A report on the completed acquisition by Pork Farms Caspian Limited of the chilled savoury pastry business of Kerry Foods Limited

Appendices and glossary

Terms of reference and conduct of the inquiry

Terms of reference

1. On 5 January 2015, the CMA referred the completed acquisition by Pork Farms Caspian Limited of the chilled savoury pastry business of Kerry Foods Limited for an in-depth (phase 2) merger investigation:

    1. In exercise of its duty under section 22(1) of the Enterprise Act 2002 (the **Act**) the Competition and Markets Authority (**CMA**) believes that it is or may be the case that:

        (a) a relevant merger situation has been created, in that:

        (i) enterprises carried on by or under the control of Pork Farms Group Limited (formerly named Poppy Acquisition Limited) have ceased to be distinct from the chilled savoury pastry business carried on by or under the control of Kerry Foods Limited; and

        (ii) the condition specified in section 23(1)(b) of the Act is satisfied; and

        (b) the creation of that situation has resulted, or may be expected to result, in a substantial lessening of competition within a market or markets in the United Kingdom for goods or services, including in:

        (i) the branded, own label and convenience retail segments of the supply of cold pies;

        (ii) the own label and convenience retail segments of the supply of sausage rolls, pasties and slices (when considered in combination), and the branded, own label and convenience retail segments of the supply of sausage rolls (when considered individually); and

        (iii) the own label retail segment of the supply of hot pies.

    2. Therefore, in exercise of its duty under section 22(1) of the Act, the CMA hereby makes a reference to its chair for the constitution of a group under Schedule 4 of the Enterprise and Regulatory Reform Act 2013 in order that the group may investigate and report on, within a

period ending on 21 June 2015, the following questions in accordance with section 35(1) of the Act:

(a) whether a relevant merger situation has been created; and

(b) if so, whether the creation of that situation has resulted, or may be expected to result, in a substantial lessening of competition within any market or markets in the UK for goods or services.

Andrea Coscelli
Executive Director
Competition and Markets Authority
5 January 2015

Conduct of our inquiry

2. We published biographies on the members of the inquiry group conducting the inquiry on 7 January 2015, and the administrative timetable for the inquiry was published on the CMA's webpages on 5 January 2015.

3. We invited various third parties to comment on the merger. We also sent detailed questionnaires to competitors and customers and we gathered oral evidence through five hearings with selected third parties. Evidence was also obtained through telephone contacts and through further written requests. Summaries of our hearings with third parties are published on our webpages.

4. Members of the inquiry group, accompanied by staff, visited Pork Farms' factories at Queens Drive, Palethorpes and Caspian's factory at Poole. They were also given presentations at these sites.

5. On 6 February 2015, we published an issues statement on our website, setting out the areas of concern on which the inquiry would focus.

6. We received written evidence from Pork Farms, and a non-confidential version of its main submission is on our website. We also held a hearing with Pork Farms on 24 March 2015.

7. In the course of our inquiry, we sent to Pork Farms and other parties some working papers and extracts from those papers for comment.

8. On 21 April 2015 we published on our webpages our non-confidential provisional findings report and a notice of provisional findings.

9. Following the publication of our provisional findings, we received a submission from Pork Farms, a non-confidential version of which was published on our webpages.

10. A non-confidential version of the final report was placed on the CMA's webpages on 3 June 2015.

11. We would like to thank all those who have assisted in our inquiry.

Interim measures

12. We took steps to ensure the separate and independent operation of Pork Farms and the acquired Kerry Foods CSP business during the course of our inquiry.

13. The CMA imposed an initial enforcement order on Pork Farms under section 72(2) of the Act on 21 August 2014 for the purpose of preventing pre-emptive action, namely, in this case, avoiding any impairment of the ability of the Kerry Foods CSP business to compete independently in any of the markets affected by the transaction whilst the CMA proceedings were ongoing. Following reference this order remains in force in accordance with section 72(6) of the Act until the final determination of the reference.

14. We also considered whether any further changes were necessary to prevent pre-emptive action by the parties which might prejudice the reference or impede the application of effective remedies at the end of our inquiry should they be required, including assessing the need for a hold-separate manager or a monitoring trustee.

15. After considering evidence from Pork Farms on the post-merger structure of the companies and the arrangements between the parties, we decided that the appointment of a monitoring trustee was necessary and issued directions for the appointment of a monitoring trustee. The monitoring trustee was required to:

    (a) ascertain the current level of compliance by Pork Farms with the Undertakings; and

    (b) assess the arrangements made by Pork Farms for compliance with the Undertakings and what changes to those arrangements, if any, are necessary to preserve the possibility of the CMA taking any remedial action, if required.

    During the course of our inquiry the monitoring trustee reported to the CMA on a monthly basis.

Industry background

Introduction

1. This appendix provides an overview of the UK retail CSP manufacturing industry. It covers:

   (a) CSP categories;

   (b) CSP market size and trends;

   (c) own-label and branded products; and

   (d) the manufacturing process.

CSP categories overview

2. CSP is a broad food category with a number of different subcategories. These include the following:[1]

   (a) Cold pies (primarily pork pies), which consist of roughly chopped pork and pork jelly sealed in a hot water crust pastry. A pork pie is usually eaten cold as a snack, or as part of a meal. There are also a number of variations using vegetable fillings as well as other types of meat (eg poultry).

   (b) Hot pies contain a variety of cooked fillings (meat and/or vegetables) encased in a savoury pastry, including short crust, French puff and suet varieties. While these are sold chilled, they are typically reheated and eaten hot.

   (c) Sausage rolls are primarily composed of a pork meat filling encased in puff pastry. There are also a variety of vegetarian sausage roll options available, including cheese and onion fillings. The basic composition of a sausage roll is generally a sheet or sheets of puff pastry formed into tubes around sausage meat and glazed with egg or milk before being baked. They can be served either hot or cold.

[1] Despite not including any pastry, cocktail sausages are sometimes considered as CSP.

(d) Pasties consist of a variety of cooked fillings (meat and/or vegetables), surrounded by, predominantly, a shortcrust pastry designed to be either handheld or eaten from a plate.

(e) Slices consist of a variety of cooked fillings (meat and/or vegetables), surrounded by puff pastry, designed to be either handheld or eaten from a plate.

(f) Quiche, flans and tarts[2] are usually made with an open-topped short pastry case, which is filled with a cheese and egg-based custard along with a variety of inclusions (such as vegetables, meats and seafood).

(g) Savoury eggs (primarily Scotch eggs): boiled eggs wrapped in seasoned pork, covered in golden breadcrumbs and lightly fried. Savoury eggs are used as snacks, in lunch boxes and as a component of a salad.

3. Two of these categories have an associated protected geographical indication (PGI) status.[3] In pork pies, 'Melton Mowbray pork pies' PGI defines both the recipe and cooking method required, as well as specifying that the pies are manufactured in the local area around the town of Melton Mowbray.[4] In pasties, 'Cornish pasties' PGI specifies the shape, ingredients, crimping and cooking process, as well as requiring that the pasties are manufactured in Cornwall.[5]

CSP retail market size and trends

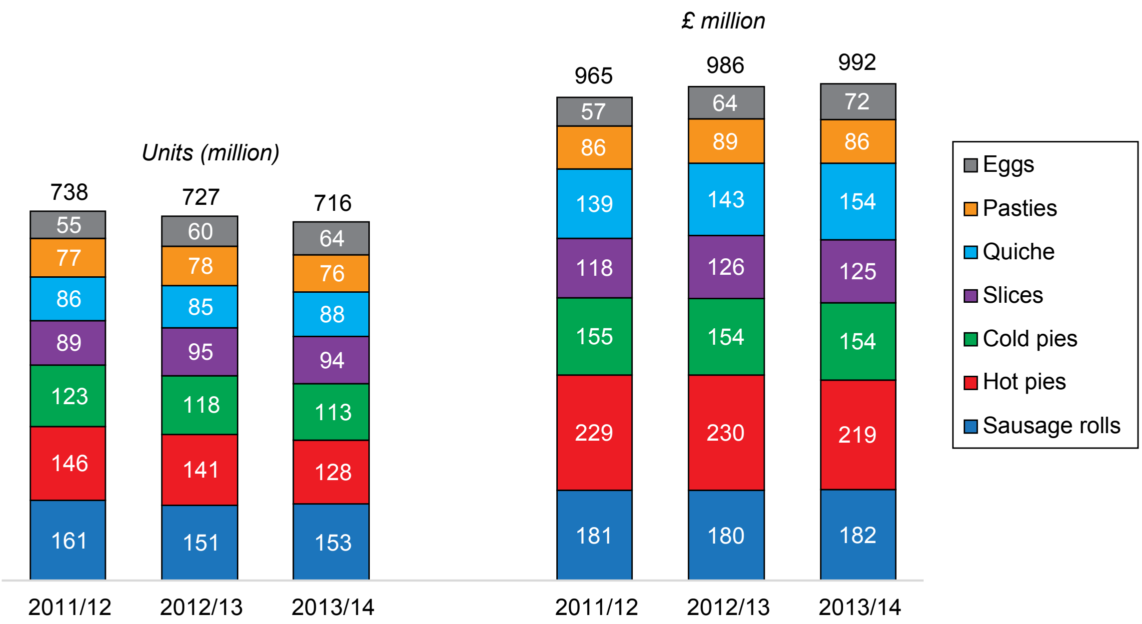
4. Pork Farms and Kerry provided retail sales figures for CSP for a three-year period. Both sets of figures showed similar overall total and percentage increase over the three-year period 2011/12 to 2013/14. Pork Farms figures showed that the market had grown from £1,024 million in 2011/12 to £1,051 million in 2013/14, an increase of 2.7%[6] whilst Kerry figures showed market growth of 2.8% from £965 million in 2011/12 to £992 million in 2013/14.[7] Kerry also supplied figures that showed over the same period that volumes had decreased by 3.0% from 738 million units (packs)[8] to 716 million units

---

[2] We have not considered quiche, Scotch and savoury eggs further due to no overlap between Pork Farms and Kerry CSP.
[3] PGI provides traditional food products with protection against imitation throughout the EU. See Defra, Protected food names: guidance for producers.
[4] Council Regulation (EC) No 510/2006: 'Melton Mowbray Pork Pie'.
[5] Council Regulation (EC) No 510/2006: 'Cornish Pasty'.
[6] Pork Farms submission of Kantar & Nielsen data 52 weeks ended 24 June 2012 to 52 weeks ended 22 June 2014.
[7] Three-year period ended 1 March 2014.
[8] A unit is equal to a pack, ie an item which is scanned through the checkout.

5. Figure 1 shows the sales revenue and volume by CSP category for the three-year period ended 1 March 2014 (Kerry' figures). Table 1 shows the percentage change period on period for sales revenue and volume.

Figure 1: CSP retail sales volumes (millions of units (packs)) and value (£ million of retail sales value)



Source: Kerry Nielsen Scantrack data.

Table 1: Percentage change in CSP sales (volume and value) over time

% change

	Volume			*Value*		
	2011/12–2012/13	*2012/13–2013/14*	*Full period*	*2011/12–2012/13*	*2012/13–2013/14*	*Full period*
Eggs	8.4	8.1	17.2	14.0	11.7	27.3
Pasties	1.6	–3.0	–1.4	3.1	–3.0	–0.0
Quiche	–1.8	3.6	1.8	3.2	7.4	10.8
Slices	6.2	–0.7	5.4	6.6	–0.7	5.8
Cold pies	–3.9	–4.2	–7.9	–0.9	0.5	–0.4
Hot pies	–3.9	–9.3	–12.8	0.2	–4.8	–4.7
Sausage rolls	–6.1	1.0	–5.2	–0.2	1.0	0.7
Total	**–1.4**	**–1.6**	**–3.0**	**2.2**	**0.6**	**2.8**

Source: Kerry Nielsen Scantrack data.

6. The data shows that over the period:

(a) the volume of hot pies, cold pies, and sausage rolls, fell by 12.8%, 7.9%, and 5.2% respectively but sales revenue fell by only 4.7% and 0.4% for hot pies and cold pies and increased by 0.7% for sausage rolls;

(b) pasties volumes declined slightly at 1.4% with sales revenue remaining the same;

(c) slices volumes increased 5.4% with sales revenue increasing similarly by 5.8%;

(d) quiche volumes increased only slightly at 1.8% but sales value increased by 10.8%; and

(e) savoury eggs volumes and sales value increased significantly 17.2% and 27.3% respectively.

7. When sales value per unit is looked at (Table 2) and compared with CPI over the same period it shows above-inflation increases per unit for eggs, quiche, cold pies, hot pies and sausage rolls and below-CPI increases for pasties and slices. It is not possible to determine from the data provided whether the difference reflects price increases above inflation and/or a change in product mix and/or changes to product formulation and/or changes to the levels of promotional activities (for example, if this decreases over time, it will look like inflation when comparing £/unit).

