

**THE OC&C GROCER  
INDEX 2009**



# ONLY THE STRONG THRIVE

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

## TOP 150 SUPPLIERS

# CLEAR SKIES FOR BRANDS; HEAVY CLOUDS FOR OWN LABEL

It's been a turbulent year for the top 150 suppliers, with inflation and recession both hitting manufacturing hard. The big brands are rising to the challenge, but own label and smaller branded companies are struggling. James Ball reports

**T**he UK's top food and drink manufacturers are battling chaotic economic weather. One minute the barometer needle is pointed towards high pressure inflation and mounting costs, the next it has swung towards recessionary chill.

Inevitably some are coping better than others. The big branded players have even enjoyed a few moments in the sun, reveals this year's Top 150 Suppliers report produced for The Grocer by strategy consultancy OC&C. However the own-label giants have been enduring stormy weather for more than a year now and the clouds are starting to gather over the smaller branded players – with little respite in sight.

The biggest challenge has been cost inflation as the recession only began to bite towards the end of the period covered

by the data. After years of stable or falling commodity prices, they've gone up sharply over the past couple of years, rising about 19% last year alone – equating to an estimated £5.7bn in extra cost for the top 150.

While in 2007 they had to absorb the extra cost, over the past year, they have been able to pass most of it on. They passed £5.6bn on to the retailers, who then cheekily passed the full £5.7bn on to consumers (see news, page 4).

So, although the big food suppliers haven't recouped what they lost when inflation first reared its head, they didn't take a significant further hit in 2008.

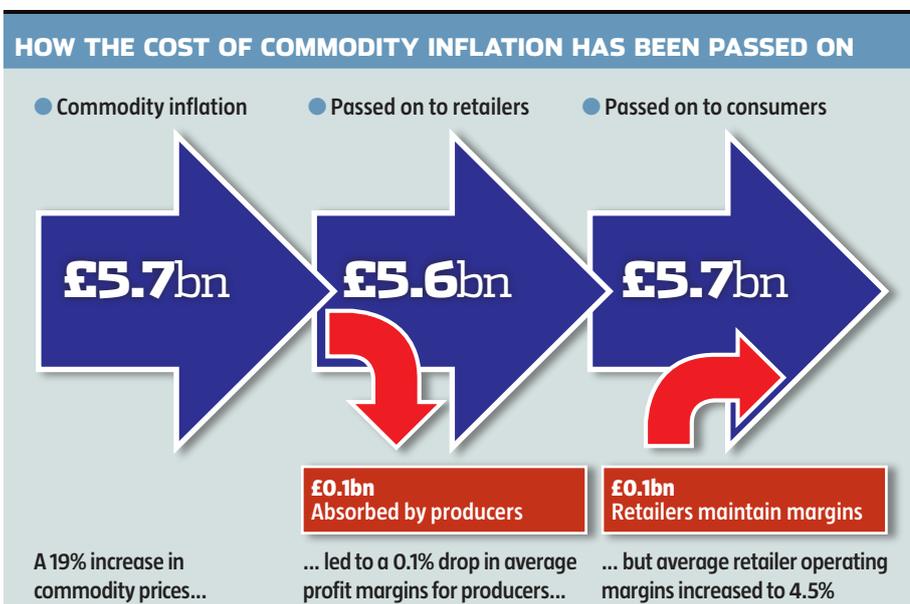
Overall margins were therefore not hit as hard as they might have been, falling just 0.1 percentage point to 6.8% – a substantial achievement given the circumstances, but one that masks extreme variance in performance across the top 150.

The largest branded businesses have been by far the most successful at weathering the economic storm, managing to pass on extra cost and also substantially grow operating margins from 9.1% in 2007 to 11.4% in 2008.

The margins of smaller branded companies, however, fell 0.8 points to 7.5% and those of own-label players fell 1.1 percentage points to 2.5%. The big/small dichotomy was also reflected in sales growth, large companies averaging 9.5% against 7.7% for the smaller players.

In terms of margins, the branded players' performance was the exact inverse of the own-label suppliers'. Two-thirds of branded businesses grew their margins last year, while the same proportion of own-label businesses saw margins slip.

"Inflation has driven the highest level of sales growth ever seen in the index," says



OC&C associate partner Will Hayllar. “And if you step back and look at the very big picture, the industry’s operating profits and margins have stayed more or less flat. But if you dive under the bottom line, it’s only the really strong players that have emerged as winners.

“The big brands have the muscle to negotiate aggressively and get price rises through. They can also keep up investment and advertising to retain brand loyalty. But a big helping factor for many of them has been recent investment and restructuring programmes, which have upgraded facilities, shed underperforming brands and rationalised staff. These programmes are starting to bear fruit.”

Many of the biggest own-label businesses began the restructuring process this year – two years behind some of the branded players – and this has had

