP	ANNUALISED TURNOVER (£M)			OPERATING PROFIT (£M)			OPERATING MARGIN (%)			ROCE (%)		YEAR END	ACTIVITY		
		Current	Previous	y-o-y(%)	Current	Previous	y-o-y(%)	Current	Previous	ppts	Current	Previous				
1	▲ +1	<b>Boparan Holdings</b>	Family	3,364	2,893	16.3	78	110	-28.9	2.3	3.8	-1.5	29.0	43.5	09/14	O/L
2	▼ -1	<b>Associated British Foods</b>	Listed	3,353	3,586	-6.5	324	249	30.0	9.7	7.0	2.7	21.3	16.3	10/14	B
3	▲ +5	<b>Arla Foods</b>	Sub	2,412	1,719	40.3	-6	5	n/a	-0.2	0.3	-0.5	-0.7	1.8	12/13	O/L
4	▼ -1	<b>Unilever UK</b>	Sub	2,125	2,109	0.8	78	116	-33.0	3.7	5.5	-1.8	7.8	14.0	12/14	B
5	▼ -1	<b>Mondelez UK</b>	Sub	1,828	1,791	2.0	56	54	3.7	3.1	3.0	0.0	3.4	9.8	12/13	B
6	▼ -1	<b>Coca-Cola Enterprises</b>	Sub	1,787	1,790	-0.1	229	250	-8.5	12.8	14.0	-1.2	29.9	38.6	12/13	B
7	▼ -1	<b>Nestlé UK</b>	Sub	1,726	1,749	-1.3	121	137	-11.2	7.0	7.8	-0.8	5.5	6.5	12/14	B
8	▲ +1	<b>Bakkavor</b>	Family	1,697	1,680	1.0	75	50	50.1	4.4	3.0	1.4	35.2	21.1	12/14	O/L
9	▼ -2	<b>Princes</b>	Sub	1,618	1,617	0.1	68	61	10.8	4.2	3.8	0.4	11.3	12.0	03/14	B
10	NEW	<b>Müller UK &amp; Ireland</b>	Sub	1,366	-	n/a	69	-	n/a	5.0	n/a	n/a	n/a	n/a	12/13	B
11	▲ +2	<b>Britvic</b>	Listed	1,348	1,326	1.7	157	117	33.8	11.6	8.9	2.8	43.4	34.1	10/14	B
12	▼ -1	<b>Dairy Crest Group</b>	Listed	1,330	1,391	-4.4	19	51	-63.0	1.4	3.7	-2.3	3.8	9.1	03/15	O/L
13	▲ +1	<b>Wm Morrison Produce</b>	Sub	1,262	1,226	3.0	97	64	53.1	7.7	5.2	2.5	14.5	10.4	02/14	O/L
14	▲ +3	<b>Greencore</b>	Listed	1,217	1,132	7.5	73	74	-1.2	6.0	6.5	-0.5	44.5	48.7	10/14	O/L
15	▲ +4	<b>Moy Park</b>	Sub	1,201	1,087	10.5	40	28	46.5	3.4	2.5	0.8	17.2	12.7	12/13	O/L
16	▼ -1	<b>Tulip</b>	Sub	1,173	1,159	1.2	30	30	-2.5	2.5	2.6	-0.1	6.1	6.1	10/14	O/L
17	▼ -1	<b>Mars UK</b>	Sub	1,158	1,147	0.9	136	143	-4.9	11.8	12.5	-0.7	21.5	26.6	12/13	B
18	■ -	<b>Hilton Food Group</b>	Listed	1,102	1,128	-2.3	26	26	1.2	2.4	2.3	0.1	30.1	32.4	12/14	O/L
19	▼ -7	<b>United Biscuits</b>	Sub	1,099	1,053	4.3	115	122	-6.0	10.4	11.6	-1.1	22.4	21.7	12/13	B
20	▲ +1	<b>Cranswick</b>	Listed	1,003	995	0.8	54	56	-3.1	5.4	5.6	-0.2	24.8	28.1	03/15	O/L
21	▲ +2	<b>HJ Heinz Company</b>	Sub	925	893	3.6	134	159	-15.6	14.5	17.8	-3.3	20.2	27.8	04/13	B
22	▼ -12	<b>Premier Foods</b>	Listed	908	1,498	-39.4	58	76	-23.7	6.4	5.1	1.3	12.6	16.2	04/15	B
23	▲ +4	<b>Kellogg's</b>	Sub	798	617	29.4	20	16	23.9	2.5	2.6	-0.1	24.1	23.1	12/13	B
24	■ -	<b>Samworth Brothers</b>	Family	794	769	3.1	34	42	-19.5	4.3	5.5	-1.2	12.3	16.5	12/13	O/L