Table 2: Retail CSP prices 2011/12 to 2013/14, by category (£/unit, % year-on-year change)

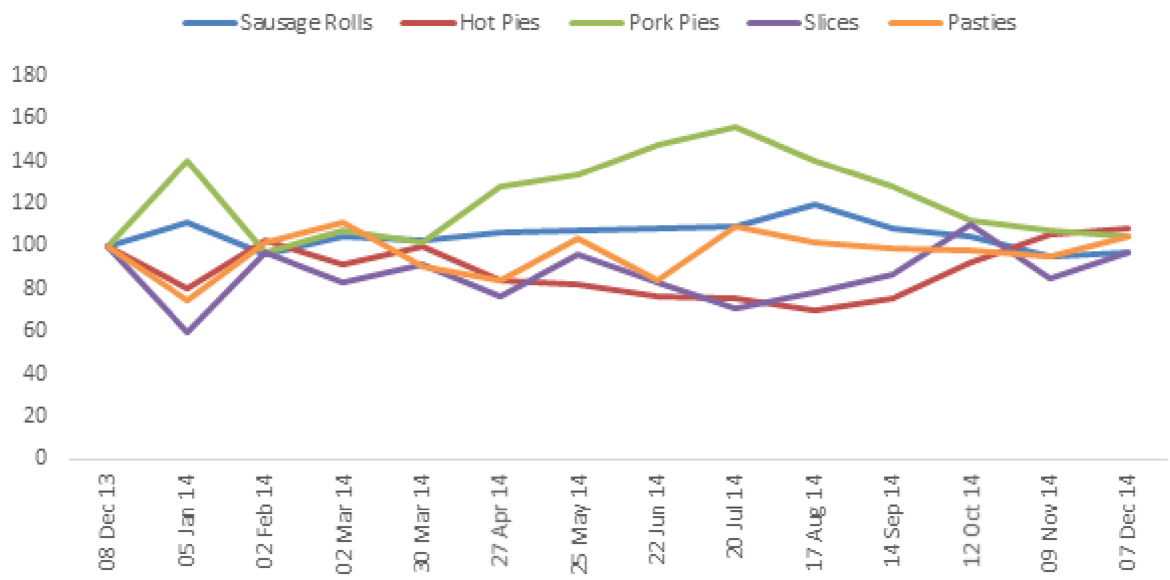
	£ / unit			*% change*		
	2011/12	*2012/13*	*2013/14*	*2011/12–2012/13*	*2012/13–2013/14*	*Total period %*
Eggs	1.03	1.08	1.12	5.2	3.3	8.7
Pasties	1.12	1.14	1.14	1.5	–0.1	1.4
Quiche	1.61	1.69	1.75	5.1	3.6	8.9
Slices	1.32	1.33	1.33	0.4	0.0	0.4
Cold pies	1.26	1.30	1.37	3.1	4.9	8.2
Hot pies	1.57	1.63	1.71	4.2	4.9	9.3
Sausage rolls	1.12	1.19	1.19	6.3	0.0	6.3
Total	**1.31**	**1.36**	**1.39**	**3.7**	**2.3**	**6.0**
CPI	N/A	N/A	N/A	**2.8**	**1.7**	**4.5**

Source: Kerry Nielsen Scantrack data.

8. Kerry internal documents (August 2013) indicated that it expected the CSP market to remain flat in value terms until at least 2016. Samworth told us that the cold pie market, which had been relatively static, was growing with a move towards the standard and premium end of the market. Sausage rolls, pasties, slices had all declined.

9. Pork Farms provided Kantar data which showed some seasonal variation in demand for CSP products. This seasonality is illustrated in Figure 2 for the year 8 December 2013 to 7 December 2014.

Figure 2: Indexed sales volume (number of packs) by CSP category for the four-week period ending 8/12/2013 to 7/12/2014, indexed to 100 for the four-week period ending 8/12/2013



Source: Pork Farms.

10. The data suggests that:

(a) hot pies sales are highest in the winter;

(b) pork pies and sausage rolls show higher sales in summer. Both also show a sales peak at Christmas, in particular pork pies; and

(c) pasties and slices show little seasonality, although slightly depressed at Christmas.

11. Samworth told us that summer was peak selling season for pork pies along with Christmas, where there were specific Christmas products. Sausage rolls, slices and pasties tended to have weaker sales in winter whilst hot pies had higher sales. This position was reversed in summer.

Own-label and branded products

12. Own-label products fall into three main tiers, although not all own-label retailers have products in each tier. The tiers are: value (or economy); standard; and premium. These tiers are also sometimes referred to as ‘good, better, best’.

13. Table 3 shows the main CSP manufacturers, their brands and the percentage of their total sales generated from these brands (both owned and licensed) in their last financial year.

Table 3: CSP brand manufacturing, by supplier

	Retail CSP revenue £m*	*CSP sites†*	*% Branded‡*	*Branded revenue £m*	*Brands*
Pork Farms	[✂]	4	[✂]	[✂]	Pork Farms, Scrummy Eggs, Bowyers, Branston§, Happy Egg§
Kerry CSP	[✂]	2	[✂]	[✂]	Wall's§, Millers Denny
Samworth	[✂]	3	[✂]	[✂]	Ginsters, Dickinson & Morris, Walkers
Peter's	[✂]	1	[✂]	[✂]	Peter's, Heinz§, Sharwoods§
Pukka Pies	[✂]	1	[✂]	[✂]	Pukka Pies
Tulip	[✂]	1	[✂]	[✂]	Adams
Vale of Mowbray	[✂]	1	[✂]	[✂]	Vale of Mowbray
Greencore	[✂]	1	[✂]	[✂]	Weightwatchers§, Pilgrim's Choice§
Higgidy	[✂]	1	[✂]	[✂]	Higgidy
Cranswick Pastry	[✂]	1	[✂]	[✂]	Yorkshire Baker
Farmers Boy	[✂]	1	[✂]	[✂]	-
Welsh Pantry	[✂]	1	[✂]	[✂]	Welsh Pantry
Stobart's	[✂]	1	[✂]	[✂]	Stobart's, Peter's, Hollands

Source: Third party responses and annual accounts.
*Includes all retail CSP revenue (£m), including from quiche and savoury eggs.
†Number of CSP manufacturing sites.
‡% of CSP revenue coming from branded products (rather than own-label).
§Manufactured under licence.

14. Own-label products make up around two-thirds of the total CSP market value, with branded comprising the other third.[9] Within each market, however, the percentage of branded and own-label differs significantly. Table 4 shows the percentage of branded sales in each of the CSP subcategories. It shows that branded products range from [20–30]% in pork pies to [60–70]% in pasties and slices. The table also shows how the different CSP companies' share of branded sales changes between categories.

Table 4: Branded vs own-label share (at retail sales value), by CSP category (including top brands) for 2013/14

	% Branded	*% Share of branded of top 3 manufacturers (grocery sales only)*		
Pork pies	[20–30]	Pork Farms [40–50]	Samworth [20–30]	VOM [10–20]
Sausage rolls	[20–30]	Kerry CSP [40–50]	Peter's [20–30]	Samworth [20–30]
Hot pies	[30–40]	Pukka Pies [30–40]	Higgidy [5–10]	Hollands [5–10]
Pasties & slices	[60–70]	Samworth [80–90]	Peter's [5–10]	N/A

Source: Pork Farms submission of Kantar & Nielsen data.

15. The split of branded to own-label sales though changes between the Grocery retailers, and Convenience retailers. In the Grocery retailers, own-label sales dominate with 73% of all sales. Within Convenience retailers, branded sales are far more important with 92% of sales in this channel being branded.

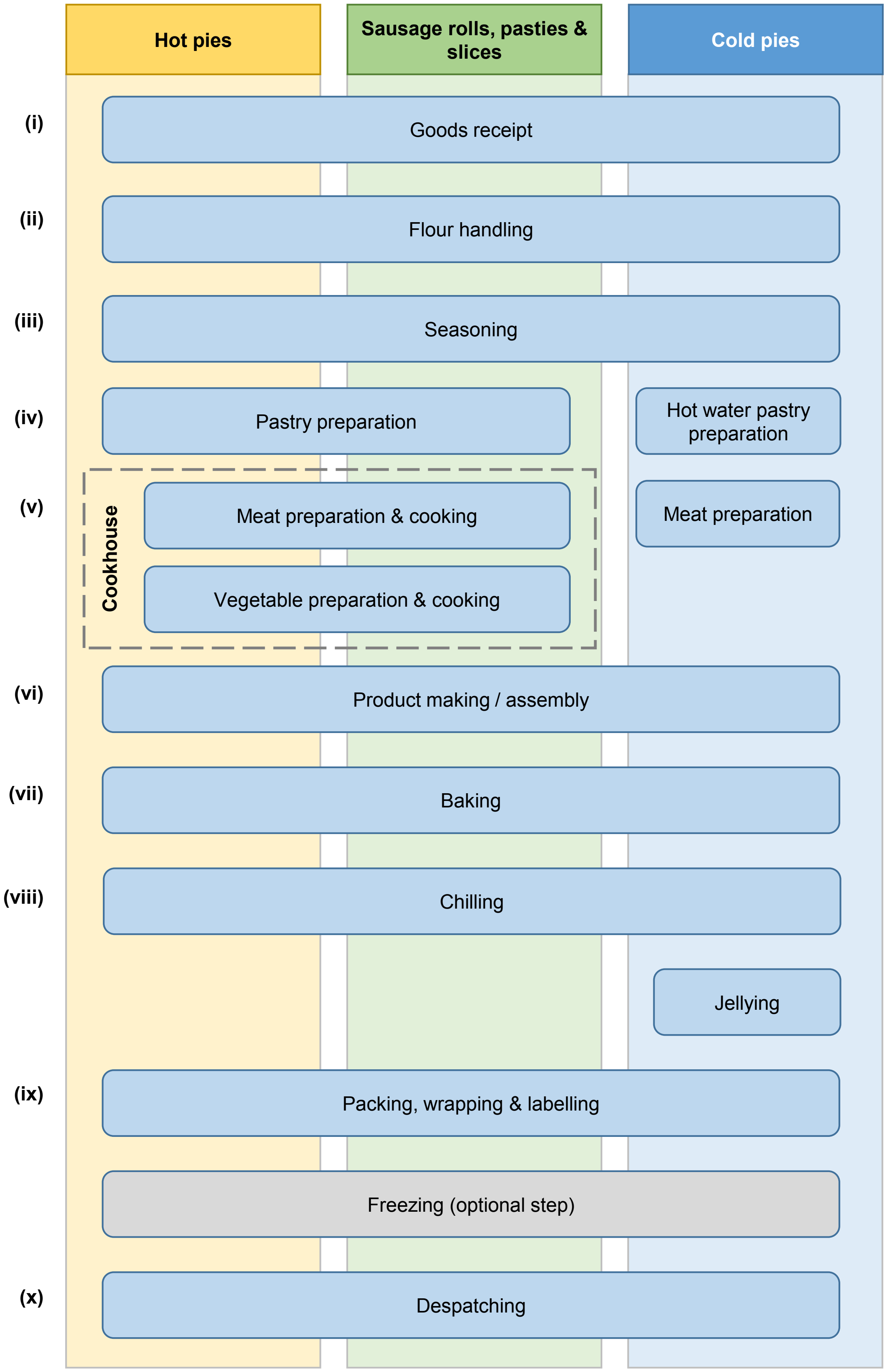
Manufacturing process

16. Pork Farms told us that there were generally ten stages to CSP production: (i) goods receipt; (ii) flour handling; (iii) seasoning; (iv) pastry preparation; (v) meat preparation (mixing); (vi) product (eg pie) making; (vii) baking;

[9] Kerry Nielsen Scantrack data.

(viii) chilling; (ix) wrapping; and (x) despatching. It stated that there were only two stages which are typically different for cold pie production and therefore require different equipment: hot water pastry preparation (stage (iv)) and jellying, which occurs after chilling (stage (viii)). The middle stages of the process for CSP products containing a cooked filling (eg hot pies, pasties and slices) also differ slightly. It includes vegetable preparation (after stage (iv)) and cookhouse (ie in respect of the filling (after stage v)). These are shown in Figure 3.

Figure 3: Manufacturing process for CSP



Source: CMA based on Pork Farms' response to the market questionnaire.

17. We understand that the main differences in the manufacturing process for the different CSP categories are:

(a) Cold pies:

(i) require a hot water pastry produced by a specific process, usually by machine. The mixing machine is only used for cold pies. Whilst the hot water source feeding into the mixing machine is specific to hot water pastry production, the mixing machine itself is suitable for use in other production lines;

(ii) require jellying: jelly is added to the pie after chilling by a specialised process, usually by machine but sometimes by hand in premium products. This machine has no similar use in other production lines; and

(iii) are made in either tins or hoops. Melton Mowbray pies are prepared in hoops before being removed from the hoop and baked. Other cold pies are cooked in the tin or hoop. These tins, or hoops, are specific for the pies themselves. Hoops have no similar use in other production lines. Tins can be used in both hot pie and quiche production.

