

SONOCO/WEIDENHAMMER MERGER INQUIRY

Summary of hearing with Goldenfry Foods on 10 March 2015

Background

1. Goldenfry supplied [REDACTED] million units per annum of ambient packaged foods to UK retail and wholesale customers. [REDACTED] million of these, or [REDACTED]% of the total, were packed into paperboard composite cans. These were used for gravy granules, sauce granules and breadcrumbs. Gravy granules represented [REDACTED]% of the use of these paperboard composite cans.
2. The other [REDACTED] million units manufactured by Goldenfry included gravy granules in large plastic tubs for caterers, gravy powders, cornflour, home baking mixes and sauce mixes. These other products used bag-in-box, poly or paper flexible film bags, and paper/foil laminate flexible sachets.
3. [REDACTED]% of the paperboard composite cans used by Goldenfry were for retailer branded products.
4. The UK retail gravy granule market in which Goldenfry competed was estimated by Kantar Worldpanel at [REDACTED] million units per annum. Of these, [REDACTED] million or [REDACTED]% were packed in paperboard composite cans, making this packaging format the dominant format in this market.
5. The retailer brands that Goldenfry supplied held an estimated [REDACTED]% share of unit sales in the gravy granules market, while the Bisto brand held [REDACTED].
6. Goldenfry purchased its composite cans from Robinson Paperboard Packaging until 2006 when it moved to Sonoco. In 2014, the supply moved to Weidenhammer UK.
7. The composite cans used by Goldenfry were formed from a body of recycled board, with a Kraft paper liner, a printed outer label, and an LDPE plug lid. The cans did not have a paper or foil membrane.
8. Gravy granules were a seasonal product, with demand rising from September through to a peak in December, with a secondary peak in the run-up to Easter.

Competition

9. Paperboard cans purchased by Goldenfry were used in the manufacture of retailer brands. These retailer brands were in direct competition with the Bisto brand. As the Bisto brand had continued to use the composite can since its introduction in 1979, consumers were familiar with the packaging type, and its use for retailer brands helped to position these as direct alternatives to Bisto in the consumer's mind. Consequently, retail customers had continued to mirror the Bisto brand in the use of the composite can for their own brands, and so Goldenfry had continued to use the composite can for retailer brand production.
10. There continued up to 2011 to be at least two suppliers who Goldenfry recognised as having the technical capability and capacity to produce the required quantity and specification of composite cans for its products – Robinson Paperboard Packaging ('Robinson'), and Sonoco. Robinson supplied the whole of the required volumes until 2006, and then Sonoco from 2006 to 2014.
11. Goldenfry was aware of, and had made some contact with, a number of other paperboard can producers, including Smurfit, Seda and Weidenhammer, but believed on the information available that the best balance of capacity, technical specification, service and cost could be achieved through either of Robinson or Sonoco until 2011.
12. Goldenfry had had some experience in sourcing composite cans for breadcrumbs from CBT. The volumes involved were very much lower than those required for gravy granules, and the CBT composite can was a narrower diameter than that used for gravy granules. Around ten years ago Goldenfry switched the can used for breadcrumbs to the same size as that used for gravy granules, and consolidated supply with the bulk of its requirements into Robinson. Other than this, Goldenfry had always sourced the whole of its composite can requirements from either Robinson or Sonoco.
13. Until Sonoco acquired Robinson in 2011, the option existed of using either one as a contingency in the event of supply interruption from the other.
14. In 2013, Weidenhammer UK put forward a supply agreement that offered primary manufacture from its Bradford site, with a contingency plan to supply comparable diameter cans at the same price from others of its European manufacturing sites in the event of supply disruption from Bradford. Given the importance of maintaining continuous supply to all of its customers, Goldenfry entered into a contract for supply with Weidenhammer UK which led to first production in September 2014.

15. The paperboard composite can was a very important component in a large part of Goldenfry's total manufacturing output. Consequently, after the merger was announced, and later the announcement of the CMA inquiry, Goldenfry had appointed an independent procurement specialist to identify and investigate the current supply options from among the whole range of alternative suppliers of composite cans, in order to try to re-establish a viable contingency supply route. At present Goldenfry had not reached any specific conclusion on whether such a viable contingency route may exist.

Likelihood of entry

16. Goldenfry had no reliable information on the likely entry to the supply of composite cans in the UK by a new entrant.
17. Goldenfry had previously discussed the possibility of producing composite cans in-house with a European supplier of composite can manufacturing equipment. The total project cost, including additional production and storage areas, was estimated at £[~~XX~~] million at that time. Goldenfry did not proceed at that time because of other priorities for its capital investment, but might have considered such a project again. However, there were considerable challenges in committing to this route, including how to acquire the necessary skills, how to build reliable supply relationships with label and paper suppliers, and how to maintain contingency supply arrangements.

Potential effects of the merger

18. Goldenfry was concerned about the possible outcomes of the CMA inquiry and their effects on either or both of its continuity of supply to meet its customers' demand, and the price it had to pay for composite cans.
19. If the merger was allowed, then at present Goldenfry had no clear and viable alternative source of supply for the composite cans on which it depended. This could be expected to substantially lessen its bargaining power at the date at which its current contract terms expired. However, in this case the contingency supply option would once again be available providing all of the same Weidenhammer European sites continued to be in operation under the ownership of Sonoco.
20. If the merger was not allowed, and Weidenhammer remained as an independent company, then Goldenfry would need to find a contingency supply option from another company.
21. If the merger was not allowed then Goldenfry would be concerned about the reliance it could place on continuity of supply from the Weidenhammer

Bradford site if the know-how and resources previously available to it from the Weidenhammer Group were not adequately replaced.