25	NEW	<b>Dunbia</b>	Family	758	722	5.0	7	8	-11.9	0.9	1.1	-0.2	5.9	15.0	12/14	O/L
26	▲ +4	<b>Woodhead Bros Meat Co</b>	Sub	621	578	7.4	20	40	-49.5	3.3	7.0	-3.7	9.8	21.9	02/14	O/L
27	▼ -2	<b>Kerry Foods</b>	Sub	607	674	-9.8	-18	-22	n/a	-3.0	-3.3	0.3	-10.2	-10.6	12/13	B
28	▲ +1	<b>Young's Seafood</b>	PE	596	583	2.2	24	19	30.8	4.1	3.2	0.9	n/a	n/a	10/14	B
29	▲ +7	<b>Farmers Boy</b>	Sub	588	429	37.1	48	46	5.0	8.2	10.7	-2.5	17.8	19.0	02/14	O/L
30	▲ +3	<b>Fletcher Bay Group</b>	Family	580	543	6.8	12	14	-12.0	2.1	2.5	-0.4	23.4	31.8	12/14	O/L
31	▼ -3	<b>Noble Foods</b>	Family	577	646	-10.6	20	29	-30.1	3.5	4.5	-1.0	15.6	24.1	10/14	O/L
32	■ -	<b>James Finlay</b>	Sub	561	547	2.6	20	19	4.6	3.5	3.4	0.1	6.2	8.1	12/14	O/L
33	▼ -2	<b>Warburtons</b>	Family	549	564	-2.5	27	34	-22.2	4.8	6.0	-1.2	6.7	8.9	10/14	B
34	▼ -14	<b>Karro Food</b>	PE	529	1,034	-48.9	22	-44	n/a	4.1	-4.2	8.3	12.3	-20.1	12/13	O/L
35	■ -	<b>Sun Valley Foods</b>	Sub	466	451	3.3	0	-7	n/a	0.0	-1.6	1.7	0.2	-9.2	05/14	O/L
36	▼ -2	<b>Birds Eye</b>	Sub	446	467	-4.5	66	83	-20.3	14.8	17.8	-3.0	38.1	48.9	12/14	B
37	▲ +1	<b>McCain Foods (GB)</b>	Sub	445	416	6.8	54	32	70.3	12.1	7.6	4.5	33.2	17.3	06/14	B
38	▲ +1	<b>Fresca Group</b>	Family	428	404	5.9	8	8	4.1	1.9	2.0	-0.0	14.4	12.5	04/14	O/L
39	▲ +6	<b>Meadow Foods</b>	Family	421	339	23.9	11	10	17.4	2.7	2.8	-0.1	64.8	49.4	03/14	O/L
40	▲ +2	<b>Faccenda Group</b>	Family	419	366	14.5	11	5	130.6	2.7	1.3	1.3	14.0	9.9	04/14	O/L
41	▼ -1	<b>G's Group Holdings</b>	Family	398	381	4.4	8	9	-11.1	1.9	2.2	-0.3	7.5	8.6	05/14	O/L
42	▲ +6	<b>Adams Foods</b>	Sub	369	321	15.2	3	5	-41.4	0.8	1.6	-0.8	4.8	5.4	12/13	B
43	■ -	<b>Weetabix</b>	PE	367	356	3.3	112	94	19.9	30.5	26.3	4.2	20.0	14.8	12/13	B
44	▲ +3	<b>Burton's Biscuit Co</b>	PE	337	334	0.8	32	29	12.5	9.5	8.5	1.0	18.4	20.0	12/13	B
45	▲ +1	<b>Linden Foods</b>	Sub	336	337	-0.2	0	5	-94.1	0.1	1.5	-1.4	0.8	14.9	10/14	O/L
46	NEW	<b>Lucozade Ribena</b>	Sub	331	-	n/a	20	-	n/a	6.0	n/a	n/a	n/a	n/a	12/14	B
47	▲ +2	<b>LDH (La Doria)</b>	Sub	322	309	4.1	12	12	-0.3	3.8	4.0	-0.2	21.0	23.8	12/13	O/L
48	▲ +17	<b>JW Galloway</b>	Family	310	251	23.2	-2	5	n/a	-0.7	2.0	-2.7	-4.2	10.4	03/14	O/L
49	▼ -5	<b>Bernard Matthews</b>	PE	308	347	-11.4	-5	-17	n/a	-1.6	-4.8	3.2	-4.2	-13.4	06/14	B
50	▲ +9	<b>First Milk Cheese Co</b>	Family	307	244	25.7	-4	-7	n/a	-1.3	-3.0	1.7	-3.1	-9.4	03/14	O/L