(b) Hot pies are produced using tins. The pastry is inserted and then formed within a tin before the filling and the pie top are added. Different-sized pies require different-sized tins and therefore different tooling and are specialised for the pies themselves, though they are change equipment for larger machines.

(c) Pasties, slices and sausage rolls:

(i) These are made in a continuous line, extruding filling on to pastry before being segmented into portions and cooked. The extruding equipment is adapted for each type of product as the filling for pasties and slices is deposited in measured portions on to the pastry whereas for sausage rolls the filling is extruded in a continuous stream. This equipment is change part equipment for larger machines.[10]

(ii) The folding and slicing required for each product is different, however, much of this can be achieved by adjustments to folding and slicing equipment. Most production lines will have several different folding

[10] Pork Farms told us that the extruding equipment has four components: the pump, the holding tank, portion control and the depositing system on to the line. The only part that changes between sausage rolls, hot pies, pasties and slices is the last component (the actual depositing device), where a set of change parts (one version for rolls and one for hot pies, pasties and slices) will be switched.

and slicing pieces of equipment which are adjustable and inter-changeable depending on the specification for the particular product. However, this equipment has no similar uses on other production lines.

(iii) Shortcrust pastry is generally used for pasties, whilst puff pastry (layered) is generally used for sausage rolls and slices. The same machinery is used to initially produce each type of pastry, although puff pastry production then requires an additional step (ie lamination) which requires an additional piece of equipment that is not used in shortcrust pastry production. In either case, the relevant equipment can be used across other production lines.

18. All CSP production can be undertaken either through in-line or batch processing. In-line allows for manufacture in a continuous linear process using ‘in line ovens’ (the product moves through the oven on a conveyor belt) whereas the production stages in batch processing are not necessarily continuous and batch ovens (static ovens) are used.

19. In terms of ingredients, each product will be set up with an individual recipe which will meet the specifications of the retailer, for own-label products, or have been made to the manufacturer’s recipe for branded products. Pork Farms told us that ‘the ingredients used for all types of CSP are broadly similar, being flour, protein (mainly pork), water, vegetable oil and seasoning.’

20. We noted within Kerry CSP that the largest single element of the cost of sales was raw materials (about [✄]% of cost of sales), with labour ([✄]%) and packaging ([✄]%) also significant elements of the cost of sales.[11]

21. In terms of outputs and distribution, the products that come off the production line are packaged and ready for sale. Individual retailers do not need to carry out significant additional processes before the products are put on the shelves. This is important as the products have a limited shelf life. It is beneficial to both the manufacturer and the retailer that the time that products are on the shelf before passing the sell-by date is maximised.

22. Freezing is used by manufacturers to store products in advance of peak periods in order to aid smoothing of the production cycle and reduce the need to carry excess capacity simply to deal with the increased demand at peak periods. However, although freezing techniques have improved in recent

[11] Figures are the average over the three pro forma financial years 2011, 2012 and 2013.

years allowing more products to be frozen, there are still a number of products (such as large pork pies) for which freezing is not an option.

23. All major retailers, and a number of the buying groups (eg NISA and Spar), operate a warehousing system whereby products are delivered to a central warehouse and then shipped out to stores. For smaller retailers in the convenience sector, some manufacturers operate a ‘van sales’ system. Products will be delivered directly to the individual stores.

The companies

Introduction

1. This appendix provides an overview of the main companies operating within the UK CSP manufacturing sector.

Pork Farms Group

Vision Capital

2. Vision Capital is a private equity firm headquartered in London, which specialises in mature, mid-market companies in Europe and the Americas with transaction sizes between €50 million and €1 billion. Vision Capital currently has approximately €1.7 billion of assets under its management.[1]

3. Prior to the merger, funds managed by Vision Capital (the 'Vision Funds') owned 100% of the ordinary share capital of PFGL through a number of holding companies, particularly 'Eliot Luxembourg Holdco S.À R.L.' (Eliot); the holding company for Pork Farms Group. Following the merger, the Vision Funds ordinary shareholding of Pork Farms Group through Eliot reduced to [>50]%.

4. The Vision Funds' investment in Pork Farms Group is split between two funds: Vision Capital Partners VI E L.P. (VCP VI E) – [✂]% share; and Vision Capital Partners VI L.P. (VCP VI) – [✂]% share. VCP VI E was due to terminate in January 2013. [✂][2,3,4] Pork Farms Group refinanced its debt in January 2014, changing finance provider from GE Commercial Finance to PNC Financial Services.[5]

Pork Farms

5. Pork Farms operates four CSP manufacturing sites. Table 1 summarises the main characteristics of Pork Farms' four sites.

---

[1] www.visioncapital.com.
[2] [✂]
[3] [✂]
[4] Pork Farms Group 2012 annual accounts.
[5] Pork Farms Group 2014 annual accounts.

Table 1: Summary of Pork Farms sites

	Palethorpes	*Riverside*	*Shaftesbury*	*Queens Drive*
Products	Chilled sausage rolls, savoury hot pies, pasties and slices	Chilled quiches	Savoury egg products and cooked cocktail sausages	Pork pies
Factory size	[✂]	[✂]	[✂]	[✂]
Manufacturing lines	[✂]	[✂]	[✂]	[✂]
Capacity	[✂]	[✂]*	[✂]	[✂]
Capex 2007–2013	£[✂]	£[✂]†	£[✂]	£[✂]
Employees	[✂] FTEs ([✂] permanent employees) in FY2013, working [✂] pa shifts	[✂] FTEs ([✂] permanent employees) in FY2013, working [✂] pa shifts	[✂] FTEs ([✂] permanent employees) in FY2013, working [✂] pa shifts	[✂] FTEs ([✂] permanent employees) in FY2013, working [✂] pa shifts
Management of customer relationships	[✂]	[✂]	[✂]	[✂]

Source: Pork Farms.
*[✂]
†Balancing figure.

6. In the following paragraphs we set out summary financial information for PFGL. The only trading subsidiary of PFGL (pre-merger) was Pork Farms. A summary of PFGL financial performance for the four periods ended 29 March 2014 is set out in Table 2 below. It shows:

(a) Revenue has increased year on year to 2013 then remained flat.

(b) Costs (both cost of goods and overheads) have been growing at a slower rate than revenue, resulting in significantly improved EBITDA and EBIT margins. EBITDA doubles over this period in both absolute and percentage terms. EBIT increases from –1 to 4%.

(c) EBT is negative as a result of the interest charge on loans.

(d) Sales per employee (as reported in Pork Farms' financial accounts) have continued to grow over the period.

Table 2: PFGL summary P&L (pre-exceptionals)

	Period ended			
	26.03.11	*31.03.12*	*30.03.13*	*29.03.14*
Revenue (£'000)	134,047	145,412	152,128	152,581
Cost of sales (£'000)	*–104,814*	*–113,321*	*–115,368*	*–113,072*
Gross profit (£'000)	29,233	32,091	36,760	39,509
EBITDA (£'000)	2,740	4,685	6,853	9,323
EBIT (£'000)	–1,068	1,079	3,131	5,611
EBT (£'000)	–10,739	–12,641	–12,525	–10,869
Interest payable (£'000)	10,345	14,775	16,792	16,494
Interest cover	N/A	0.07x	0.19x	0.34x
Gross margin (%)	22	22	24	26
EBITDA margin (%)	2	3	5	6
EBIT margin (%)	–1	1	2	4
Sales per employee ('000)	97.9	105.1	105.7	108.1

Source: Annual accounts.

7. The summary balance sheet (Table 3) shows that PFGL is highly leveraged. As a result, PFGL includes within its annual report a pro forma balance sheet which shows the loan stock as equity rather than as a creditor (as required accounting standards). This pro forma balance sheet is shown in Table 4.

Table 3: PFGL summary balance sheet

				£'000
	Period ended			
	26.03.11	*31.03.12*	*30.03.13*	*29.03.14*
Fixed assets				
Intangible assets*	–4,574	–3,392	–2,231	–1,071
Tangible assets	24,618	22,242	23,087	22,569
	20,044	18,850	20,856	21,498
Current assets	30,255	35,623	40,892	30,340
Creditors <1year	–120,326	–32,027	–32,071	–33,013
Net current liabilities	–90,071	3,596	8,821	–2,673
Total assets less current liabilities	–70,027	22,446	29,677	18,825
Creditors >1yr	–1,797	–106,424	–121,888	–125,811
Net liabilities	–71,824	–83,978	–92,211	–106,986

Source: Annual accounts.
*Acquisition of trade and assets of Pork Farms Bowyers from Northern Foods on 13.1.07 gave rise to negative goodwill.

Table 4: PFGL pro forma balance sheet

				£'000
	Period ended			
	26.03.11	*31.03.12*	*30.03.13*	*29.03.14*
Fixed assets	20,044	18,850	20,856	21,498
Net current assets / (liabilities)	–90,071	3,596	8,821	–2,673
Creditors >1yr	–1,797	–106,424	–121,888	–125,811
Net liabilities	–71,824	–83,978	–92,211	–106,986
Parent undertaking loan*	89,135	105,564	99,738	91,739
Other creditors loan stock*	0	0	22,150	27,697
Proforma net assets	17,311	21,586	29,677	12,450

Source: Annual accounts.
*On 17 August 2014, as part of a capital reorganisation, £12.093 million of the group's loan stock was converted into £1 ordinary shares in a group subsidiary and £62.844 million of loan stock (of which £56.004 million was outstanding at 29 March 2014) was waived by the loan stock holders. Interest is accrued on loans.

8. The company's summary cash flow shows cash inflow from operating activities for all years as well as a high level of capital investment undertaken specifically in 2013 and 2014.

Table 5: PFGL summary cash flow

				£'000
	2011	*2012*	*2013*	*2014*
Cash flow from operating activities	2,340	4,501	7,469	7,823
Capital expenditure and financial investment	–2,170	–2,413	–5,731	–4,349
Financing	1,280	592	–1,262	–1,405
Other	–704	–450	–327	–492
Increase in cash	**746**	**2,230**	**149**	**1,577**

Source: Annual accounts.

9. Figure 1 shows Pork Farms revenue split for FY2014 by product, customer, label, and site. Pork Farms 2014 sales by customer, split own-label and branded are set out in Figure 2.

Figure 1: Pork Farms 2014 revenue split

[✂]

Source: Pork Farms.

Figure 2: Pork Farms sales by customer and label, FY2014

[✂]

Source: Pork Farms.

Kerry CSP

10. Kerry CSP operated from two manufacturing sites in the UK. Table 6 summarises the main characteristics of the sites.

Table 6: Kerry CSP summary of manufacturing sites

	Poole	*Spalding*
Products	Sausage rolls, cold pies, hot pies, pasties and slices	Sausage rolls and pasties
Acquired	1991 [✂]	2008 [✂]
Manufacturing lines	[✂]	[✂]
Capacity	Standard capacity specified as [✂] tonnes/week	Standard capacity specified as [✂] tonnes/week
Capex 2007–2013	£[✂]	£[✂]
Employees	[✂] direct employees in FY2013; shift patterns	[✂] direct employees in FY2013; shift patterns
Customer relationships	At group level	

Source: Pork Farms.

11. Kerry ran the sites as separate trading operations.[6] Each site had its own finance manager and supporting team. However, many functions had been centralised, including: sales processing/invoicing; accounts payable and receivable; Poole's month-end procedures/accounting (Spalding still completed on-site); and customer relationships.

12. Kerry CSP produces sausage rolls, pasties/slices and pork pies under the Wall's brand (licensed from [✂]). It also manufactures cold pies, pasties/slices and sausage rolls under the Millers brand. Kerry CSP's Denny brand has a strong presence in Northern Ireland (and the Republic of Ireland), though its presence in the rest of the UK is negligible. As a result of the Transaction, Pork Farms entered into a manufacturing agreement with a company within Kerry, Henry Denny & Sons (Ireland) Limited (Denny), with regard to the production and packaging of CSP products under the Denny brand for sale in the island of Ireland.[7] Kerry CSP also owns two customer-commissioned labels: Hungry Joe's (Asda) and Pie in the Sky (Morrisons).[8]

13. Prior to the Transaction, Kerry CSP used the van delivery service of Kerry, KerryFresh. This is a branded delivery service to serve convenience customers that do not have access to a centralised distribution system. As part of the Transaction, the merged entity will act as the exclusive CSP supplier to KerryFresh for a minimum of [✂]. KerryFresh was sold by Kerry through a MBO in March 2015.