## TOP 150 SUPPLIERS

COMPANY & RANK	OWNERSHIP	ANNUALISED TURNOVER (£M)		TURNOVER GROWTH	OPERATING PROFIT (£M)		PROFIT GROWTH	% OPERATING MARGIN		% RETURN ON CAPITAL		YEAR END	ACTIVITY
		CURRENT	PREVIOUS	%	CURRENT	PREVIOUS	%	CURRENT	PREVIOUS	CURRENT	PREVIOUS		
1 Associated British Foods	PLC	8,347.9	6,818.7	22.4	663.8	674.8	-1.6	8.0	9.9	15.0	17.1	Sep-08	C
2 Cadbury	PLC	5,369.3	4,699.0	14.3	451.8	358.0	26.2	8.4	7.6	16.2	11.7	Dec-08	B
3 Tate & Lyle	PLC	3,807.6	4,070.0	-6.4	372.9	437.0	-14.7	9.8	10.7	17.4	20.7	Mar-08	C
4 Premier Foods	Listed	2,768.7	2,312.7	19.7	275.4	169.8	62.2	9.9	7.3	44.7	36.8	Dec-08	B
5 Grampian (now Vion)	Other F/O	1,693.7	1,807.0	-6.3	(27.6)	(1.8)	0.0	-1.6	-0.1	-7.4	-0.5	May-07	C
6 Bakkavör Group	Other F/O	1,613.9	1,471.0	9.7	25.4	114.7	-77.9	1.6	7.8	6.1	35.6	Dec-08	O/L
7 Dairy Crest Group	Listed	1,565.4	1,413.6	10.7	88.2	75.6	16.6	5.6	5.3	17.9	15.5	Mar-08	C
8 Mars UK	UK sub	1,548.5	1,471.0	5.3	344.7	232.0	48.6	22.3	15.8	100.8	59.4	Dec-07	B
9 Coca-Cola Enterprises	UK sub	1,445.9	1,432.0	1.0	210.3	169.3	24.2	14.5	11.8	37.9	33.2	Dec-07	B
10 Arla Foods	Other F/O	1,408.3	1,258.6	11.9	13.1	45.4	-71.0	0.9	3.6	2.4	8.0	Dec-08	C
11 Nestlé UK	UK sub	1,269.2	1,287.4	-1.4	80.7	2.7	2888.9	6.4	0.2	11.3	0.4	Dec-07	B
12 Findus Group	PE	1,091.8	894.4	22.1	90.1	58.3	54.7	8.3	6.5	47.1	37.7	Sep-08	B
13 United Biscuits Group	PE	1,063.1	1,022.6	4.0	155.2	99.7	55.7	14.6	9.7	20.6	14.7	Dec-06	B
14 Wm Morrison Produce	Listed	980.3	897.0	9.3	100.7	94.1	7.0	10.3	10.5	39.9	51.2	Feb-08	O/L
15 Northern Foods	Listed	977.9	934.5	4.6	18.4	45.4	-59.6	1.9	4.9	4.7	12.5	Mar-09	O/L
16 Princes	Other F/O	943.8	890.9	5.9	40.4	35.2	14.8	4.3	4.0	19.6	18.6	Mar-08	O/L
17 Tulip Food Service	Other F/O	942.3	954.7	-1.3	34.5	34.9	-1.2	3.7	3.7	6.8	7.3	Sep-07	C
18 Britvic	Listed	929.0	718.3	29.3	86.2	72.1	19.6	9.3	10.0	26.0	21.7	Sep-08	B
19 G&S UK	Other F/O	827.3	771.3	7.3	0.5	2.1	-77.6	0.1	0.3	0.3	1.4	Dec-07	O/L
20 Uniq	Listed	795.0	736.1	8.0	(32.2)	(36.2)	0.0	-4.1	-4.9	-11.6	-14.7	Dec-08	O/L
21 Robert Wiseman Dairies	Listed	724.0	607.0	19.3	32.1	35.2	-8.7	4.4	5.8	18.6	24.4	Mar-08	C
22 Greencore Convenience Foods	Other F/O	683.6	632.4	8.1	29.2	36.1	-19.3	4.3	5.7	12.0	17.6	Sep-08	O/L
23 HJ Heinz Company	UK sub	677.6	612.2	10.7	157.1	159.8	-1.7	23.2	26.1	30.5	25.2	Apr-08	B
24 Cranswick	Listed	597.3	510.5	17.0	38.3	37.1	3.2	6.4	7.3	32.8	38.3	Mar-08	C
25 Anglo Beef Processors	Other F/O	576.9	542.0	6.4	18.9	5.9	220.8	3.3	1.1	17.1	6.0	Apr-07	C
26 Samworth Brothers	Family	569.3	520.2	9.4	41.5	37.0	12.2	7.3	7.1	24.9	23.9	Dec-07	O/L
27 Kraft Foods UK	UK sub	554.5	630.7	-12.1	46.6	43.8	6.3	8.4	7.0	21.6	17.8	Dec-07	B
28 Gerber Emig Group	PE	548.7	550.3	-0.3	13.7	15.3	-10.4	2.5	2.8	8.1	9.8	Dec-07	O/L
29 Müller Dairy UK	UK sub	467.7	433.2	8.0	45.4	34.4	32.1	9.7	7.9	20.0	17.2	Dec-07	B
30 Unilever UK	UK sub	465.2	849.2	-45.2	79.0	100.3	-21.3	17.0	11.8	65.7	84.4	Dec-07	B
31 Boparan Holdings	Family	448.9	377.2	19.0	28.7	25.1	14.3	6.4	6.7	48.3	66.8	Jul-07	O/L
32 Kerry Foods	Other F/O	439.6	435.5	0.9	24.6	20.8	17.9	5.6	4.8	18.9	16.3	Dec-07	B
33 Birds Eye	UK sub	425.3	574.3	-26.0	35.8	40.8	-12.2	8.4	7.1	24.0	29.1	Dec-07	B
34 Warburtons	Family	415.4	367.1	13.2	49.6	47.5	4.4	11.9	12.9	20.7	22.4	Sep-07	B
35 Argent Group Europe	Family	402.8	351.4	14.6	10.0	9.7	3.1	2.5	2.8	27.4	28.4	Dec-08	B
36 Milk Link Holdings	Family	391.7	434.9	-9.9	13.6	4.9	176.0	3.5	1.1	10.2	3.3	Mar-07	C
37 Marshall Food Group	PE	390.4	334.0	16.9	1.3	(1.8)	0.0	0.3	-0.6	1.9	-2.3	Nov-08	B
38 L&M Food Group	Family	358.7	198.5	80.7	7.8	5.4	45.4	2.2	2.7	23.7	19.8	Mar-08	O/L
39 Fresca Group	Family	351.7	355.4	-1.0	10.9	8.4	30.2	3.1	2.4	29.0	19.4	Apr-08	C
40 Bernard Matthews Holdings	Family	349.9	423.5	-17.4	(73.2)	33.4	0.0	-20.9	7.9	-41.6	15.9	Dec-07	B
41 Faccenda Holdings	Family	337.4	313.9	7.5	(1.8)	10.9	0.0	-0.5	3.5	-1.7	10.8	Apr-08	O/L
42 Finlay Group	Family	330.4	217.4	52.0	18.2	15.9	14.7	5.5	7.3	8.7	8.5	Dec-07	C
43 Noble Foods	Family	329.0	0.0	0.0	0.3	0.0	0.0	0.1	0.0	0.0	0.0	Sep-07	O/L
44 McCain Foods (GB)	UK sub	320.9	307.7	4.3	40.5	27.7	46.0	12.6	9.0	32.0	22.4	Jun-08	B
45 Dawn Meats (UK)	Other F/O	310.8	322.3	-3.6	(4.5)	(3.8)	0.0	-1.4	-1.2	-6.6	-5.6	Dec-07	C
46 Neerock	Listed	306.2	285.7	7.2	12.5	11.6	7.3	4.1	4.1	37.0	46.1	Feb-08	O/L
47 Weetabix	PE	295.8	280.5	5.5	78.3	72.6	7.8	26.5	25.9	19.7	20.5	Dec-07	B
48 Burton's Foods	PE	278.3	279.2	-0.3	4.9	10.4	-52.9	1.8	3.7	4.5	9.6	Dec-07	B
49 Farmers Boy	Listed	276.1	238.7	15.7	25.6	24.0	6.9	9.3	10.0	32.6	38.9	Feb-08	O/L
50 Sun Valley Foods	Other F/O	273.5	218.0	25.5	7.3	5.9	23.7	2.7	2.7	11.0	9.6	May-08	O/L