**Methodology:** The Top 150 Food & Drink Suppliers survey is produced by OC&C, a consultancy offering strategic advice to top management on the most complex issues in FMCG. In some cases (eg PepsiCo) it has not been possible to provide fully consolidated group accounts. Some companies include returns from international (eg ABF, Hilton Food Group) and non-food (eg Unilever) operations where it was not possible to separate based on accounts. **Ownership:** Listed (publicly listed), PE (private equity), Sub (subsidiary of a larger group), Family (family/closely owned). **Main activity:** B (branded), O/L (own label). **Notes:** 16 Tulip: part of Danish Crown but results not consolidated in Danish Crown UK accounts; 26 Woodhead Bros: trading as Neerock; 74 Innocent: trading as Fresh Trading; 93 Haribo: trading as Dunhills. To find out more about the Top 150 study contact OC&C on 020 7010 8000 or visit [ocstrategy.com](http://ocstrategy.com).

Most obvious is the effect discounter growth and the supermarkets' quest for differentiation has had on the balance between own label and brands.

Underlying growth (stripping out M&A) among own-label producers was 4.1% – down slightly on last year's 4.4% growth, but dwarfing the anaemic 1.1% growth of branded suppliers (2.9% in last year's index).

The gap becomes even more stark when it includes the impact of M&A – with own-label firms growing 5.9% while branded suppliers saw revenues fall 0.4% as own-label suppliers looked to expand footprints and branded firms shed non-core assets.

The trend is personified by predominantly own-label supplier Boparan, the new no 1 on the 2015 list, overtaking branded supplier Associated British Foods, driven by a string of acquisitions that raised revenues from £838m in 2010 to £3,36bn.

### Need to prioritise own label

"Retailers are running out of steam with operational efficiencies and cost savings," says EY operation transaction service partner John Clark. "You can't keep saving costs to get more profitable, so to increase profitability you need to reduce your SKU range and prioritise own label."

The market for own label has advanced significantly in recent years, with "a lot of disrupters in the marketplace who can pick up the phone and speak with a manufacturer anywhere in Europe and do a deal to make anything they want," adds Clark.

The own-label heavy product offer of the discounters has helped tip the market balance in the direction of non-branded suppliers, but the premium end of the market has provided a similar impetus. M&S, as an almost 100% own-label operator, has been able to protect margin and sales values more effectively than premium-focused rival Waitrose, which has been dragged into the branded pricing battle.

However, it's not a simple case of 'branded bad, non-branded good'. Own-label margins remain significantly tighter than their branded counterparts. Operating margins for own-label players edged up from 2.9% to 3% this year, but still way behind the 7.8% margins boasted by brands.

And while smaller, more nimble branded operators continue to outmanoeuvre their larger rivals, tapping areas of growth more effectively and maintaining their 8.5% margin (while larger branded suppliers saw margins of only 7.5%), the picture is reversed for own-label suppliers. Large (over £500m turnover) own-label business grew margins from 2.9% to 3.2% whilst smaller own-label suppliers saw margins edge down from 2.9% to 2.7%.

"Own-label suppliers have fewer points of differentiation than branded, so their scale translates into bargaining power and the opportunity to get efficiencies and invest in new products," OC&C's head of consumer goods Will Hayllar explains. "Smaller own-brand suppliers are more at the whim of the supermarkets."

The advantages small branded suppliers can leverage from distinctive innovation are lessened in own label as the category tends to focus more on fresh and staples, where innovation is harder to scale up and less value is put on NPD. ➔



## On the right track: top five performers

### Moy Park

● **Turnover:** £1,201m (+10.5%) ● **Operating margin:** 3.4% (+0.8ppts)  
The Northern Irish branded and own-label supplier has upped volumes from UK grocers and foodservice customers while investing in factory efficiencies and NPD, including food-to-go ranges and the first roast in a bag chicken. Snapped up by Brazilian meat giant JBS for £945m in June 2015, further expansion in Europe is now planned.

### McCain

● **Turnover:** £445m (+6.8%) ● **Operating margin:** 12.1% (+4.5ppts)  
As profitability has returned to more normal levels following the 2013 UK potato shortage, a £35m marketing plan featuring Film4 sponsorship and new scented supermarket displays in Tesco and Asda has combined with dynamic NPD including breakfast-focused hash brown substitute Breakfast Dejeuner.

### Ferrero

● **Turnover:** £260m (+22.3%) ● **Operating margin:** -1.3% (-0.5ppts)  
With continued investment in core brands like Nutella (up 15%) and the 2013 launch of Kinder Kids, Ferrero has achieved compound annual growth of 17.1% since 2011 – while Nestlé's market share is down 1.2% over that time and Mondelez has crept up 2.9%. UK revenues will soon double thanks to Ferrero's takeover of Thorntons this summer.

### Adelie

● **Turnover:** £256m (+19.1%) ● **Operating margin:** 4.0% (+2.6ppts)  
Adelie has grown in both the own-label and branded food-to-go arenas, with 50% of sales from foodservice and coffee shops and Urban Eat becoming the biggest sandwich brand in the UK. Its scale makes it stand out – a distribution network delivering 364 days a year. And in March it was acquired by HIG Capital.

### Alpro

● **Turnover:** £107m (+19.5%) ● **Operating margin:** 4.2% (+0.4ppts)  
Alpro was one of the earliest exponent of "free-from" explosion, growing in the UK by an average 7.4% annual rate until last year's near-20% revenue jump, as health and environmental concerns intensified. Diversifying from soya to coconut and hazelnut products, it also introduced smaller pack sizes and re-sealable drink cartons.