14. Only limited financial details are available due to the Kerry CSP not having been a separate business. The financial figures shown below are pro forma estimates produced by KPMG as part of the due diligence process for the Transaction.

15. Table 7 sets out Kerry CSP pro forma P&L for the three calendar years to 31 December 2013 and the forecast for 2014 based on the run rate for the period January to March 2014.[9] The figures show a relatively stable revenue for the three years to 31 December 2014 followed by a decrease (around [✂]%) in 2014.

16. Table 7 also shows a steady gross margin but a falling EBITDA. The EBITDA margin falls over the four years from [✂]%. This is stated as being a result of

[6] Key remaining functions of the local finance team are: [✂].
[7] [✂].
[8] These hot pie brands were launched in October 2013 and had relatively small contributions (management estimated £[✂] of contribution in FY13 and £[✂] of contribution respectively).
[9] The March 2014 run-rate figures are estimates by the Kerry CSP's management based on observed performance in Q1, adjusted for a number of expected changes, including: seasonality due to higher sales in summer and around Christmas; operational improvements from greater use of automation, improved controls, and staff redundancy; and overhead reduction from restructuring shifts and lines for lower volumes and lower semi-variable costs such as utilities.

increased overheads (associated with product and customer mix) in FY2012 and volume losses in FY2013. The costs do not include a number of central costs which would have led to an overall decrease in EBITDA.[10]

Table 7: Kerry CSP summary P&L

				Run rate March 2014
	2011	*2012*	*2013*	*2014*
Revenue (£'000)	[✂]	[✂]	[✂]	[✂]
Cost of sales (£'000)	[✂]	[✂]	[✂]	[✂]
Gross profit (£'000)	[✂]	[✂]	[✂]	[✂]
EBITDA (£'000)	[✂]	[✂]	[✂]	[✂]
EBIT	[✂]	[✂]	[✂]	[✂]
EBT	[✂]	[✂]	[✂]	[✂]
Gross margin (%)	[✂]	[✂]	[✂]	[✂]
EBITDA margin (%)	[✂]	[✂]	[✂]	[✂]
EBIT margin	[✂]	[✂]	[✂]	[✂]

Source: Pork Farms.

17. Table 8 shows Kerry CSP's summary balance sheet.

Table 8: Kerry CSP summary balance sheet

			£'000
	2012	*2013*	*2014*
Tangible assets	[✂]	[✂]	[✂]
Current assets	[✂]	[✂]	[✂]
Creditors <1year	[✂]	[✂]	[✂]
Net current liabilities	[✂]	[✂]	[✂]
Total assets less current liabilities	[✂]	[✂]	[✂]
Creditors >1yr	[✂]	[✂]	[✂]
Net assets	[✂]	[✂]	[✂]
Fixed assets	[✂]	[✂]	[✂]
Net current assets / (liabilities)	[✂]	[✂]	[✂]
Creditors >1yr	[✂]	[✂]	[✂]
Net assets	[✂]	[✂]	[✂]

Source: Pork Farms.

18. Figure 3 shows the revenue split by product, customer, label, and site for FY2013. Figure 4 shows the same information for FY2014. The figures show the loss in hot pie revenue [✂]) and the resultant decline in sales to [✂] ([✂]) and [✂] ([✂]).The figures also show a significant decrease in own-label between FY2013 and FY2014. This is mainly the result of a large reduction in sales in the following areas:

(a) hot pies, cold pies, and sausage rolls for [✂] (totalling £[✂] million);

(b) sausage rolls for [✂] (worth £[✂] million); and

[10] Such as: central finance functions (eg taxation, treasury management, sales processing/invoicing, accounts payable and receivable), marketing, IT costs; legal and company secretarial support.

(c) hot pies for [✂] (worth £[✂] million).

Figure 3: Revenue split by product, customer, label, and site 2013

[✂]

Source: Kerry.

Figure 4: Revenue split by product, customer, label and site 2014

[✂]

Source: Kerry.

19. Figure 5 shows Kerry CSP 2014 sales by customer split branded and own-label.

Figure 5: Kerry CSP sales by customer and label, 2014

[✂]

Source: Kerry.

20. Table 9 shows revenue, gross profit and EBITDA for Poole and Spalding reconciled to the total Kerry CSP figures shown in Table 9.

Table 9: Kerry CSP P&L by site FY2013

	Poole	*Spalding*	*Adjustments*	*Total*
Revenue (£'000)	[✂]	[✂]	[✂]	[✂]
Cost of sales (£'000)	[✂]	[✂]	[✂]	[✂]
Gross profit (£'000)	[✂]	[✂]	[✂]	[✂]
EBITDA (£'000)	[✂]	[✂]	[✂]	[✂]
EBIT	[✂]	[✂]	[✂]	[✂]
EBT	[✂]	[✂]	[✂]	[✂]
Gross profit (%)	[✂]	[✂]	[✂]	[✂]
EBITDA (%)	[✂]	[✂]	[✂]	[✂]

Source: Pork Farms.

Other UK CSP manufacturers

21. Table 1 in the main report sets out summary details of the main UK CSP manufacturing companies, branded and/or own-label production and the CSP product types manufactured. We now set out summary details of these companies other than the Parties.

Samworth Brothers Limited

22. Samworth is a private company that manufactures, distributes and retails branded and own-label chilled and ambient food.[11] Samworth had group revenue of £791.4 million in the year ended 28 December 2013 (prior year £767.2 million) and EBIT of £34 million (prior year £42.5 million).

23. Samworth manufactures within CSP products: cold pies; sausage rolls, slices and pasties; and hot pies mainly through three divisions, each with one manufacturing site:[12]

    (a) Ginsters (slices and pasties);

    (b) Tamar Foods (pies, slices and pasties); and

    (c) Walker & Son (Leicester) (pork pies).

24. Samworth's principal CSP brands are: Dickinson & Morris (pork pies) which is produced through Walker & Sons at its Leicestershire site based within the PGI area of Melton Mowbray; and Ginsters (pasties and slices) which are manufactured in the Cornwall PGI area. Samworth's total CSP revenue was £[✂] million in 2013 (prior year £[✂] million). This revenue is split roughly [✂]% own-label and [✂]% branded. Table 10 shows the split of revenue between its three manufacturing divisions.

Table 10: Samworth's revenue and profitability by division for the two years ended 31 December 2013

						£'000
	Walker & Son		*Tamar Foods*		*Ginsters*	
	31.12.12 FY2012	*31.12.13 FY2013*	*31.12.12 FY2012*	*31.12.13 FY2013*	*31.12.12 FY2012*	*31.12.13 FY2013*
Revenue	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Gross profit	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBITDA	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBT	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: Underlying statutory accounts working papers. [✂]

[11] Samworth's chilled and ambient products include CSP products, desserts, sandwiches, cooked meat, malt loaf and sausages ready meals. It also has a distribution company, Samworth Brothers Distribution and a food testing company, Westwood Laboratories.

[12] Samworth also owns Dickinson & Morris which is primarily a single retail site for pork pies within Melton Mowbray itself.

Peter's Food Service Limited

25. Peter's is a private company which manufactures and distributes food products. Since 2007 it has been majority owned by NBGI (a private equity firm).

26. Table 11 shows a summary of Peter's total revenue and profitability for the three years ended 31 May 2015. In the year ended 31 May 2014 it had revenue of £80.2 million (2013: £72.1 million) and EBIT of £2.8 million (2013: nil). Around 70% of this revenue ([✂]) is generated from pastry products sold into the UK grocery retail market,[13] the remainder is sold into the food services industry. Peter's produces CSP products under its own brand; branded products under licence ('Heinz' for Slices, 'Sharwoods' for pastry bakes); and own-label. The split between branded and own-label for 2014 was £[✂] million of branded, and £[✂] million own-label. Peter's told us that its current revenue was around £[✂] million (£[✂] million from retail sales).

Table 11: Peter's revenue and profitability for the three years ended 31 May 2015

			£'000
	31.05.12 FY2012	*31.05.13 FY2013*	*31.05.14 FY2014*
Revenue	70,028	72,057	80,250
Gross profit	17,998	17,454	20,562
EBITDA	1,905	1,025	3,936
EBIT	737	–5	2,848
EBT	569	–192	2,666

Source: Annual accounts.

27. Peter's manufactures from a single site in the UK in Caerphilly, south Wales (built in 1992). It has a number ([✂]) of production lines, with some ([✂]) dedicated to hot pies and others ([✂]) ('flat bed') lines for producing either sausage rolls or pasties and slices.

Pukka Pies Limited

28. Pukka Pies is a private, family owned company, which specialises in the manufacturing and sale of hot pies through both retail grocery and food service (eg fish and chip shops). All revenue is generated from Pukka Pies branded products. It does not manufacture own-label. Manufacture is based on a single site in Syston (Leicestershire).

29. Table 12 shows Pukka Pies revenue and profitability for the three years ended May 2015. In the year ended May 2014 it had revenue of £43.9 million (2013, £40.3 million) and EBIT of £4.4 million (2013 £3.6 million). Around

[13] Peter's annual accounts.

£[✂] million of this revenue ([✂]%) was generated through sales to the retail grocery channel (around £[✂] million in 2013).

Table 12: Pukka Pies revenue and profitability for the three years ended May 2014

			£'000
	28.05.12 FY2012	*27.05.13 FY2013*	*26.05.14 FY2014*
Revenue	40,126	40,297	43,913
Gross profit	15,205	15,305	18,012
EBITDA	5,016	4,971	5,757
EBIT	3,677	3,549	4,383
EBT	3,743	3,638	4,416

Source: Annual accounts.

Vale of Mowbray Limited

30. Vale of Mowbray is a private company which manufactures and distributes pork pies. Its manufacturing site is based in Leeming Bar, North Yorkshire, and it operates van sales in the north of England.[14]

31. Table 13 shows Vale of Mowbray's revenue and profitability for the three years ended 31 March 2014. In the year ended 31 March 2014 it had revenue of £21.0 million (2013: £21.0 million) and EBIT of £1.0 million (2013: £0.5 million). Vale of Mowbray stated that in FY2014 it generated around £[✂] million of revenue a year from pork pies, split by approximately £[✂] million of branded (Vale of Mowbray), and £[✂] million own-label.

Table 13: Vale of Mowbray revenue and profitability for the three years ended 31 March 2015

			£'000
	31.03.12 FY2012	*31.03.13 FY2013*	*31.03.14 FY2014*
Revenue	23,385	20,971	21,012
Gross profit	5,066	3,890	4,464
EBITDA	939	1,114	1,609
EBIT	375	491	1,073
EBT	338	458	1,042

Source: Annual accounts.

Higgidy Limited

32. Higgidy is a privately owned company producing a small range of premium-branded (Higgidy) CSP products: hot pies, sausage rolls, and quiche. Higgidy has one production site at Shoreham-by-Sea, Sussex. Table 14 shows Higgidy's revenue and profitability for the three years ended September 2014.

[14] See Vale of Mowbray website.

In the year ended September 2014 it had revenue of £[✂] million (2013: £14.5 million).

Table 14: Higgidy revenue and profitability for the three years ended 30 September 2014

	30.09.12 FY2012 £'000	*30.09.13 FY2013 £'000*	*30.09.14 FY2014**
Revenue	12,403	14,538	[✂]
Gross profit	2,893	3,316	
EBITDA	771	942	
EBIT	381	639	
EBT	363	619	

Source: Annual accounts.
*2014 accounts not yet filed.

Winning Blend limited (Trading as The Welsh Pantry)

33. Welsh Pantry is the trading name of 'Winning Blend Limited', a CSP manufacturer based in Wales. Its parent company is Safe House Holding Limited (acquired in 2010).

34. Welsh Pantry produces products across a number of CSP categories: hot pies, sausage rolls, pasties and slices. Welsh Pantry told us that its current turnover was around £[✂] million. This was against turnover of £[✂] million three years ago.

35. In 2011, Welsh Pantry moved to new facilities (86,000 sq ft) but it currently occupies only 35% of the floorspace of the new site. It has received grants from the Welsh government's Economic Growth Fund.[15]

Cranswick Gourmet Pastry Company

36. Yorkshire Baker was founded in 2008 as an artisan bakery producing handmade pastry products. It was originally based in Norton, and supplied local delicatessens. In 2011, it secured a contract to supply a number of [✂]. In 2012, Yorkshire Baker entered into a deal with Cranswick to enable it to scale up the CSP production and provide national coverage as well as building a new manufacturing site. Cranswick's commercial director described this as 'a joint venture with us working with Yorkshire Baker who will trade singly within the Cranswick organisation'.[16] Cranswick PLC is a publicly listed company which produces processed meats, sausages, and sandwiches. It had revenue of £995 million in the year ended 30 March 2014. Subsequently

[15] The fund noted that grants were subject to European State Aid limits.
[16] *Gazette & Herald* (2012), 'Yorkshire Bakery factory spells £12m jobs boost for Norton'.