**Methodology:** The index is compiled by OC&C Strategy Consultants, using figures from the latest annual accounts of the UK's leading manufacturers and processors. For groups with major subsidiaries, OC&C has listed, where possible, details of the major operating companies. Some companies include returns from international operations, notably Cadbury Schweppes, ABF and Tate & Lyle. Companies have been classified as **B** (branded), **O/L** (own-label) and **C** (commodity-based) according to their main activity. **PLC** = Major UK PLC, **Family** = Family or closely owned, **UK sub** = UK subsidiary, **Listed** = Other UK-listed, **PE** = Private Equity, **F/O** = Other foreign-owned

## HARD TIMES FOR FAMILY BUSINESSES

Family businesses evoke picturesque scenes of small-town bakeries run in the traditional way by the grandson of the founder.

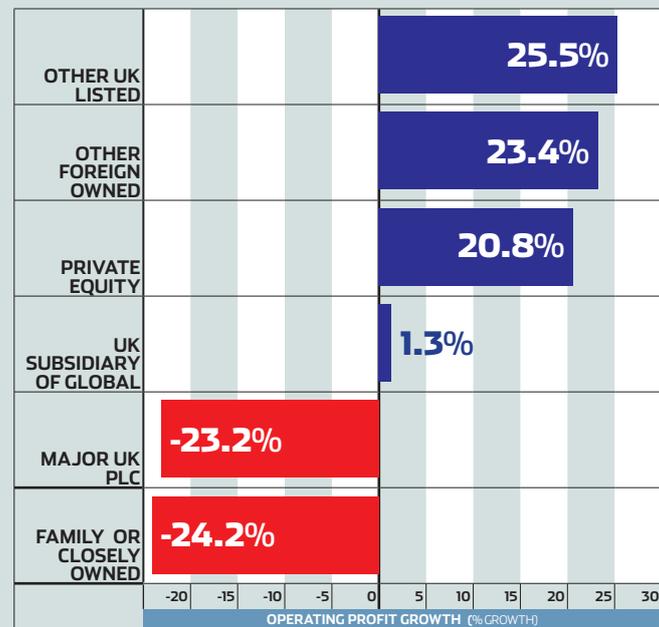
The reality is all too often quite different. The inflationary onslaught of the past year has hit family businesses more than any other type of business. And as family businesses make up almost two thirds of the UK's private businesses and employ a third of its workforce, the implications of their misfortunes will resonate across the industry.

More than a third (54) of the top 150 are family-owned or run. Their operating profits fell by almost a quarter, while margins slipped on average 1.4%. These slumps came despite sales growth of 14.4%.

Bernard Matthews, one of the largest family companies in the top 150, saw revenues fall 17.4% and profits flip from a £33m operating profit last year to a £73m operating loss.

"Family-owned businesses tend to have fewer in the way of back-up plans," says OC&C partner Chris Outram. "This means that if anything falls out of its usual balance – and last year's price inflation certainly qualifies as that – then the business's ability to respond is impaired when compared with listed companies.

### FINANCIAL PERFORMANCE BY OWNERSHIP 07-08



The operating profits of the UK's family companies have fallen by a quarter

"Another factor is that family businesses often don't have the same management structures as other types of business, which means they can struggle to cope with change."

Family businesses tend to run smoothly when the climate is stable. But if market conditions change rapidly, they are relatively slow moving compared with listed

companies well versed in responding quickly to placate shareholders. Inevitably, they get left behind in the race to secure positions in the new market.

This is one explanation for the woes of family businesses, but Investec analyst Nicola Mallard has a more charitable theory.

"The stock market gives management an instant monitor

of how their companies are performing," she says.

"It requires very regular updates and quick action if profits slip. Family businesses don't have that pressure and so can take a more comfortable long-term view. Many don't chase profits in the same way as other companies, and so might take a more benevolent approach.

"Instead of trimming the fat, they put off redundancies or plant closures in the hope that current circumstances are a short-term blip."

Unfortunately, they may pay dearly for such altruism. Even in better economic times, only a third of the UK's three million family businesses survive the handover to a second generation and only one in 10 reach a third. If they don't face up to the recession, not even that many will make it.

There is only one sliver of hope for the families that own these companies, says Outram, but it will go against everything they stand for. Their reduced prospects make them a more attractive buyout target for private equity groups looking to snap up a bargain. But although this may save the business, the benevolent approach will be thrown out and the fat trimmed ruthlessly.

« 35 a significant impact on profit margins.

Bakkavör, the biggest own-label producer in the top 150, took a hit of £41.7m when it closed two plants to consolidate some of its production. Northern Foods, another major own-label supplier, mothballed its Fenland factory early last year after walking away from a Marks & Spencer contract and is due to close another after losing business from Morrisons.