# oc&c top 150 index 2015



## THE TOP 150

RANK & YEAR CHANGE	COMPANY NAME & OWNERSHIP		ANNUALISED TURNOVER (£M)			OPERATING PROFIT (£M)			OPERATING MARGIN (%)			ROCE (%)		YEAR END	ACTIVITY	
			Current	Previous	y-o-y (%)	Current	Previous	y-o-y (%)	Current	Previous	ppts	Current	Previous			
51	▲ +4	Faughan	Family	299	259	15.3	2	5	-70.5	0.5	2.0	-1.5	2.7	11.2	12/13	O/L
52	▼ -2	Cott Beverages	Sub	298	299	-0.5	25	19	32.7	8.4	6.3	2.1	7.3	7.3	12/13	O/L
53	▲ +11	Dale Farm	Sub	293	228	28.6	5	2	172.0	1.8	0.9	1.0	5.5	2.6	03/14	O/L
54	▼ -1	Fyffes Group	Listed	287	275	4.3	1	5	-87.6	0.2	1.9	-1.7	1.5	12.4	12/13	O/L
55	▼ -4	Icelandic Group UK	Sub	279	291	-4.3	3	8	-62.5	1.1	2.8	-1.7	6.0	16.4	12/13	O/L
56	▼ -4	Forza Foods	Family	277	254	8.8	18	14	28.8	6.5	5.5	1.0	49.7	45.1	12/13	O/L
57	▼ -1	Yeo Valley Group	Family	276	257	7.4	4	6	-26.4	1.5	2.1	-0.7	9.0	11.8	06/14	B
58	▲ +5	William Jackson & Son	Family	269	229	17.5	18	15	24.7	6.7	6.4	0.4	20.2	17.7	04/14	O/L
59	▼ -2	AG Barr	Listed	262	254	3.0	39	35	12.2	15.0	13.7	1.2	34.7	33.8	Jan 15	B
60	▲ +10	Ferrero UK	Sub	260	212	22.3	-3	-4	n/a	-1.3	-1.8	0.5	-11.5	-15.3	09/14	B
61	▼ -7	Walkers Snack Foods	Sub	257	274	-6.1	27	30	-10.8	10.4	11.0	-0.5	6.8	7.6	12/13	B
62	▲ +6	Adelie Foods	PE	256	215	19.1	10	3	242.9	4.0	1.4	2.6	42.7	23.6	03/14	O/L
63	NEW	KP Snacks	Sub	266	-	n/a	25	-	n/a	9.4	n/a	n/a	n/a	-	12/13	B
64	▼ -6	Wrigley Company	Sub	246	230	6.7	62	55	12.7	25.3	24.0	1.3	110.3	90.0	12/13	B
65	▲ +4	Wellness Foods	PE	239	214	11.7	18	16	8.1	7.5	7.7	-0.3	30.3	31.5	12/13	B
66	▲ +5	Danish Crown UK	Sub	237	210	13.2	2	2	21.1	1.0	1.0	0.1	8.0	6.6	10/14	O/L
67	▼ -7	General Mills UK	Sub	235	240	-2.0	3	3	-14.7	1.3	1.5	-0.2	8.5	4.6	05/14	B
68	▼ -7	Red Bull Company	Sub	233	n/a	n/a	16	n/a	n/a	6.8	n/a	n/a	77.8	n/a	12/13	B
69	▼ -7	Danone	Sub	232	236	-1.8	25	27	-6.6	10.7	11.3	-0.5	83.3	91.5	12/13	B
70	▼ -4	KTC (Edibles)	Family	226	226	-0.2	1	2	-5.0	0.6	0.7	-0.0	3.6	3.8	12/13	O/L
71	▲ +9	CSM (United Kingdom)	Sub	224	188	18.9	21	6	245.7	9.3	3.2	6.1	38.3	10.0	12/13	B
72	▼ -5	McCormick UK	Sub	221	215	2.7	11	11	-3.5	5.0	5.3	-0.3	9.5	11.0	11/14	B
73	▼ -1	Oscar Mayer	Family	218	209	3.9	8	8	7.4	3.7	3.6	0.1	21.7	23.1	03/14	O/L
74	▲ +1	Innocent	Sub	216	206	4.6	1	28	-95.0	0.7	13.7	-13.0	2.6	79.4	12/13	B
75	▼ -1	Berry Gardens	Family	207	202	2.6	3	3	2.7	1.6	1.6	0.0	31.3	35.2	12/13	O/L
76	■ -	John West Foods	Sub	204	200	1.7	2	2	-3.6	1.0	1.1	-0.1	2.4	2.9	12/13	B
77	▲ +2	Noon Products	Sub	200	192	3.9	9	7	36.4	4.5	3.4	1.1	23.5	21.3	12/13	O/L
78	▲ +8	Barry Callebaut (UK)	Sub	197	170	15.8	2	2	5.0	1.0	1.1	-0.1	4.5	4.9	09/14	O/L
79	▼ -6	Lactalis McLelland	Sub	186	209	-10.9	7	7	2.4	3.8	3.3	0.5	4.5	4.6	12/13	O/L
80	▲ +4	Winterbotham Darby	PE	185	173	7.2	9	6	58.2	5.0	3.4	1.6	58.1	34.3	03/14	O/L
81	▲ +7	Tayto Group	Family	180	166	7.8	9	7	30.3	4.8	4.0	0.8	9.2	7.4	06/14	O/L
82	▼ -4	Finsbury Food Group	Listed	176	197	-10.5	7	11	-30.1	4.2	5.4	-1.2	37.0	45.7	06/14	B
83	■ -	Dovecote Park	Family	173	173	0.0	2	4	-38.2	1.4	2.2	-0.9	9.9	17.9	10/14	O/L
84	▼ -3	Produce World	Family	173	187	-7.5	4	4	-0.3	2.3	2.1	0.2	22.7	16.1	06/14	O/L
85	▲ +2	Tangerine	PE	170	169	0.7	9	7	23.2	5.0	4.1	0.9	10.9	8.7	12/13	B
86	▲ +3	Vitacress	Sub	170	166	1.9	0	-0	n/a	0.1	-0.0	0.1	0.3	-0.1	12/14	O/L
87	▼ -10	Greenvale AP	Listed	169	197	-14.1	8	6	36.2	4.6	2.9	1.7	22.6	20.4	06/14	O/L
88	▼ -6	QV Foods	Family	164	176	-7.1	7	5	41.0	4.5	2.9	1.5	55.6	22.5	05/14	O/L
89	▼ -4	Tata Global beverages	Sub	161	171	-5.9	15	26	-41.3	9.5	15.1	-5.7	7.8	14.0	03/14	B
90	▲ +2	Baxters Food Group	Family	161	157	2.4	7	6	17.5	4.6	4.0	0.6	8.2	7.2	05/14	B
91	▲ +4	R&R Ice Cream UK	PE	161	150	7.5	19	23	-19.7	11.6	15.6	-3.9	33.7	54.0	12/13	O/L
92	▲ +2	Direct Table Foods	Sub	159	150	6.0	7	6	21.8	4.2	3.7	0.5	17.0	13.9	10/14	O/L
93	▲ +4	Haribo	Sub	158	146	8.1	25	19	31.4	15.9	13.1	2.8	14.7	11.3	12/14	B
94	▼ -3	Danone Waters	Sub	158	140	13.0	9	6	45.1	5.5	4.3	1.2	32.6	24.5	12/13	B
95	NEW	Histon Sweet Spreads	Sub	158	107	47.7	25	15	64.1	15.7	14.1	1.6	33.6	n/a	06/14	B
96	▲ +5	Lactalis Nestlé	Family	158	144	9.3	2	0	750.6	1.3	0.2	1.1	7.5	1.1	12/13	B
97	▼ -1	Bettys & Taylors Group	Family	156	149	4.6	11	10	7.3	7.0	6.8	0.2	10.5	10.5	Oct 14	B
98	■ -	Whitworths	PE	155	146	5.9	7	12	-41.0	4.6	8.3	-3.7	12.3	21.8	05/14	O/L
99	▼ -6	Pork Farms	PE	153	153	0.3	3	3	7.6	2.0	1.9	0.1	9.2	7.6	03/14	O/L
100	NEW	JBS UK	PE	151	149	1.1	3	2	55.0	1.8	1.2	0.6	3.7	4.9	12/14	O/L