Yorkshire Baker was bought out by Cranswick to become the Cranswick Gourmet Pastry Company Limited[17] (Gourmet Pastry).

Table 15: Cranswick Gourmet Pastry revenue and profitability for the three years ended 30 March 2014

			£'000
	FY2012	*FY2013*	*FY2014*
Revenue	N/A	N/A	11,697
Gross profit	N/A	N/A	–657
EBITDA	N/A	N/A	–2,004
EBIT	N/A	N/A	–2,419
EBT	N/A	N/A	–2,593

Source: [✂]

37. Gourmet Pastry produces CSP products including: sausage rolls, slices and pasties, and hot pies. Manufacturing is both under the 'Yorkshire Baker' brand and also own-label, supplying [✂] with premium sausage rolls, quiches and pies. It manufactures from a single site in Malton, Yorkshire.[18]

Stobart's (Bradford) Limited

38. Stobart's is a private, family owned business, incorporated in 1962, which produces a range of CSP for sale through retail and food service channels from a single manufacturing site based in Bradford, West Yorkshire. It supplies cold pies and sausage rolls, with all retail grocery sales being branded.

39. Stobart's had annual revenue of around £[✂] million a year, in 2014 of which around £[✂] million is sales through the grocery retail channel.

Farmers Boy

40. Farmers Boy is a wholly owned subsidiary of Morrisons. It produces fresh foods including CSP products as part of Morrisons' vertically integrated structure. Farmers Boy produces the majority of Morrisons' own-label CSP items sold. It stated that it 'had the majority of the pastry business within [its] own control from early 2014 onwards across the core savoury sub categories'. Farmers Boy does not generally sell CSP products to external customers.

41. Morrisons had invested £31 million in its manufacturing site in Bradford in the 18 months to December 2013. This included adding a new quiche line and improved pie-making facilities.[19]

[17] Cranswick Gourmet Pastry Company Limited intermediary holding company is Cranswick Country Foods Plc.
[18] *The Press* (2013), 'Yorkshire Baker founder reveals secrets to upscaling business'.
[19] Source: Quantica website.

Tulip Limited

42. Tulip is a UK-based subsidiary of the Danish Crown Group, a major international meat processing company (Europe's largest pork producer) that also manufactures cooked meats, deli fillers, and ready meals and is headquartered in Denmark. Tulip had revenue of £1.2 billion for the year ended 29 September 2013. It generated £[✂] million of revenue from CSP in the UK, all from own-label Scotch eggs.

Greencore plc

43. Greencore is a publicly listed company which produces a range of chilled, frozen, and ambient convenience meals such as soup, sandwiches and ready meals. It also has chilled van distribution throughout the UK.

44. Greencore has revenues of around £1.3 billion (about 83% in the UK), although only a very small proportion of this is from CSP, comprising £[✂] million in quiche.

The Transaction

Introduction

1. This appendix sets out the background to the merger; details of the merger; and the Parties' rationales for the merger.

Summary

2. On 17 August 2014 Pork Farms Group acquired Kerry CSP from Kerry. The acquisition resulted in the activities of Kerry CSP being acquired by Caspian (a 100% subsidiary of Pork Farms Group) whilst Kerry acquired a <25% share of the ordinary share capital in, and [✂] preference shares of, Pork Farms Group in return for transferring the assets of the CSP business (indirectly) to Pork Farms Group, a nominal subscription of £[✂] (ordinary shares) and £[✂] million (equity rectifier).[1] In addition Pork Farms' management had existing loan stock realised for cash and some of that cash was reinvested on a pound-for-pound basis in the new loan notes and preference shares. Pork Farms' management also received [✂]% of the ordinary share capital.

3. Vision Capital viewed the merger as an opportunity to create a larger more attractive business [✂].[2] Vision Capital believed the merger would lead to Pork Farms Group revenue increasing to around £[✂] million with EBITDA of around £[✂] million and significantly enhanced cash generation achieved through exploiting efficiencies, cost savings and innovation opportunities.

4. Kerry viewed the merger as a way to exit from an underperforming business. It believed that although improvements could be made to the performance of Kerry CSP these would be insufficient to deliver Kerry Group's required revenue and margin targets. Kerry considered that it would not be able to divest Kerry CSP immediately absent the merger [✂]. It therefore chose to acquire a holding in Pork Farms Group as part of the merger [✂].

Background to the Transaction

Kerry

5. Kerry entered the CSP market in the early 1990s through the acquisition of Millers and Robirch. This acquisition included two manufacturing sites, one in

---

[1] Includes an adjustment for working capital.
[2] [✂]

Poole (which remained part of the business up to the time of the Transaction) and another in Burton-on-Trent which was converted to manufacturing chilled ready meals in 2003. In 2008 Kerry acquired the George Adams CSP business from Tulip, which included a manufacturing site in Spalding.

6. Kerry told us that it made the decision to exit the UK CSP market in August 2013 following a strategic review carried out over the previous 12 months. Kerry in its decision did not put a timescale on exit. Kerry believed [✄] a year. We note that Kerry's Annual Report (2013) stated that:

> While Kerry Foods is best positioned in its market categories with strong brand shares, [Kerry Foods] continues to focus its business model on its core offerings and to reconfigure its business portfolio for sustained profitable growth in line with Group metrics.[3]

And

> Capitalising on snacking, health and convenience trends, this investment programme will focus on a Kerry Foods' portfolio capable of driving sustained profitable growth. Businesses which are underperforming relative to the division's strategic objectives or non-core to this market growth strategy are held for sale.[4]

7. Kerry told us that it ran the business efficiently, especially in terms of the supply chain. It told us that neither factory had sufficient capacity to consolidate production and it did not view downscaling the business as an option as it would be 'probably value destroying over time'.

8. Kerry made the following observations about the UK CSP market:

(a) It was a mature market that had not seen any real growth over the last five years and was likely to remain flat over the next three years.

(b) It had a large proportion of consumer sales in the over-65 category. This meant it was not seen as a good area for innovation. Kerry stated that it:

> tried over time to modernise … With the exception of snacking, which is small, we struggled to get things to stick. It is traditional if you look at things that people like; they like a standard sausage roll. When you try and change it, in terms of flavour profile or whatever, it never really worked.

[3] Kerry Group plc Annual Report FY2013, CEO review.
[4] Kerry Group plc Annual Report FY2013, Consumer Foods Business review.

At one stage, we tried to modernise pies as well so hot eating pies and we brought curry flavours, we brought different pastries. Actually, what people like is Chicken and Mushroom, Minced Beef and Onion and we learned those lessons. Some of them were painful, in fairness, because we invested to try and change and we struggled to get any real innovation to stick.

(c) It was a low-value category with over 50% of sales between a price point of £1.00 and £1.50.

(d) Own-label customers at over 70% of the total category controlled the pricing and overall shape of the category.

(e) The market was complex and multi-segmental making automation difficult.

(f) The category was already fairly consolidated, so improving returns through further consolidation was unlikely.

(g) Rising commodity prices had led to increases in input prices, but the category was price-sensitive.

Pork Farms

9. The Vision Funds bought Pork Farms[5] in January 2007[6] from Northern Foods plc.

10. Under Vision Capital, Pork Farms consolidated its manufacturing from five into four sites.[7] These sites were changed into what Pork Farms terms ‘centres of excellence’ specialising in the manufacturing of individual product types: Queens Drive – cold pies; Palethorpes – chilled savoury sausage rolls, hot pies, pasties and slices; Riverside – quiches; and Shaftesbury – savoury egg and cocktail sausages.

11. Between 2007 and 2013 around £[✂] million of capex was invested in the four sites. Pork Farms stated that the capex investment was primarily in [✂]. The investment was split between the sites: Queens Drive [✂]; Palethorpes £[✂] million; Riverside £[✂] million; and Shaftesbury £[✂] million. [✂]

12. [✂]

---

[5] Pork Farms was registered and trading under the name Pork Farms Bowyer.
[6] Approved by shareholders on 15 January 2007.
[7] Site closed was Trowbridge.

13. Subsequent Vision Capital internal documents show [✂].

Transaction

14. Vision Capital stated that [✂]. Kerry told us that it started the process of putting together a 'perimeter of business' but that it had not formally started a divestment process before it was approached by Pork Farms regarding the merger.

15. Kerry did not run an open tender process. Instead it conducted an exclusive deal with Pork Farms. [✂]

16. An NDA was signed between Kerry and Pork Farms on 25 November 2013, with heads of terms being signed on 6 February 2014. Due diligence by both parties took place between February and March 2014. The merger was completed on 17 August 2014.

The acquired business: Kerry CSP

17. Kerry CSP comprised:

(a) two freehold manufacturing sites (located at Poole and Spalding), including all machinery, vehicles and employees;

(b) the transfer (where possible) of existing contracts with customers and suppliers including all obligations to produce and supply CSP products for Kerry's existing CSP customers;

(c) the use of the Wall's brand and recipe in the production of sausage rolls, cold pie, slices and pasties;[8] and

(d) the remaining cash, stock, goodwill, records, know-how and business IP Including all recipes, technical knowledge and new product development; but

(e) excluded support functions previously provided by Kerry/Kerry Group plc such as central finance function, IT platforms etc.

18. The merger also included commercial agreements including:

(a) [✂]; and

(b) [✂]

---

[8] The Wall's brand is used under licence from [✂].

19. Kerry agreed as part of the merger [✂]:[9]

(a) [✂]

(b) [✂]

20. Kerry also agreed to provide a [✂] to Pork Farms Group in order to [✂].[10]

Consideration and shareholdings

21. The merger was structured in order to result in a [✂] split of ordinary shares between the Vision Funds and Kerry. The total value of the consideration was based on the relative EBITDA generated by each of the two trading entities (Pork Farms and Kerry CSP) adjusted for their net debt position. This resulted in:

(a) Kerry being issued [✂] preference shares in Pork Farms Group, equivalent to [✂]% of issued preference shares;[11]

(b) Kerry subscribed in cash for [✂] B ordinary shares in Pork Farms Group for a nominal cost of £[✂]; equivalent to [✂]% of ordinary share capital; and

(c) Kerry made a cash payment to Pork Farms of £[✂] million (‘equity rectifier’).[12]

22. As part of the merger senior management of Pork Farms Group were able to subscribe for ordinary shares.[13] The cost of these shares was paid for by the Vision Funds.

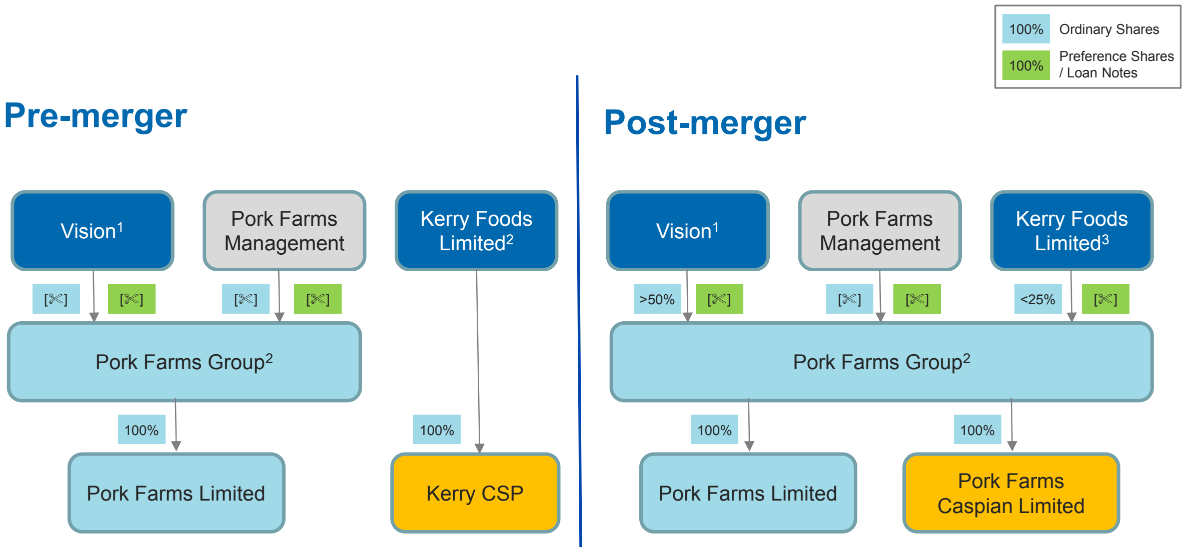
23. Following an [✂], management also received [✂] preference shares in the enlarged Pork Farms Group.