Restructuring costs are one reason large own-label suppliers have not benefited from their scale in the same way as branded suppliers.

But they don't explain the full story, specifically why own-label suppliers suffered a margin drop of 0.4 points to 3% – while the biggest players (those with turnover above

£500m) saw theirs fall nearly four times as much, by 1.5 points to just 2.2%.

This underperformance can partly be explained by the structure of the own-label market, says . "The largest, strongest brands operate only in categories where

“It's shifting to a more competitive dynamic, and the suppliers are having to adapt to that”

they dominate," he says. "This is what gives them muscle. For own-label, even many of the big players don't enjoy that kind of dominance. Many big own-label producers get big by operating in several categories, without being hugely advantaged in any."

In the past, he adds, own-label producers have not needed to dominate categories, thanks to their close relationships with retailers. Effectively, many own-label businesses have grown up in partnership with their customers. But that is changing.

"Retailers are becoming more promiscuous, more willing to re-tender existing contracts," he says. "It's shifting to a more competitive dynamic, and the suppliers are having to adapt to that."

That doesn't mean it is time for 38 »»

## TOP 150 SUPPLIERS

COMPANY & RANK	OWNERSHIP	ANNUALISED TURNOVER (£M)		TURNOVER GROWTH	OPERATING PROFIT (£M)		PROFIT GROWTH	% OPERATING MARGIN		% RETURN ON CAPITAL		YEAR END	ACTIVITY
		CURRENT	PREVIOUS	%	CURRENT	PREVIOUS	%	CURRENT	PREVIOUS	CURRENT	PREVIOUS		
<b>51 Icelandic Group UK</b>	Other F/O	268.6	304.1	<b>-11.7</b>	6.8	5.2	<b>29.4</b>	2.5	1.7	13.9	9.7	Dec-07	<b>C</b>
<b>52 Nutricia</b>	UK sub	253.5	229.1	<b>10.6</b>	17.9	24.1	<b>-25.6</b>	7.1	10.5	29.5	47.5	Dec-07	<b>B</b>
<b>53 The Real Good Food Company</b>	Listed	246.1	250.8	<b>-1.9</b>	9.9	13.0	<b>-23.6</b>	4.0	5.2	13.4	24.6	Dec-07	<b>B</b>
<b>54 Meadow Foods (Holdings)</b>	Family	243.9	200.0	<b>22.0</b>	5.2	0.3	<b>1,510.5</b>	2.1	0.2	25.3	1.7	Mar-08	<b>C</b>
<b>55 G's Group Holdings</b>	Family	239.8	202.4	<b>18.5</b>	(7.7)	(0.3)	<b>0.0</b>	-3.2	-0.2	-9.6	-0.4	May-08	<b>O/L</b>
<b>56 First Milk Cheese Company</b>	Family	226.8	124.6	<b>82.0</b>	8.6	(3.4)	<b>0.0</b>	3.8	-2.8	9.1	0.0	Mar-08	<b>C</b>
<b>57 Produce World</b>	Family	223.3	151.1	<b>47.8</b>	4.2	4.6	<b>-9.2</b>	1.9	3.1	17.3	34.1	Jun-08	<b>C</b>
<b>58 Danish Crown UK (DBI)</b>	Other F/O	213.3	213.7	<b>-0.2</b>	1.8	1.3	<b>38.2</b>	0.9	0.6	5.2	4.9	Sep-07	<b>C</b>
<b>59 The Kerrygold Company</b>	Other F/O	212.2	196.5	<b>8.0</b>	4.1	6.7	<b>-39.3</b>	1.9	3.4	9.4	17.3	Dec-07	<b>B</b>
<b>60 General Mills UK</b>	UK sub	208.6	180.2	<b>15.7</b>	4.8	3.6	<b>33.7</b>	2.3	2.0	6.7	4.9	Apr-08	<b>B</b>
<b>61 The Wrigley Company</b>	UK sub	207.3	206.6	<b>0.3</b>	39.5	66.1	<b>-40.3</b>	19.1	32.0	45.9	75.0	Dec-07	<b>B</b>
<b>62 Cott Retail Brands</b>	Other F/O	202.4	185.7	<b>9.0</b>	12.5	6.1	<b>103.6</b>	6.2	3.3	14.5	6.9	Dec-07	<b>O/L</b>
<b>63 Red Bull Company</b>	UK sub	199.5	185.7	<b>7.4</b>	17.5	19.7	<b>-11.2</b>	8.8	10.6	39.3	46.3	Dec-08	<b>B</b>
<b>64 Adelle Food Holdings</b>	PE	199.1	108.8	<b>83.1</b>	(1.2)	6.0	<b>0.0</b>	-0.6	5.5	-4.4	0.0	Sep-07	<b>O/L</b>
<b>65 Walkers Snack Foods</b>	UK sub	197.5	174.7	<b>13.0</b>	32.7	20.2	<b>61.6</b>	16.6	11.6	5.9	4.2	Dec-07	<b>B</b>
<b>66 Delice de France</b>	UK sub	192.9	120.0	<b>60.8</b>	6.0	5.5	<b>9.6</b>	3.1	4.6	9.4	10.2	Jul-08	<b>B</b>
<b>67 Lactalis McLelland</b>	Other F/O	186.8	160.9	<b>16.1</b>	12.1	7.7	<b>58.3</b>	6.5	4.8	11.6	6.8	Dec-07	<b>O/L</b>
<b>68 McCormick UK</b>	Other F/O	185.2	180.1	<b>2.8</b>	(3.2)	1.7	<b>0.0</b>	-1.7	1.0	-3.7	2.1	Nov-08	<b>B</b>
<b>69 Berry Gardens</b>	Family	177.3	181.2	<b>-2.1</b>	3.5	4.2	<b>-17.9</b>	2.0	2.3	58.5	69.2	Dec-08	<b>C</b>
<b>70 Dale Farm</b>	Family	176.3	139.7	<b>26.2</b>	1.3	2.5	<b>-47.3</b>	0.7	1.8	2.5	5.4	Mar-08	<b>C</b>
<b>71 Greenvale AP</b>	Family	175.5	175.8	<b>-0.2</b>	5.3	9.4	<b>-43.1</b>	3.0	5.3	25.5	49.9	Jun-08	<b>C</b>
<b>72 Danone Waters UK &amp; Ireland</b>	UK sub	174.9	186.2	<b>-6.1</b>	4.0	5.8	<b>-30.6</b>	2.3	3.1	14.8	20.8	Dec-07	<b>B</b>
<b>73 Yeo Valley Group</b>	Family	173.5	159.0	<b>9.1</b>	(2.0)	4.2	<b>0.0</b>	-1.1	2.7	-5.2	11.6	Jun-08	<b>B</b>
<b>74 Barry Callebaut Manufacturing (UK)</b>	Other F/O	172.4	135.9	<b>26.9</b>	1.6	1.6	<b>-1.5</b>	0.9	1.2	6.2	6.5	Aug-08	<b>O/L</b>
<b>75 John West Foods</b>	PE	170.9	142.6	<b>19.9</b>	(0.5)	5.6	<b>0.0</b>	-0.3	3.9	-0.7	9.0	Mar-08	<b>B</b>