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☞ All the same, investment in innovation has helped underpin the growth of own-label suppliers – with investment enabling them to engineer products to meet consumer demand in growing categories such as convenience and food to go.

Alan Gibson, UK & Ireland director of Moy Park, the growing poultry supplier snapped up by Brazil's JBS this year, says: "For us to grow, we have to play in those parts of the market that are growing. Sales channels like online and convenience are the vehicles of retailers, but it's incumbent on us to understand what they mean for us and what we can do to make our products more attractive."

Adelie is another strong own-label business that has taken advantage of the growing foodservice sector, cutting SKUs and focusing NPD on a smaller range of food-to-go categories. "We have scale, but the ability to move quickly on ideas has been a real strength," says group commercial director John Hyman.

Agility has been equally important on the branded side. "When you're on trend you have to be pretty nimble and dynamic," concurs Sue Garfitt, UK commercial director at Alpro, which has pushed innovation in the growing free-from space.

At the same time, brands need courage in their convictions. "Brands that have made the investment into innovation during the lean times will capture a disproportionate amount of the growth over the coming years," believes Innocent Drinks CEO Doug Lamont.

### Capital expenditure

These are not isolated examples. Despite historically tight margins overall capital expenditure across the Top 150 has risen by 18% year-on-year to £2bn partly as suppliers invest in improving long-term efficiencies, but also recognising new opportunities.

"Businesses are putting in more capital to generate the same levels of profit," OC&C's Hayllar observes, with a focus on new products and pack flexibility to suit different shopping channels.

Although the increase in overall capex is higher in own-label and smaller branded companies, large branded suppliers are the heaviest investors in capex as a percentage of revenues.

And there could be more to come.

"Having gone through the credit crunch, streamlined efficiencies and been pretty cautious about what they're spending through the turbulence, a reasonable number of businesses now have quite healthy balance sheets and have the capacity to invest," adds Hayllar.

Turning on the investment tap also applies to the workforce, with the Top 150 employing 5,000 more people (driven by own-label suppliers) over the past year as the total workforce reached 300,000. Staff costs have grown by 3% per employee and are up by 6% in absolute terms as wages increased and jobs were upskilled.

Yet suppliers will expect material returns on increased investment, and currently the return on capital employed (ROCE) of the Top 150 is down 0.8% year on year to 14.2% while revenue productivity (revenue per employee) remained flat. Both figures are hugely impacted by the deflationary picture in the UK – driven by discounter growth, the supermarket price war and weak commodity inflation. ☞



## UK-based dealmaking

### United Biscuits

● **Buyer:** Yildiz Holding ● **Value:** £2bn

Former owners Blackstone Group and PAI ran a dual-track process to either list or sell UB. In the event it plumped for the £2bn offer from Turkey's Yildiz, which beat off international trade competition. The deal made Yildiz the world's third-largest biscuit player.