24. The overall effect of the merger on shareholdings in Pork Farms Group is shown in Figure 1 below.

---

[9] [✂]
[10] [✂]
[11] Caspian issued a loan note for the sum of £[✂] to Kerry Foods Limited. Directly following the acquisition, Pork Farms Group bought the loan note back from Kerry Foods Limited in return for the allocation of £[✂] preference shares.
[12] The ‘equity rectifier’ was included to balance the respective EBITDA contributions of Pork Farms and Kerry CSP to reflect the required [✂] split. The £[✂] was made up of £[✂] and [✂].
[13] [✂]

Figure 1: Share ownership structure, pre and post-merger



1. *Vision Capital Partners shareholding through Eliot Luxembourg Holdco S.a r.l.*
2. *Poppy Acquisitions Limited changed its name to Pork Farms Group in November 2014*
3. *Via; Kerry Group → Denny Foods Limited → Kerry Holdings (UK) Limited → Kerry Foods Limited*

Source: Pork Farms.

25. Following the Transaction PFGL has a board made up of nine directors. Vision Funds has the right to appoint up to three directors to PFGL's board as well as choose its chairman. Kerry has the right to appoint up to two directors out of nine to Pork Farm Group's board of directors. The remaining directors are drawn from executive management.

26. Vision Capital stated that the reasons for [✂]:

(a) [✂]

(b) [✂]

(c) [✂]

Kerry shareholder rights

27. A number of reserved matters were included as part of the merger, giving Kerry an option to veto certain wider business changes.[14] This includes M&A activity, and payment of dividends, and the ultimate sale/IPO of Pork Farms Group (allowing Vision Capital to realise its investment).

[14] Kerry has the right to veto 'very significant' changes to the business, its veto rights have no bearing on the day-to-day business of Pork Farms Group.

Rationale for the merger

Vision Capital and Pork Farms Group

28. Pork Farms stated that the merger had two overarching rationales:[15]

    (a) efficiencies and innovation; and

    (b) improved exit opportunities.

Efficiencies and cost saving

29. Pork Farms stated that the merger needed to be viewed in the context of intense competition in the grocery market both between the large super-markets and as a consequence of the growth of the discounters. This meant that the large retailers were applying greater price pressure on suppliers. It stated that to remain price-competitive and maintain margins it saw the merger with Kerry as an opportunity to combine the strength of the two businesses to give a secure, efficient, and increasingly low-cost offering.[16]

30. In addition, Pork Farms believed that Kerry CSP had been underinvested and there was potential to realise efficiencies and make it better equipped to meet expectations of large retailers by investment and by it adopting the Pork Farms' model of 'centres of excellence'.[17]

31. Pork Farms told us that at the time of the Transaction it believed there were cost benefits through operational and production efficiencies as well as the potential for greater innovation. Operational synergies would arise from a reduction in overheads and the [✂].[18] Pork Farms believed that production efficiencies would arise through scale, improving efficiency, speed, and unit costs of production.[19] Innovation would come through the development of the merged business's branded products and the development of new products and variants.

32. The financial effect of the potential synergies were set out in the Caspian business plan ([✂]). This plan shows:

    (a) Pork Farms Group consolidated revenue of £[✂] million and EBITDA of £[✂] million.

[15] Pork Farms initial submission, paragraphs 2.11–2.13.
[16] ibid, paragraph 2.11.
[17] ibid, paragraph 2.12.
[18] [✂].
[19] Pork Farms [✂].

(b) [✄]

(i) [✄][20]

(ii) [✄]

(c) [✄]

(d) [✄]

33. In addition the business plan [✄].

Future opportunities

34. Vision Capital considered that the merger with Kerry CSP would ‘create a larger more attractive business with more exit optionality in both the short [✄] or long term [✄]. It noted that [✄].

35. Vision Capital stated that [✄] Furthermore [✄].

36. Without the merger Vision Capital considered that:

(a) [✄]

(b) [✄]

Kerry’s merger rationale

37. Kerry told us that it had made the decision in August 2013 to exit the CSP market. Kerry told us that Pork Farms’ [✄]. We note in this context that [✄].

38. Kerry told us that [✄].

[20] [✄]

Jurisdiction

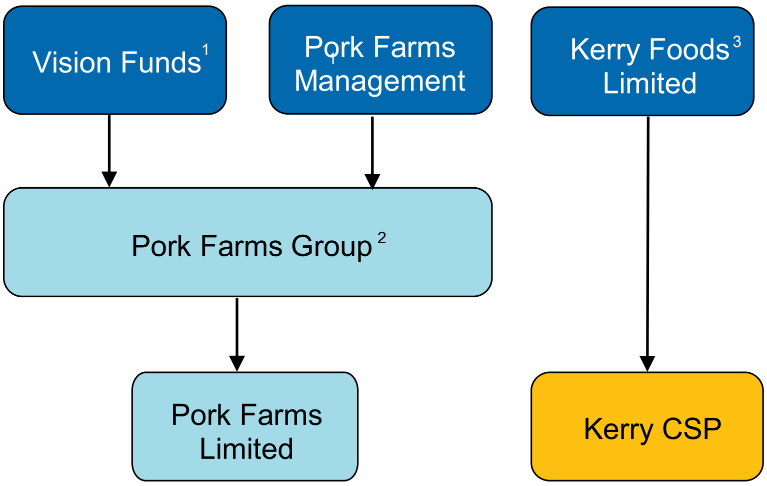
Introduction

1. This appendix covers the requirements of the Act in respect of the jurisdictional question of whether a relevant merger situation has been created by the Transaction.

Relevant facts

2. This section sets out an overview of the situation pre- and post-merger.

Figure 1: The situation pre-merger



Source: Pork Farms.
1. Pork Farms Group is ultimately controlled by the Vision Funds. See Appendix C, paragraphs 2–4.
2. Pork Farms Group Limited was named Poppy Acquisitions Limited until November 2014. Prior to the transaction it served as the holding company for Pork Farms.
3. Kerry Foods Limited is ultimately controlled by Kerry Group plc through the following chain of entities: Kerry Group plc → Denny Foods Limited → Kerry Holdings (UK) Limited → Kerry Foods Limited.

The Transaction

3. As set out in more detail in Appendix D, the direct parent of Pork Farms, PFGL, acquired Kerry CSP through a wholly owned and newly incorporated vehicle, Caspian. Simultaneously, Kerry and the management of Pork Farms acquired ordinary and preference shares in PFGL.

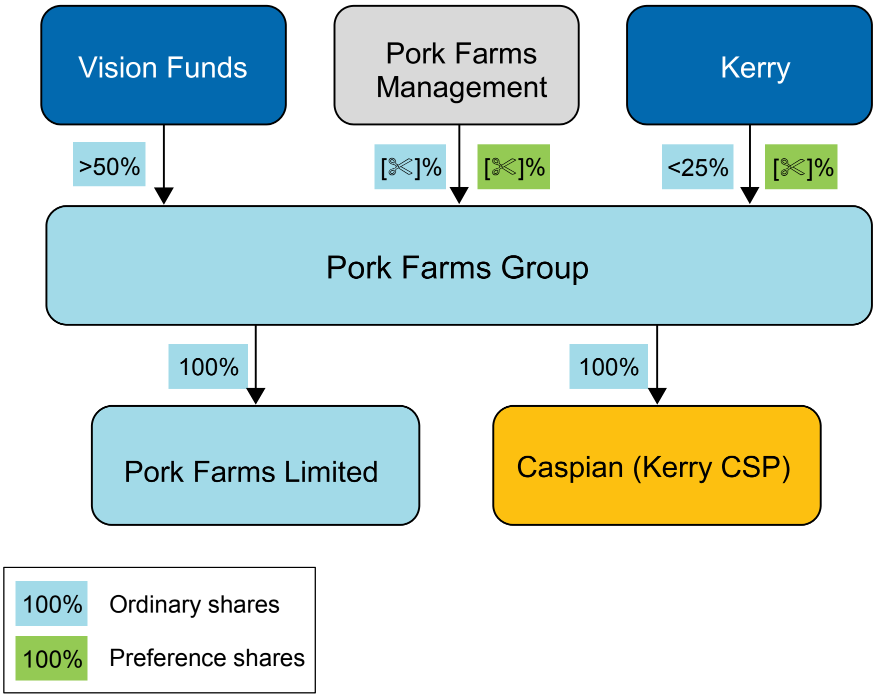
The situation post-merger

4. As a result of the Transaction:

(a) PFGL is the holding company both of Pork Farms and Caspian, the acquirer of Kerry CSP; and

(b) The Vision Funds (through holding companies) hold [>50]% of the ordinary shares in PFGL; Kerry holds [<25]% of the ordinary shares and around [✂]% of the preference shares in PFGL; and members of the management team of Pork Farms collectively hold [✂]% of the ordinary shares and around [✂]% of the preference shares in PFGL as well as some loan notes.

Figure 2: The situation post-merger



Source: Pork Farms.

The jurisdictional question

5. In the context of a completed merger, section 35(1) of the Act[1] requires the CMA to decide:

(a) whether a relevant merger situation has been created; and

(b) if so, whether the creation of that situation has resulted, or may be expected to result, in a substantial lessening of competition (SLC) within any market or markets in the United Kingdom for goods or services.

[1] The requirement in section 35(1) of the Act is subject to the power (under section 35(6) and (7) of the Act) to frame a reference so as to require the CMA to exclude from consideration certain matters or to confine its investigation in relation to a part of the UK. In the present case, no such power has been exercised.

6. This appendix addresses only the jurisdictional question in section 35(1)(a).

Relevant merger situation (PFGL/Kerry CSP)

7. The concept of a relevant merger situation has two principal elements. First, that the transaction involves enterprises ceasing to be distinct (as provided for by sections 23 and 26) at a time or in circumstances falling within section 24; and secondly that the transaction has a sufficient nexus with the UK to merit investigation. This second element applies if one or both of the 'turnover test' and the 'share of supply test' (set out in section 23) is satisfied.

Enterprises

8. The Act[2] defines an 'enterprise' as 'the activities, or part of the activities, of a business'. 'Business' is defined as including 'a professional practice and includes any other undertaking which is carried on for gain or reward or which is an undertaking in the course of which goods or services are supplied otherwise than free of charge'.

9. For the reasons set out below, we consider that each of PFGL and Kerry CSP is an 'enterprise' within the meaning of the Act.

PFGL

10. PFGL owns 100% of the shares, and thus has a controlling interest, in Pork Farms. Pork Farms, a private limited company incorporated in England and Wales, has assets, employees and relationships which it uses to supply CSP products otherwise than free of charge. We therefore consider that PFGL together with its group companies is an enterprise.

Kerry CSP

11. The Business Purchase Agreement between Kerry, Pork Farms and Caspian of 17 August 2014 (the BPA) states under 'Background' that the vendor (Kerry) has agreed to sell the assets and transfer the business to the purchaser (Caspian) as a going concern. The business is defined as the CSP business carried on by the vendor. Clause 2.1 of the BPA sets out what was being sold. This includes:

    (a) Kerry CSP's sites at Poole and Spalding;

---

[2] Section 129(1) of the Act.

(b) fixed and movable plant;

(c) the goodwill of the vendor in connection with the business including the exclusive right for the purchaser to represent itself as carrying on the business in succession to the vendor;

(d) all unperformed contracts of the business;

(e) relevant records, intellectual property and know-how; and

(f) all other property, rights and assets owned by the vendor and used mainly or wholly in the ordinary course of the business.

12. In addition, clause 7 of the BPA provides for the transfer of employees in accordance with the Transfer of Undertakings (Protection of Employment) Regulations 2006 (as amended). The back-office functions and senior management previously provided by Kerry were not transferred with Kerry CSP. Instead, immediately on completion, these roles were taken over by PFGL staff. This transition did not interrupt Kerry CSP's ongoing supply of CSP goods.

13. Kerry CSP supplies CSP products into the food retail sector under brands and retailers' own-label otherwise than free of charge.

14. Accordingly, we consider that PFGL has acquired from Kerry an enterprise since it has acquired a business (albeit not a stand-alone business) as a going concern with the necessary assets, employees' goodwill and customer contracts to support its activities in the supply of CSP goods otherwise than free of charge.

Ceasing to be distinct

15. Section 26(1) of the Act provides that 'any two enterprises cease to be distinct enterprises if they are brought under common ownership or common control (whether or not the business to which either of them formerly belonged continues to be carried on under the same or different ownership or control)'.

16. Three levels of 'control' are identified in the Act:[3] a controlling interest (legal control); the ability to control policy (de facto control); and the ability materially to influence policy.

17. In the present case, PFGL has a controlling interest in Pork Farms and a controlling interest in Caspian, which, in turn, has acquired outright ownership

[3] Section 26 of the Act.

of Kerry CSP. Accordingly, we consider that PFGL, Pork Farms, Caspian and Kerry CSP are under common ownership and control.

At a time or in circumstances falling within section 24

18. Section 23(1)(a) of the Act provides that a relevant merger situation has been created if 'two or more enterprises have ceased to be distinct enterprises at a time or in circumstances falling within section 24'.