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« 37 own label to throw in the towel – retailers aren't having everything their way. As retailers grow in size and demand higher standards, the field of suppliers able to meet their demands gets smaller – falling to just a handful in some categories. This could give some suppliers leeway in the future – those with scale anyway.

“Some major own-label suppliers, such as Greencore, have stated they only want to be in a category if they're number one or two,” says Investec analyst Nicola Mallard. “A company that is the third largest in a sector is often on a hiding to nothing. Ideally, own-label suppliers look to have about 40% of a category. That is the only way they will have any bargaining power.”

The biggest players can also invest. Mallard points out that it was Dairy Farmers of Britain's inability to match Robert Wiseman's investment in a new plant that probably encouraged The Co-operative Group to switch some of its supply to Wiseman.

However, she sounds one note of caution. “When suppliers get to a certain size, they have some leeway to negoti- 40 »»

## THE UPSIDE TO INFLATION

A third of food purchased in the UK is thrown away, according to waste disposal body Wrap. Its 2008 target to knock 100,000 tonnes of food waste off the UK's 6.7 billion-tonne-a-year total was hit successfully.

However, this may not be the triumph of re-education it appears. OC&C research shows that historically, when inflation is high, volume growth falls. And last year's unprecedented food price inflation proved no exception: as prices soared, food volume growth halved versus 2007, to just 2%. “If food is expensive, the public is less inclined to waste it,” says OC&C's Will Hayllar.

Unfortunately for the target-setters, shoppers have short

## FOOD PRICE VS VOLUME GROWTH



memories. Once inflation settles, volume growth quickly returns to its previous level – even if the price of food hasn't fallen back. But perhaps not this time, says Hayllar.

Wrap has set another reduction target, 150,000

tonnes by next March. It is not unrealistic, he says. “As the end of inflation coincided with the onset of recession, I wouldn't expect a volume bounce. Consumers aren't going to get wasteful too quickly in a recession.”