### Tilda

● **Buyer:** Hain Frozen Foods UK ● **Value:** £217m

Fast-growing rice brand Tilda became part of US food group Hain Celestial, the owner of New Covent Garden Soup and Ella's Kitchen, in January 2014. The new owners plan to grow the brand via United States, Canada and Europe.

### SAB Miller

● **Buyer:** Coca-Cola ● **Value:** £165m

As part of the deal to combine the bottling operations of SAB Miller and Coca-Cola in Africa, Coke acquired SAB Miller's sparkling soft drink Appletiser brands globally, and 19 other non-alcoholic brands in Africa and Latin America.

### Dairy Crest

● **Buyer:** Müller UK & Ireland ● **Value:** £80m

Dairy Crest agreed a deal to sell off its loss-making milk operations in November 2014. The deal is yet to be approved by UK competition regulator the CMA, but in August it proposed to accept Müller's undertakings to allay competition concerns. So it's only a matter of time.

### Benecol UK

● **Buyer:** Rasio Group ● **Value:** £71m

Finnish food group Raisio has acquired the rights to cholesterol-lowering food brand Benecol in the UK, Ireland and Belgium from Johnson & Johnson subsidiary Cilag. Raisio owns the Benecol brand but is now buying back international licences it divested from 1997.

Total M&A= £2.8bn (from 10 deals, worth more than £20m)