19. The relevant part of section 24 provides that

> [f]or the purposes of section 23 two or more enterprises have ceased to be distinct enterprises at a time or in circumstances falling within this section if- (a) the two or more enterprises ceased to be distinct enterprises before the day on which the reference relating to them is to be made and did so not more than four months before that day; ….

20. The Transaction completed on 17 August 2014 and the CMA was made aware of the Transaction prior to completion. Therefore, the statutory four-month deadline for reference was 17 December 2014. The CMA's phase 1 decision on whether the Transaction gave rise to an SLC including the reasons for the decision was communicated to Caspian on 17 December 2014. On the same date the CMA extended the statutory four-month period[4] to enable the Parties to consider whether to offer, and the CMA to consider whether to accept, undertakings in lieu of reference. On 24 December 2014, Caspian informed the CMA that it would not offer such undertakings to the CMA. Accordingly, pursuant to section 25(5)(b) of the Act the extension to the four-month period mentioned in section 24(1)(a) of the Act ended on 12 January 2015. The reference was made on 5 January 2015. Accordingly, we consider that PFGL and Kerry CSP ceased to be distinct enterprises at a time, or in circumstances, falling within section 24 of the Act.

Turnover test

21. The turnover test is met where the value of the turnover in the UK of the enterprise being taken over exceeds £70 million.[5] Section 28 of the Act provides a mechanism for determining what must be taken into account in determining the value of the turnover of the 'enterprise being taken over'. In this case the Transaction involves the acquisition by PFGL of Kerry CSP. We consider that Kerry CSP is the enterprise being taken over for the purposes of

[4] By notice pursuant to section 25(4) of the Act.
[5] Section 23(1)(b) of the Act.

section 28 of the Act. The turnover of Kerry CSP in the UK was approximately £[✂] million in the business year ending 31 December 2013.[6]

22. Since Kerry CSP's turnover exceeds £70 million, we consider that the turnover test in section 23(1)(b) of the Act is satisfied. In those circumstances, it is not necessary for us to decide whether the share of supply test is also satisfied.

Conclusion on relevant merger situation

23. For the reasons set out above, we consider that two or more enterprises, namely PFGL and Kerry CSP, have ceased to be distinct enterprises at a time or in circumstances falling within section 24 of the Act. The turnover test is met because Kerry CSP's UK turnover in the business year preceding the date when the enterprises concerned ceased to be distinct exceeds £70 million. Accordingly, we consider that PFGL's acquisition of Kerry CSP constitutes a relevant merger situation.

[6] That was the business year preceding the date when the enterprises concerned ceased to be distinct enterprises (see Article 11(2)(a) of the Enterprise Act 2002 (Merger Fees and Determination of Turnover) Order 2003, SI 2003/1370).

The counterfactual

Introduction

1. This appendix sets out our assessment of the appropriate counterfactual.

Kerry's view of the counterfactual

2. Kerry told us that, although it had decided that it would exit the UK CSP market, no timetable for exit or the exact route for exit had been agreed. Kerry told us that absent the Transaction it would have continued to run Kerry CSP. It stated that it would not have made any significant investments to the business and as a result, would have been in a form of 'holding pattern'. It would not have looked to close it as this would:

   (a) Potentially harm its relationships with customers, many of whom had multiple contacts with Kerry Group. [✂]

   (b) Closure costs would have been significant, [✂].

3. Kerry told us that it had always made, and would have continued to make, capital available to fulfil health & safety and customer requirements in Poole and Spalding. It stated that this would have continued in the absence of the merger. However, it told us that it would not have made any significant investments as it simply would not have seen the return in the kind of timescales required. Kerry also told us that [✂].

4. Kerry summed up its position to us as:

   > We would have carried on running as we were and do our best to broadly hold the business flat and sustain our margins where we could. We did not see internal consolidation as an option and certainly were not going to acquire. We were not going to make any dramatic investments in the business and as a result we would have been in a form of holding pattern whilst trying to find a route to exit.

5. Kerry told us that [✂].

Pork Farms' view of the counterfactual

6. Pork Farms expressed concerns relating to its expectations of the ongoing competitive strength of Kerry CSP in the absence of the merger. Pork Farms said that [✂].[1,2]

CMA assessment

7. We note that both Kerry and Pork Farms consider that Kerry CSP was non-strategic. The fact that Kerry decided to exit the market confirms this view. [✂] it would not have made any significant investments to the business. The difference between the two parties' views is what this means for the competitiveness of Kerry CSP absent the merger.

8. Pork Farms' view was that [✂].

9. We consider that it is not obvious that, even though the business was now non-strategic, Kerry would have changed its approach to managing it, especially given its view on the negative effect any deterioration of the business would have had on its Group's customer base.

10. The Kerry CSP Vendor Due Diligence (VDD) report stated that for Poole, [✂].

11. Pork Farms [✂].

12. [✂] Kerry would have ensured that it could fulfil the requirements of its customers. We also note in this regard that the sites were regularly inspected for quality levels required by customers and that no customer had stopped using the sites as a result of these standards not being met, although Poole had at the time of the Transaction failed a Tesco audit which meant all development with Tesco was on hold.

13. We note in the Kerry CSP VDD report that [✂]. This does not indicate to us that the business was in rapid decline, but was rather broadly holding its own, including winning some new business in this period and as such maintaining its market share. Based on the data submitted by Kerry, we noted that Kerry's CSP sales have remained relatively stable over the last five years. Overall, Kerry's sales have grown by [✂]% although the trend has varied by category (for example, Kerry's cold pies sales have risen by more than [✂]% while its pasties and slices sales have fallen by more than [✂]%).

[1] Pork Farms initial submission, paragraph 5.5.
[2] ibid, paragraph 5.6.

14. Kerry was looking for an exit but had no definitive timescale for an exit. In the event that Kerry had found a purchaser for Kerry CSP in the short to medium term, we consider it is likely that the purchaser: would have continued to operate the business within the CSP market (given the nature of the equipment, employees, factories and customers etc), and that the business would not have become less competitive as the purchaser would be looking to maximise its return from its investment.

Summary/conclusion

15. Kerry stated (paragraphs 2 and 3) that it intended to maintain the business to avoid harm to its wider customer relations. It also had no set timetable to exit. These are both significant factors in our determination of the appropriate counterfactual and the foreseeable time frame.

16. We consider that there is no indication that Kerry CSP [✂].

17. [✂] We could expect Kerry to have continued competing for business in the same way as before. Kerry gave no indication that it was considering a change of strategy, nor was it likely to have acquired new or unexpected information that would have changed its approach in the short term. [✂]

18. We also consider that there is [✂].

19. We therefore conclude that Kerry had both the ability and the incentive to maintain Kerry CSP to ensure that it was an attractive exit proposition. Absent the merger it would in all likelihood have continued to operate at the same or similar competitive level in the UK CSP market as it had done pre-merger.

Pork Farms

20. [✂] Therefore, in the absence of the merger, we would expect that Pork Farms' business would have continued as before.

Competitive effects

Introduction

1. This appendix sets out additional evidence we considered in assessing the effects of the merger between Pork Farms and Kerry. This evidence covers the following areas:

   (a) The nature of competition between CSP producers.

   (b) The extent of pre-merger competition between the Parties.

   (c) The negotiating power of CSP producers and retailers.

The nature of competition between CSP producers

Negotiation with retailers

2. The CSP market encompasses a variety of categories, namely pork pies, sausage rolls, hot pies, pasties and slices, quiches and Scotch/savoury eggs.

3. Manufacturers of CSP products operate in the upstream market and do not sell directly to final customers.[1] CSP manufacturers compete to supply customers who then set the retail prices and sell to final consumers.

4. The price paid to CSP manufacturers is determined by negotiations between customers and manufacturers. We received evidence from customers which suggests that the degree of formality of the negotiations varied considerably by retailer. Some retailers (eg [✂]) use a combination of tenders and direct negotiations. Some (eg [✂]) operate initial tenders followed up by direct negotiations. Others (eg [✂]) rely more on just direct negotiations.

5. One supplier (Peter's) told us that there were essentially four broad approaches to CSP purchasing adopted by retailers (and they were not related to the size of the customer or the distribution channel): routine new

[1] There are a few minor exceptions. For example, Samworth told us that it had two brands (Dickinson & Morris and Walkers) and two shops associated with those brands.

product development;[2] informal tendering;[3] formal tendering; and joint business plans.

6. Negotiations typically take place annually although in some cases they may occur every two to three years.[4]

7. The extent to which customers consider different alternatives when renegotiating their contract also vary significantly. Some customers ([✂]) regularly invite a number of suppliers to bid for their contracts. Some others tend to develop a longer-term relationship with their suppliers and usually consider (or invite to submit offers) only their existing suppliers where renegotiating. This may result in sticky relationships where retailers do not often test the market for alternatives to their current supplier. For example, Tesco told us that it had a collaborative relationship with its existing supply base and in recent years it had not needed to approach new suppliers to pitch for savoury pastries business. Co-op told us that it looked to work long term with suppliers 'rather than constantly debating costs, NPD and promotions'. Similarly, M&S said that it sought to create long-term partnerships with its suppliers of chilled savoury products and accordingly tended to change suppliers less frequently than other retailers.

8. The Parties said that there was no standard format and each agreement was unique to the respective retailer. For example, Discount retailers tended to use a more formal agreement which normally had a specific start and end date and normally resulted in a re-tender at the end of the contract period.[5] Samworth told us that retailers were increasingly reliant on fixed-term contracts (one to two years).

9. The price structure of the contracts between manufacturers and customers was often quite complex and entailed various forms of discounts and promotional payments. We were told that several different types of supply commitments were used in the industry. The most common commitments were overrider discounts and promotional/marketing funding. Other types of commitments include: 'loss of profit' provisions, fines or penalties in the event of products' withdrawal from the retailers' shelves, exclusivity commitments to several retailers in respect of specific products for a specified time period, margin underwriting, support to fund a proportion of customers' wastage, etc.

---

[2] Annual or six-monthly category reviews where new ideas are presented that may gain SKUs at competitors' expense.
[3] Where customers ask suppliers to submit an indicative price for a range of CSP products, and then they may move to a formal tender if they think there are issues in terms of either quality service or price.
[4] For example, [✂] told us that when it is not planning any change to range, it will contract for longer than a year.
[5] We note that this is not always the case. For example, [✂] told us that once the negotiation for a contract was complete, there was no fixed timescale for the business.

CSP products

10. CSP products can be:

   (a) own-label: products that are manufactured by a supplier but sold under the Grocery retailer's brand; or

   (b) branded: products that are manufactured by a supplier and sold through retailers under the supplier's own brand or under a brand licensed to it.

11. In the grocery segment[6] own-label share of CSP accounts for the majority of sales (73%). This, however, varies by category, ranging from more than [90–100]% in Scotch eggs and quiche to slightly less than [50–60]% in pasties and slices.

Table 1: Value of branded and own-label sales in the grocery channel – FY2013/14

CSP category	*Value of sales (£k)*		*Percentage of sales*	
	Branded	*Own-label*	*Branded*	*Own-label*
Pork pies	[✂]	[✂]	[✂]	[✂]
Sausage rolls	[✂]	[✂]	[✂]	[✂]
Hot pies	[✂]	[✂]	[✂]	[✂]
Pasties & slices	[✂]	[✂]	[✂]	[✂]
Scotch eggs	[✂]	[✂]	[✂]	[✂]
Quiches	[✂]	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]	[✂]

Source: Kantar Worldpanel (provided by the Parties).

12. The convenience segment is predominantly focused on brands, which accounted for 92% of the sales in 2013. Variation between categories is more limited compared with the grocery channel, with own-label accounting for the largest share in quiches ([40–50]%).

Table 2: Value of branded and own-label sales in the convenience channel

CSP category	*Value of sales (£k)*		*Percentage of sales*	
	Branded	*Own-label*	*Branded*	*Own-label*
Pork pies	[✂]	[✂]	[✂]	[✂]
Sausage rolls	[✂]	[✂]	[✂]	[✂]
Hot pies	[✂]	[✂]	[✂]	[✂]
Pasties & slices	[✂]	[✂]	[✂]	[✂]
Scotch eggs	[✂]	[✂]	[✂]	[✂]
Quiches	[✂]	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]	[✂]

Source: Nielsen (provided by the Parties).

13. Many manufacturers supply both own-label and branded products, although there are a few suppliers who concentrate their manufacturing in branded products.

[6] This typically includes the Big 4 retailers and the National retailers.

14. Brand popularity/recognition and consumer loyalty to the brand, together with price and quality, are considered by customers as key factors in the choice of the supplier for the branded products. Given that the recipe for own-label products is determined by the retailer, final consumer preferences are significantly less important in the upstream competition for own-label products. Price and quality (together with service level) are the most common criteria mentioned by customers as relevant in their choice of the supplier for own-label products. Innovation appears to be rather limited in this market, and mostly concentrated on some niche products (eg new recipes for hot pie, slice and pasty fillings or different cooking methods). For example, Tesco told us that the core selling products had not changed for the last five years and innovation was not significant in this market.