## TOP 150 SUPPLIERS

COMPANY & RANK	OWNERSHIP	ANNUALISED TURNOVER (£M)		TURNOVER GROWTH	OPERATING PROFIT (£M)		PROFIT GROWTH	% OPERATING MARGIN		% RETURN ON CAPITAL		YEAR END	ACTIVITY
		CURRENT	PREVIOUS	%	CURRENT	PREVIOUS	%	CURRENT	PREVIOUS	CURRENT	PREVIOUS		
<b>76</b> Key Country Foods	Other F/O	169.9	157.1	<b>8.2</b>	1.8	3.0	<b>-37.9</b>	1.1	1.9	4.4	8.0	Dec-08	<b>O/L</b>
<b>77</b> Heygate & Sons	Family	169.2	141.2	<b>19.8</b>	0.2	2.6	<b>-94.2</b>	0.1	1.8	0.3	4.9	Mar-08	<b>C</b>
<b>78</b> Finsbury Food Group	Listed	168.5	109.8	<b>53.5</b>	7.8	4.0	<b>92.5</b>	4.6	3.7	32.2	25.5	Jun-08	<b>O/L</b>
<b>79</b> AG Barr	Listed	166.9	148.0	<b>12.8</b>	24.3	21.0	<b>15.8</b>	14.6	14.2	30.2	25.8	Jan-09	<b>B</b>
<b>80</b> Danone	UK sub	165.5	154.6	<b>7.0</b>	19.1	19.3	<b>-1.0</b>	11.5	12.5	0.0	0.0	Dec-07	<b>B</b>
<b>81</b> A Bartlett & Sons (Airdrie)	Family	165.0	145.4	<b>13.4</b>	9.7	5.0	<b>92.2</b>	5.9	3.5	9.6	5.7	May-08	<b>O/L</b>
<b>82</b> Pork Farms	PE	159.1	0.0	<b>0.0</b>	(22.6)	0.0	<b>0.0</b>	-14.2	0.0	0.0	0.0	Mar-08	<b>O/L</b>
<b>83</b> Tetley GB	Other F/O	158.7	156.9	<b>1.2</b>	47.2	44.3	<b>6.6</b>	29.7	28.2	29.5	26.6	Apr-08	<b>B</b>
<b>84</b> Wellness Foods	PE	152.9	87.7	<b>74.4</b>	13.6	6.2	<b>119.9</b>	8.9	7.1	38.8	0.0	Dec-07	<b>B</b>
<b>85</b> Dole Fresh UK	Other F/O	149.2	165.1	<b>-9.6</b>	(1.3)	2.8	<b>0.0</b>	-0.9	1.7	-6.8	14.1	Dec-07	<b>O/L</b>
<b>86</b> Del Monte Fresh Produce (UK)	Other F/O	148.6	163.6	<b>-9.2</b>	6.6	(0.3)	<b>0.0</b>	4.5	-0.2	22.3	-0.9	Dec-07	<b>C</b>
<b>87</b> William Jackson & Son	Family	147.0	120.7	<b>21.7</b>	6.5	1.7	<b>280.1</b>	4.4	1.4	0.0	2.5	Apr-08	<b>O/L</b>
<b>88</b> Ferrero UK	Other F/O	136.7	120.8	<b>13.2</b>	2.3	0.7	<b>238.4</b>	1.6	0.6	38.5	10.9	Aug-08	<b>B</b>
<b>89</b> Cumbrian Holdings	Family	136.2	127.5	<b>6.8</b>	2.2	2.1	<b>5.4</b>	1.6	1.6	9.3	10.6	Mar-08	<b>O/L</b>
<b>90</b> Oscar Mayer	Family	135.4	121.8	<b>11.2</b>	1.6	2.0	<b>-19.0</b>	1.2	1.7	7.5	9.9	Mar-08	<b>O/L</b>
<b>91</b> Fonterra (Logistics)	Other F/O	133.7	95.2	<b>40.4</b>	0.1	0.2	<b>-33.8</b>	0.1	0.2	0.5	0.8	Jul-08	<b>C</b>
<b>92</b> O'Kane Group	Family	131.6	121.0	<b>8.8</b>	1.5	(4.4)	<b>0.0</b>	1.2	-3.6	4.1	-10.9	Apr-08	<b>O/L</b>
<b>93</b> Lipton	UK sub	130.3	140.6	<b>-7.3</b>	(0.7)	0.8	<b>0.0</b>	-0.5	0.5	-8.9	10.0	Dec-07	<b>B</b>
<b>94</b> Yoplait UK	Other F/O	130.0	118.3	<b>9.8</b>	22.9	19.6	<b>17.0</b>	17.6	16.6	332.5	224.4	Jun-08	<b>B</b>
<b>95</b> Heinz Frozen & Chilled	PE	128.0	130.4	<b>-1.8</b>	2.2	8.2	<b>-73.2</b>	1.7	6.3	2.9	9.0	Apr-08	<b>B</b>
<b>96</b> Kellogg Company of GB	UK sub	127.7	138.4	<b>-7.8</b>	11.1	(8.9)	<b>0.0</b>	8.7	-6.4	6.1	-4.4	Dec-07	<b>B</b>
<b>97</b> J&J Tranfield	Other F/O	126.2	109.2	<b>15.6</b>	2.7	2.9	<b>-5.2</b>	2.2	2.6	9.5	14.2	Dec-07	<b>O/L</b>
<b>98</b> Glanbia Cheese	Other F/O	122.7	115.1	<b>6.6</b>	3.5	2.7	<b>28.9</b>	2.9	2.4	14.4	11.6	Dec-08	<b>C</b>
<b>99</b> BakeMark UK	Other F/O	122.6	114.2	<b>7.4</b>	13.2	3.5	<b>275.5</b>	10.8	3.1	23.5	8.1	Dec-07	<b>B</b>
<b>100</b> Zetar	Listed	121.2	94.9	<b>27.6</b>	8.0	7.5	<b>6.2</b>	6.6	7.9	26.7	37.0	Mar-08	<b>O/L</b>

**Methodology:** The index is compiled by OC&C Strategy Consultants, using figures from the latest annual accounts of the UK's leading manufacturers and processors. For groups with major subsidiaries, OC&C has listed, where possible, details of the major operating companies. Some companies include returns from international operations, notably Cadbury Schweppes, ABF and Tate & Lyle. Companies have been classified as **B** (branded), **O/L** (own-label) and **C** (commodity-based) according to their main activity. **PLC** = Major UK PLC, **Family** = Family or closely owned, **UK sub** = UK subsidiary, **Listed** = Other UK-listed, **PE** = Private Equity, **F/O** = Other foreign-owned

ate," she says. "But that will only go so far. Retailers have proven they are still willing to step outside their supply base if necessary."

Retailers haven't been too cavalier with suppliers, though. In some ways, they have actually been more amenable to the record-breaking level of inflation being passed on by own-label suppliers than they might be to the usual run-of-the-mill price inflation of 1% to 2% – perhaps because in some cases the supplier's very survival has been at stake.

However, their lenience hasn't completely mitigated the impact of soaring costs on suppliers, the delay in passing costs on being the key problem. Such was the rate of inflation in 2008 that even a two-to-three-week lag in passing on costs was enough to have a notable impact on own-label suppliers' profits, says Mallard: "Last year really was the extreme. Even a short lag had a major impact – and some companies took two to three months."

That said, underlying margins fell less than 0.5 percentage points overall. "It could

have been much worse," she says.

The ravages of inflation have now given way to a full consumer-led recession, one that is set to hit the bottom line of many fmcg giants hard this year, judging by first-quarter margin figures.

The only glimmer of hope is that they may be better placed to ride out recession than the small branded players are, suggests Anna Eggleton, director of brand consultancy The Value Engineers. "Own-label can cope far better with recession than it can with inflation," she argues. "Retailers

“When suppliers get to a certain size, they have some leeway to negotiate. But that will only go so far”

have seen an opportunity to gain category share by promoting own-label, and like the big brands are proving effective at pushing a strong value-for-money message.

"The target for both is the second-tier brands. Retailers such as Justin King have shown they are ruthless about this middle ground, which is what campaigns such as Switch and Save target. Consumers won't give up brand leaders such as Domestos, but elsewhere they are willing to compromise – and that's where own label is making a land grab."

Looking ahead, it is the smaller branded players that could be closest to the eye of the storm. Traditionally, they have capitalised on luxury, niche categories such as desserts or smoothies to gain a foothold, Eggleton says, which was effective in the boom but puts them in a difficult position in a recession.