# oc&c top 150 index 2015



## THE TOP 150

RANK & YEAR CHANGE	COMPANY NAME & OWNERSHIP		ANNUALISED TURNOVER (£M)			OPERATING PROFIT (£M)			OPERATING MARGIN (%)			ROCE (%)		YEAR END	ACTIVITY
			Current	Previous	y-o-y (%)	Current	Previous	y-o-y (%)	Current	Previous	ppts	Current	Previous		
101 ▲ +3	Symington's	PE	149	142	4.6	10	12	-21.1	6.4	8.5	-2.1	51.5	74.2	02/14	B
102 ▼ -2	Dr Oetker (UK)	Sub	148	145	2.4	13	12	8.4	8.9	8.4	0.5	20.3	21.8	12/13	B
103 ▼ -4	Yoplait UK	Sub	148	145	1.8	19	24	-21.7	12.8	16.6	-3.8	55.2	68.3	04/14	B
104 ▼ -14	Albert Bartlett & Sons	Family	146	165	-11.5	11	10	4.5	7.2	6.1	1.1	15.2	15.6	05/14	O/L
105 ▲ +10	Browns Food Group	Family	145	117	24.0	7	7	4.2	4.8	5.7	-0.9	11.3	11.9	12/13	O/L
106 ▲ +1	Fayrefield Foods	Family	142	134	5.7	2	1	16.7	1.1	1.0	0.1	6.5	5.5	12/13	B
107 ▼ -1	Dairy Produce Packers	Sub	141	136	3.8	1	7	-81.0	1.0	5.3	-4.3	2.0	9.4	12/13	O/L
108 ▼ -6	Quorn Foods	PE	141	131	7.4	18	17	4.0	12.6	13.1	-0.4	17.1	17.5	12/13	B
109 ▼ -6	Kober	Family	140	132	5.6	2	2	-2.5	1.5	1.7	-0.1	30.9	25.0	12/13	O/L
110 NEW	International Procurement	Sub	138	113	22.4	13	10	27.9	9.3	8.9	0.4	8.0	20.6	12/13	O/L
111 ▲ +2	Walkers Shortbread	Family	137	123	11.2	14	15	-5.9	10.2	12.1	-1.9	19.3	22.6	12/13	B
112 ▼ -2	Lantmannen Unibake	Family	136	130	5.0	-1	-4	n/a	-0.8	-3.0	2.3	-1.3	-5.9	12/13	B
113 ▼ -8	Zetar	Sub	136	136	-0.7	5	1	333.7	3.4	0.8	2.6	10.4	3.0	12/13	O/L
114 ▲ +9	Country Style Foods	Family	134	104	29.3	4	5	-30.4	2.7	5.0	-2.3	14.7	24.7	04/14	O/L
115 ▼ -7	CP Foods (UK)	Sub	133	128	3.4	2	3	-25.2	1.9	2.6	-0.7	3.8	5.8	12/13	O/L
116 ▲ +11	Scottish Sea Farms	Sub	131	102	28.3	24	6	295.6	18.1	5.9	12.3	33.8	9.1	12/13	O/L
117 ▲ +7	Banham Poultry	Family	128	104	23.5	3	1	100.2	2.1	1.3	0.8	32.4	16.8	10/14	O/L
118 ▼ -6	Randall Parker Foods	Family	126	128	-1.3	1	2	-53.1	0.7	1.4	-0.7	6.1	13.6	10/14	O/L
119 NEW	Daniels Chilled Foods	Sub	125	117	6.9	1	2	-70.1	0.4	1.5	-1.1	1.2	4.4	06/14	B
120 NEW	SH Pratt	Family	123	118	4.4	1	1	40.0	0.9	0.7	0.2	10.4	16.8	Oct 14	O/L
121 ▼ -3	Natures Way Foods	Family	122	113	7.5	5	8	-37.1	4.1	7.0	-2.9	17.2	27.3	03/14	O/L
122 ▼ -2	Tilda	Sub	120	107	12.2	8	6	48.8	6.9	5.2	1.7	14.4	11.4	12/13	B
123 NEW	Mizkan	Sub	119	28	325.1	-5	-4	n/a	-4.2	-14.8	10.6	-7.2	-11.4	02/14	B
124 ▼ -15	Branston Holding	Family	115	130	-11.5	10	1	1,445.8	8.5	0.5	8.1	32.8	2.3	07/14	O/L
125 ▼ -11	Park Cakes	PE	113	117	-3.9	-1	-1	n/a	-1.0	-1.2	0.2	-5.6	-5.3	03/14	O/L
126 ▲ +4	Stateside Foods	Sub	111	101	10.2	3	8	-58.1	2.9	7.5	-4.7	8.4	19.9	02/14	O/L
127 ▼ -11	New Zealand Farmers	Sub	110	117	-5.8	-7	1	n/a	-5.9	0.4	-6.4	-55.1	4.2	10/14	O/L
128 ▼ -7	Kanes Foods	Family	109	105	3.8	5	7	-28.7	4.4	6.4	-2.0	6.6	9.8	03/14	O/L
129 ▼ -10	Nichols	Listed	109	106	3.5	18	19	-6.0	16.3	18.0	-1.7	39.7	49.0	12/14	B
130 ▼ -4	Lyons Seafoods	Sub	107	102	4.9	6	6	-12.5	5.3	6.3	-1.0	18.8	20.4	06/14	B
131 ▲ +8	Alpro	Sub	107	90	19.5	4	3	32.3	4.2	3.8	0.4	14.1	9.4	12/14	B
132 ▲ +4	Armaghdown Creameries	Family	106	92	15.1	1	1	60.3	1.4	1.0	0.4	7.8	5.2	10/14	O/L
133 ▲ +4	Lindt & Sprüngli (UK)	Sub	106	91	16.4	10	2	390.8	9.9	2.3	7.5	60.8	11.6	12/13	B
134 ▼ -12	HP Foods	Sub	104	104	0.0	43	50	-13.0	41.9	48.2	-6.3	68.3	72.1	04/13	B
135 ▲ +7	Paynes Dairies	Family	103	87	18.5	1	0	9,174.8	0.9	0.0	0.9	6.5	0.1	04/14	O/L
136 NEW	Kolak Snack Foods	Sub	101	77	30.4	8	5	71.8	8.0	6.0	1.9	46.3	33.9	10/14	O/L
137 ▼ -2	Barfoots of Botley	Family	99	92	6.5	3	3	8.1	2.8	2.8	0.0	18.6	19.4	12/13	O/L
138 ▼ -5	Green Label Foods	Family	98	97	1.6	3	2	70.4	3.0	1.8	1.2	9.5	5.7	12/13	B
139 ▼ -10	Pinguin Foods UK	Sub	98	101	-3.3	3	-3	n/a	2.8	-3.1	5.9	5.9	-5.8	03/14	O/L
140 ▲ +5	Highland Spring	Family	98	86	13.3	3	3	19.8	3.2	3.0	0.2	10.4	7.7	12/13	B
141 ▼ -13	Kettle Produce	Family	96	102	-5.2	-1	1	n/a	-1.1	1.2	-2.2	-4.5	4.9	05/14	O/L
142 ▼ -8	Fletchers Bakeries	Sub	95	99	-4.2	-0	3	n/a	-0.3	2.7	-3.1	-0.8	6.3	03/14	O/L
143 ▼ -5	Bel UK	Sub	94	90	5.4	6	2	184.4	6.0	2.2	3.8	25.8	9.9	12/14	O/L
144 ▼ -3	Frank Roberts & Sons	Family	94	89	5.5	9	10	-8.2	9.7	11.1	-1.4	21.7	26.6	09/14	O/L
145 ▼ -1	Dairygold	Sub	94	86	8.8	1	1	-21.1	0.9	1.3	-0.4	2.9	3.2	12/13	O/L
146 ▼ -21	Compagnie Fruitière	Sub	93	103	-9.2	-0	3	n/a	-0.4	2.5	-2.8	-2.0	14.7	12/13	O/L
147 ▲ +1	F Smales & Son	Family	91	83	8.7	1	2	-55.6	0.8	2.0	-1.2	10.6	27.0	09/14	O/L
148 ▼ -16	Stonegate Farmers	Family	90	99	-8.8	3	3	-8.6	2.9	2.8	0.0	9.5	8.2	10/14	O/L
149 ▼ -6	English Provender	Family	89	87	3.0	7	6	7.6	7.4	7.1	0.3	32.2	35.7	09/14	B
150 ▼ -10	Silver Fern Farms (UK)	Sub	89	89	-0.4	0	0	-27.1	0.4	0.5	-0.1	6.1	4.8	10/14	O/L

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## Top 150: direction of travel

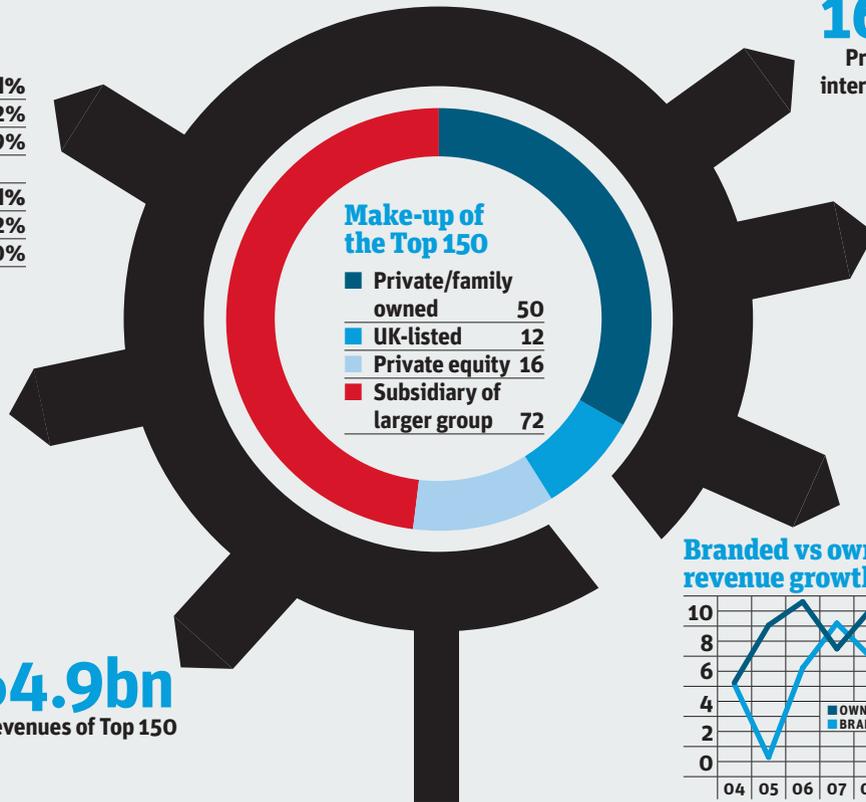
### Underlying revenue growth

<b>TOTAL BRANDED</b>	<b>1.1%</b>
Small branded	5.2%
Large branded	-0.9%

<b>TOTAL OWN LABEL</b>	<b>4.1%</b>
Small own label	6.2%
Large own label	2.0%

**2.9%**  
Overall revenue growth

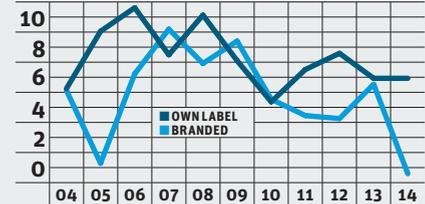
**£64.9bn**  
Total revenues of Top 150



**16.7%**  
Proportion of international sales

**5.3%**  
Average margin

### Branded vs own-label revenue growth



UK-centric food and beverage price deflation has encouraged UK producers increasingly to look overseas for growth. International sales accounted for 16.7% of total revenues from 16.2% last year – with Innocent and R&R Ice Cream among the most successful as they grew their sales from international markets by 5.1% and 4.3% respectively. The somewhat slow pace of overall change is illustrative of the lengthy journey to grow exports.

And it doesn't help that a 17% fall in the value of the euro against the pound over the past two years has dragged down UK food and drink exports by 5.3% in the first half of 2015, even though the volume picture was largely positive.

Still, for many exports must remain on the roadmap. "Exporting is a necessity for us not an optional extra," Moy Park's Gibson says.

"We have to export those parts of the chicken that aren't consumed in the UK, but at the moment it's our biggest challenge because international markets are extremely difficult."

The potential for globalising UK products is one of the primary reasons behind a number of recent investments in UK suppliers, including JBS's investment in Moy Park, Yildiz's £2bn buyout of United Biscuits, and Hain Celestial's acquisition of Tilda.

M&A as a whole was unchanged in deal number and deal value from the 2014 Top 150 index, but a notable

**"If you can find the pockets of growth, the UK is a very attractive space to be in"**

uptick occurred in 2015. Activity this year – including Nomad's acquisition of Iglo and Baring Private Equity's investment in Weetabix – has already outstripped 2014 in value terms, worth £3.1bn against £2.8bn last year. Although there are sporadic private equity deals, interest remains predominantly from other industry players seeking consolidation.

That many trade buyers are from outside the UK suggests "a recognition that there are some pretty valuable UK assets if international players are thinking long-term about building businesses," Hayllar says.

Experienced fmcg board director and Adelle chairman Per Harkjaer thinks the risk of entering the UK food space is "relatively limited" if buyers are selective. "If you can find the pockets of growth, it's a very attractive space to be in," he says.

Attractive isn't a word that's been bandied about the UK grocery market in recent years, but there are genuine chinks of light emerging. Those players who are operating within those pockets of growth are thriving, while the rest of the industry is no longer slashing and burning. Instead it has stabilised and is spending to catch up. As Hayllar says, companies are having to work harder to stand still – the next challenge is getting on the front foot again.

That will require a huge collective effort with retailers on complementary strategies.

## Offices

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