"Big brands are very good at communicating a message based around need," she says. "Small brands target what people want. But these nice-to-have items are more likely to be culled by shop- 43 >>>

## TOP 150 SUPPLIERS

COMPANY & RANK	OWNERSHIP	ANNUALISED TURNOVER (£M)		TURNOVER GROWTH	OPERATING PROFIT (£M)		PROFIT GROWTH	% OPERATING MARGIN		% RETURN ON CAPITAL		YEAR END	ACTIVITY
		CURRENT	PREVIOUS	%	CURRENT	PREVIOUS	%	CURRENT	PREVIOUS	CURRENT	PREVIOUS		
101 JW Galloway	Family	120.1	113.8	5.5	1.7	2.0	-14.0	1.4	1.8	5.0	6.7	Feb-08	C
102 WA Baxter & Sons	Family	116.7	112.1	4.1	2.2	7.7	-71.4	1.9	6.9	2.9	12.1	May-08	B
103 Noon Products	Other F/O	116.1	104.1	11.5	5.5	6.1	-9.4	4.7	5.8	20.5	26.8	Dec-07	O/L
104 Fresh Trading	Family	113.2	75.6	49.6	10.4	9.3	12.4	9.2	12.3	83.1	137.8	Dec-07	B
105 CP Foods (UK)	Other F/O	110.6	100.4	10.1	4.8	3.4	38.0	4.3	3.4	11.7	9.6	Dec-07	B
106 Branston	Family	110.2	108.7	1.4	4.8	5.5	-12.2	4.4	5.1	46.5	42.9	Jul-08	C
107 KTC Edibles	Family	109.3	86.8	26.0	1.8	1.3	44.6	1.7	1.5	6.3	6.0	Dec-07	O/L
108 Whitworths	PE	103.7	103.1	0.6	3.3	8.1	-58.9	3.2	7.8	15.4	41.3	Apr-08	O/L
109 Dairy Produce Packers	Other F/O	102.6	88.1	16.4	1.1	2.7	-59.5	1.1	3.1	2.3	5.1	Dec-07	C
110 Maple Leaf Bakery UK	Other F/O	102.6	42.3	142.3	9.7	7.0	38.5	9.5	16.6	29.5	29.5	Dec-07	B
111 Quaker Oats	UK sub	102.5	145.3	-29.5	17.5	8.2	114.4	17.1	5.6	21.9	12.8	Dec-07	B
112 Park Cakes	PE	99.5	0.0	0.0	(4.9)	0.0	0.0	-4.9	0.0	0.0	0.0	Mar-08	O/L
113 Daniels Group	Other F/O	97.1	80.7	20.3	8.5	6.9	23.7	8.8	8.5	37.5	31.6	Dec-07	B
114 Recordline	Family	94.6	82.4	14.7	2.6	1.3	106.0	2.8	1.5	9.4	4.8	Dec-07	C
115 Walkers Shortbread	Family	93.9	86.3	8.9	6.2	11.0	-43.6	6.6	12.7	11.6	21.9	Dec-07	B
116 B Brooks (Norwich)	Other F/O	93.1	96.0	-3.0	0.4	0.1	209.4	0.5	0.2	1.9	0.6	Sep-07	O/L
117 Fletchers Bakeries	PE	91.0	101.7	-10.5	(11.0)	(4.9)	0.0	-12.1	-4.8	-23.6	-9.3	Mar-08	O/L
118 Tilda	Family	90.6	80.1	13.2	2.5	2.2	16.8	2.8	2.7	5.6	4.6	Dec-07	B
119 Dovecote Park	Family	89.5	81.4	9.9	3.2	3.4	-5.8	3.6	4.2	30.8	32.0	Sep-07	O/L
120 Lloyd Maunder	Family	86.1	85.1	1.2	(0.5)	(5.3)	0.0	-0.6	-6.2	-4.8	-48.4	Sep-07	O/L
121 Kettle Produce	Family	84.8	71.8	18.1	2.2	1.8	22.5	2.6	2.5	22.1	18.7	May-08	C
122 Direct Table Foods	Other F/O	84.4	62.0	36.0	2.7	4.7	-42.1	3.2	7.5	9.5	19.7	Sep-07	O/L
123 F Smales & Son (fish merchants)	Family	84.2	78.1	7.8	(0.1)	(0.8)	0.0	-0.2	-1.1	-2.1	-11.8	Aug-07	C
124 Fenmarc Produce	Family	82.3	85.5	-3.8	2.3	3.4	-31.8	2.8	4.0	18.2	27.7	Jun-08	O/L
125 Dunhills Pontefract	Family	82.2	76.8	7.0	16.5	13.2	24.5	20.1	17.2	17.8	16.1	Dec-07	B
126 HP Foods	UK sub	81.2	75.4	7.6	34.7	20.8	66.7	42.7	27.6	57.4	40.7	Apr-08	B
127 Country Style Foods	Family	80.0	68.3	17.2	2.9	2.1	39.0	3.6	3.0	13.9	11.1	Apr-08	O/L
128 Natures Way Foods	Family	79.5	72.1	10.3	3.1	3.0	6.1	3.9	4.1	14.6	14.9	Mar-08	O/L
129 Stubbins Marketing	Family	79.1	69.2	14.4	1.5	2.7	-45.7	1.9	3.9	7.7	14.5	Jun-08	C
130 Bowes Of Norfolk	Family	75.4	72.6	3.9	1.8	3.8	-52.1	2.4	5.3	12.0	26.3	Mar-08	C
131 Campina UK	UK sub	74.4	79.1	-5.9	3.8	3.2	21.6	5.1	4.0	17.5	15.6	Dec-07	B
132 Glisten	Listed	73.6	58.6	25.5	7.9	7.6	4.4	10.7	12.9	48.0	46.9	Jun-08	O/L
133 Armaghdown Creameries	Family	73.3	58.4	25.5	2.8	(1.2)	0.0	3.8	-2.1	19.1	-8.7	Sep-07	C
134 Del Monte Europe	Other F/O	73.1	62.8	16.5	(0.1)	(0.7)	0.0	-0.2	-1.1	-0.1	-0.4	Dec-07	B
135 Lactalis Nestlé Chilled Dairy Co	Family	72.5	24.6	195.2	6.7	2.3	195.7	9.3	9.2	61.1	19.4	Dec-07	O/L
136 CTO Holdings	Family	71.0	51.2	38.5	0.6	3.0	-81.0	0.8	5.8	2.1	16.0	Jul-08	C
137 Barfoots Of Botley	Family	70.9	56.6	25.3	1.7	3.4	-49.0	2.4	6.0	17.1	50.9	Dec-07	C
138 W Jordan (Cereals)	UK sub	70.7	70.5	0.2	6.5	5.3	23.7	9.3	7.5	27.5	22.9	Feb-08	B
139 Cuisine de France (UK)	Other F/O	70.1	65.9	6.5	1.3	1.1	13.4	1.8	1.7	2.3	3.9	Jul-07	B
140 Banham Poultry	Family	70.1	63.4	10.7	(1.2)	0.2	0.0	-1.7	0.2	-3.9	0.8	Mar-07	C
141 Kanes Foods	Family	68.8	64.3	7.0	6.7	6.1	10.6	9.7	9.4	16.7	16.9	Mar-08	O/L
142 Bettys & Taylors Group	Family	68.4	62.3	9.7	8.4	6.4	32.7	12.3	10.2	12.4	10.0	Oct-07	B
143 Schwan's Consumer Brands UK	UK sub	67.1	60.1	11.5	0.1	(4.7)	0.0	0.1	-7.8	0.3	-17.1	Dec-07	B
144 Lindt & Sprungli (UK)	Other F/O	66.2	58.7	12.8	1.5	3.9	-60.7	2.3	6.6	7.1	22.3	Dec-07	B
145 North Downs Dairy Company	Other F/O	65.3	66.8	-2.2	3.6	3.0	19.2	5.5	4.5	14.1	12.9	Dec-07	B
146 Alpro UK	Other F/O	64.4	57.0	13.0	11.4	8.4	36.6	17.8	14.7	32.2	22.1	Dec-07	B
147 Headland Foods	Family	64.1	59.0	8.7	(0.1)	(1.4)	0.0	-0.1	-2.3	-0.3	-5.2	Dec-07	O/L
148 Tangerine Confectionery	Family	63.5	48.5	30.8	3.8	2.3	62.6	6.0	4.8	11.3	9.6	Dec-07	B
149 The Chitty Food Group	Family	63.4	58.6	8.2	(0.5)	0.8	0.0	-0.8	1.3	-7.0	10.5	Oct-07	C
150 Frank Roberts & Sons	Family	63.3	55.4	14.3	4.8	4.6	3.9	7.5	8.3	21.9	23.3	Aug-08	B

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**FIVE TO WATCH****HP Foods**

HP Sauce has continued to prosper since its purchase by Heinz in 2006. Its bottom line has benefited from greater purchasing power and consolidation of overheads. Reduced admin costs alone contributed 3.2 percentage points to margins this year, while international expansion helped boost sales growth to a solid 7.6%.

**Alpro**

US giant Dean Foods bought Alpro UK last month. Given Alpro's run of NPD – it launched more products in 2008 than in the previous four years combined – it's easy to see why. Alpro spotted the trend for healthy and functional foods, releasing non-dairy alternatives to cream, yoghurt and desserts, as well as flavoured organic tofu.

**Findus Group**

Findus Group had a turbulent 2008. First, as Foodvest, it was bought out for £2bn by Lion Capital in 2008's largest UK food sector M&A deal. Now, it has renamed itself Findus Group after its most successful brand and brought its UK operations back in-house after several years on licence. The turmoil has not affected sales and margins, though, which have now hit £1.1bn and 8.3% respectively.

**Mars UK**

Three years after Mars' painful factory consolidation the benefits are finally visible. Gross margins are up 5.2 percentage points, while lower distribution and admin costs boosted operational margins a full 5.6 points to 15.2%, reveals the latest figures from the UK division of Mars.

**Walkers**

Despite the difficult climate, Walkers has refused to rein in its marketing spend, launching risky and innovative campaigns such as 'Do us a flavour' and the new Doritos 'mystery flavour' promotion. So far the strategy has paid off. Sales are up 12.6% to £197m, while operating margins are up five percentage points to 16.6%.

pers looking to save than goods perceived as necessities.”

Smaller companies also lack the promotional muscle to attract consumers and placate retailers with bogofs and other high-cost promotions, putting them at a higher risk of being squeezed out, particularly by aggressive market leaders that refuse to cut promotional spend.

Eggleton has two pieces of advice for small branded players looking up at grey skies. The first is to work on a message that targets consumers' needs and factors in the expected length of the recession and slow recovery.

The second is to be bold. “Midling brands have to out-think their bigger rivals, as they can't outspend them,” she concludes. “Brands have shown they are

having difficulty prioritising their marketing spend.

“The result is a small pot of money being spread thinly around many channels. Planning a riskier but well-targeted campaign with a clear focus will have much bet-

“ Planning a riskier but well-targeted campaign is better than spreading a small pot of money thinly ”

ter results. Now is not the time to play it safe.”

Come inflation or recession – or indeed both at once – the big branded players have demonstrated in this year's index that they've got the resilience to tough it out.

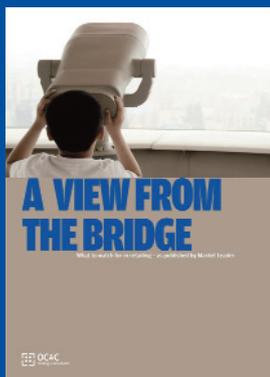
After being battered by high costs and forced to restructure and rethink their businesses, own-label players are finally sensing a ray of sunshine through the clouds. But for the smaller branded players that grew up and thrived in the good times, it's time to get out the umbrellas and don the rain macs – the rain is on its way. ■

*The Top 150 Suppliers Report was produced by strategy consultancy OC&C. To obtain a copy, contact OC&C on 0207 010 8000.*

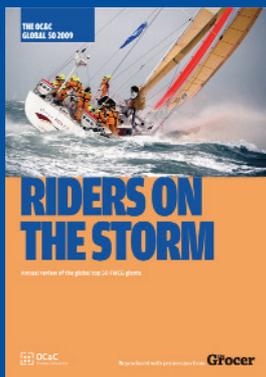
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