15. Some customers ([✂]) indicated that own-label and branded products were normally negotiated concurrently. Others ([✂]) negotiate own-label and brands separately.

Multi-sourcing of own-label requirements

16. We noted that customers typically source their own-label requirements from multiple suppliers. The extent to which customers multi-source varies considerably by customer and by category (as set out in Table 2 of the main report).

17. For cold pies the Big 4 retailers source from two suppliers, where in general one supplies either the premium or the value tier, and the other supplies the standard and the remaining tier. The National retailers tend, instead, to single-source cold pies.

18. Customers appear to multi-source more extensively in the other CSP categories.[7] The Big 4 retailers use three or four different suppliers and the National retailers rely on at least two suppliers (except for one retailer ([✂]) which single-sources two own-label ranges (hot pies and sausage rolls) from [✂], and another ([✂]) which single-sources all its requirements in these categories from [✂]).

19. Despite the use of a number of suppliers, retailers concentrate the bulk of their purchases for each category on a single supplier. The largest supplier almost always accounts for the majority of the purchases of a customer in a given category. On average, the largest supplier holds a share of around 80%

[7] Where the Parties overlapped before the merger (see paragraph 2.2).

of a customer's own-label purchases in a category. Annex 1 provides further details on our analysis on the extent to which retailers multi-source.

20. The Parties told us that retailers multi-sourced their CSP requirements and did not concentrate their own-label supply requirements for particular types of CSP products with only one or two suppliers and that, more importantly, there was no reason for doing so. They added that individual SKUs of own-label products could be switched without compromising the supply quality or consistency because retailers owned the recipe for their own-label products and suppliers were required to manufacture the products in question to the retailer's specification[8] (see paragraph 63 for third parties' view on switching costs).

21. We considered the customers' view on the extent to which they are willing to source their own-label requirements from multiple suppliers. We note that retailers' policy in relation to multi-sourcing varies.

(a) [✂] told us that it sourced from different suppliers but it did not currently split supply of a single product item (SKU) between more than one supplier.

(b) [✂] told us that while it sourced from multiple suppliers, each supplier produced 100% of the product Iceland sourced from it.[9]

(c) [✂] said that it tried to maintain one supplier per range of products. It said, for example, that it had 'one supplier who does all of [its] standard own label hot pies and another supplier who does all of [its] premium own label hot pies'.[10]

(d) [✂] told us that it sourced different (quality) tiers within a single category from different suppliers ('One supplier will provide the "core" tier of the product and another the "specialty" tier').

(e) [✂] said that it did not multi-source CSP products in any category.

(f) [✂], that it did, where appropriate, source from multiple suppliers within a category.

---

[8] Pork Farms initial submission, paragraph 6.14.
[9] [✂] specified that 'If a supplier won the 8 pack sausage roll business then it would have 100% of that product. [✂] would not split the product between suppliers. However the 20pk cocktail sausage rolls may be supplied by another but again it would have 100% supply of that product.'
[10] [✂] clarified that it does 'not have one supplier for all of [its] pork pies, there are two different suppliers doing the two different ranges. Similarly [it has] one supplier who does all of [its] standard own label hot pies and another supplier who does all of [its] premium own label hot pies.'

(g) [✂] said that it had two suppliers for the majority of its own-label categories. It said that, for example, it had two suppliers for hot pies and two for pork pies.

(h) [✂]

22. In addition to quality consistency issues, some customers (Morrisons and M&S) also noted that a disadvantage of multi-sourcing was that the efficiency generated by producing large volumes was not maximised.

23. Overall, this suggests that customers sourced their CSP requirements from multiple suppliers. At category level, some customers source from more than one supplier but some others seek to source all the category requirements from a single supplier. Customers generally do not split supply of the same range of products among multiple manufacturers. This has been confirmed also by some suppliers. [✂]. Kerry told us that generally 'the suppliers would look at the product and the tier … we supply [✂] sausage rolls ... the retailers would see the retailer brand; there is a level of importance around having that quality consistent across the product at whichever tier they operate.' However, this is not always the case. We noted that one retailer in some cases splits the supply of a single product among various suppliers (see paragraph 21(h)).

24. We observed instances of customers changing their multi-sourcing policy over time by increasing or decreasing the number of suppliers from which they sourced own-label products. In most of these instances these changes related to suppliers with a limited share of the customers' supply (see Annex 1 for further details).

25. We also looked at the extent to which retailers split their own-label requirements within a given quality tier. Consistent with third parties' views described above, our analysis indicates that customers do not typically source the value- and premium-quality tier from multiple suppliers but they split the purchase of standard own-label products, generally, between two manufacturers (see Annex 1 for further details).

Competition before the merger

26. This section provides additional evidence on the pre-merger competition in the CSP sector.

(a) First, we look at the pre-merger shares of supply by category.

(b) Second, we discuss some general aspects of the pre-merger competition for branded and own-label products.

(c) Third, we review third parties' view on the pre-merger competition between Pork Farms and Kerry CSP.

(d) Fourth, we present some examples of contracts lost by the Parties to competitors in recent years.

(e) Finally, we review third parties' views on the cost of switching suppliers.

Shares of supply

Cold pies

27. Table 3 shows the cold pie sales (in 2014) for the major suppliers. The table suggests that there are currently four suppliers with a significant share and a fringe of suppliers that at present sell only limited volumes, eg Stobart's (the Parties submitted that other small manufacturers operated in this category, eg Wright, but their share was smaller than Stobart's).

Table 3: Cold pie sales, 2014

%

	Branded	*Own-label*	*Total*
Samworth	[30–40]	[50–60]	[40–50]
Pork Farms	[30–40]	[10–20]	[20–30]
Kerry	[10–20]	[10–20]	[10–20]
Vale of Mowbray	[10–20]	[10–20]	[10–20]
Stobart's	[10–20]	-	[0–5]
Total	**[✂]**	**[✂]**	**[✂]**

Source: CMA analysis of data provided by the major suppliers.
Note: [✂]

28. The Parties have shares of, respectively, [20–30]% (Pork Farms) and [10–20]% (Kerry CSP). The Parties' main customers included [✂].

29. Samworth is the largest supplier in cold pies with a share of almost [40–50]%. Its position is significantly stronger in own-label products ([50–60]%) than in branded products ([30–40]%). Samworth currently serves most of the large multiples. Its biggest customers are [✂]. It has also a significance presence in [✂] but it does not supply [✂].

30. Vale of Mowbray has a share of [10–20]%, ([10–20]% in branded products and [10–20]% in own-label). Vale of Mowbray's largest customers are [✂] of Vale of Mowbray's sales. Vale of Mowbray also sold [✂] volumes to other Grocery retailers, such as, for example, [✂].

31. Stobart's has a share of [0–5]% within this category and it only operates in the branded segment. Its supply is split [✂] among many customers (including [✂]).

Hot pies

32. Table 4 shows the shares of hot pies sales (in 2014) for the major suppliers that operate in this category. There are a number of players in this category. In addition to the Parties, these include Pukka Pies and Higgidy (only in the branded segment), Cranswick (only in the own-label segment) and Samworth, Peter's, Welsh Pantry (in both the branded and own-label segments). Other suppliers operating in the segment are Wrights, Hollands and Pieminister, which sell mostly branded products and have a share of around [0–5]% each.[11]

Table 4: Hot pie sales, 2014*

Manufacturer	*Branded*	*Own-label*	*Total*
Cranswick	[✄]	[5–10]	[0–5]
Farmers Boy	[✄]	[5–10]	[0–5]
Higgidy	[10–20]	[0–5]	[0–5]
Kerry	[0–5]	[10–20]	[10–20]
Peter's	[5–10]	[5–10]	[5–10]
Pork Farms	[0–5]	[20–30]	[10–20]
Pukka Pies	[60–70]	[✄]	[10–20]
Samworth	[5–10]	[30–40]	[30–40]
Welsh Pantry	[0–5]	[5–10]	[5–10]
Total	**[✄]**	**[✄]**	**[✄]**

Source: CMA analysis of data provided by the major suppliers.
*Please refer to footnote 47 in the main report.
Note: [✄]

33. The Parties were the second and fourth largest supplier with a share of, respectively, [10–20]% (Pork Farms) and [10–20]% (Kerry), mainly as a result of their position in the own-label segment. The Parties' share in the branded segment is limited (Pork Farms [0–5]% and Kerry [0–5]%), and substantially lower than other suppliers, in particular Pukka Pies and Higgidy.

34. Samworth is the [✄] supplier in the segment, predominantly operating in the own-label segment. Samworth serves most of the large multiples. Its biggest customer in the segment is [✄]. Other suppliers include the following:

(a) Cranswick has a share of [5–10]% in the own-label segment and mainly manufactures small-volume niche products (its major customer is [✄]).

(b) Farmers Boy is Morrisons' in-house manufacturer and does not supply other Grocery retailers (and it told us that it would not consider doing so).

(c) Higgidy has a significant presence in the branded segment but a small share in the own-label segment (with [✄] as the largest customer).

[11] According to the parties' estimates based on Kantar and Nielsen data.

(d) Peter's has a share of approximately [5–10]%. Peter's is present in both the own-label and branded segments. Its major customers are [✂].

(e) Pukka Pies operates exclusively in the branded segment where it has the largest share of sales ([60–70]%). Its major customers are [✂].

(f) Welsh Pantry is active in both segments but it produces predominantly own-label (with a share of [5–10]%). [✂] are Welsh Pantry's major customers and it also sells [✂] volume to other Grocery retailers, [✂].

Sausage rolls

35. Table 5 shows the share of sausage rolls sales (in 2014) for the major suppliers that operate in this category.

Table 5: Sausage rolls sales, 2014*

%

Manufacturer	*Branded*	*Own-label*	*Total*
Cranswick	[0–5]	[5–10]	[5–10]
Farmers Boy	[0–5]	[5–10]	[0–5]
Higgidy	[0–5]	[0–5]	[0–5]
Kerry	[30–40]	[30–40]	[30–40]
Peter's	[10–20]	[5–10]	[10–20]
Pork Farms	[5–10]	[20–30]	[10–20]
Samworth	[40–50]	[10–20]	[20–30]
Stobart's	[0–5]	[0–5]	[0–5]
Welsh Pantry	[0–5]	[0–5]	[0–5]
Total	**[✂]**	**[✂]**	**[✂]**

Source: CMA analysis of data provided by the major suppliers.
*Please refer to footnote 47 in the main report.
Note: [✂]

36. The Parties have shares of [30–40]% (Kerry) and [10–20]% (Pork Farms).

37. The Parties' competitors in the sausage rolls category are largely the same as those operating in hot pies (with the exception of Pukka Pies). However, their relative share is different. Welsh Pantry and, in particular, Samworth are significantly smaller than in hot pies while Peter's has a [✂] higher share (especially in the branded segment).

38. Samworth and Peter's have respectively a ([20–30]%) and ([10–20]%) share of supply in the category. Samworth's main customers [✂]. Peter's makes most of its sales to [✂].

39. The only other manufacturer with a significant share in the own-label segment is Cranswick ([5–10]%).

40. Other suppliers operating in the category include Higgidy, Welsh Pantry and Stobart's, each of them with a share below or equal to [0–5]%. As indicated

above, Farmers Boy is Morrisons' in-house manufacturer and does not supply other Grocery retailers.

Pasties and slices

41. Table 6 shows the share of pasties and slices sales (in 2014) for the major suppliers who operate in this category. This category, unlike cold pies, hot pies and sausage rolls, is predominantly driven by branded sales.

Table 6: Pasties and slices sales, 2014*

Manufacturer	*Branded*	*Own-label*	*Total*
Cranswick	[0–5]	[0–5]	[0–5]
Farmers Boy	[0–5]	[0–5]	[0–5]
Higgidy	[0–5]	[0–5]	[0–5]
Kerry	[10–20]	[10–20]	[10–20]
Peter's	[5–10]	[10–20]	[10–20]
Pork Farms	[0–5]	[0–5]	[0–5]
Samworth	[70–80]	[50–60]	[60–70]
Welsh Pantry	[0–5]	[0–5]	[0–5]
Total	**[✄]**	**[✄]**	**[✄]**

Source: CMA analysis of data provided by the major suppliers.
*Please refer to footnote 47 in the main report.
Note: [✄]

42. The Parties' overlap is limited in this category. While Kerry has a share of [10–20]% and supplies some of the largest retailers, Pork Farms' share is [0–5]% and mainly supplies the convenience segment (it also sells minor volumes of own-label products to [✄]). Looking at the own-label segment where the Parties' combined share is the largest, both Parties supply [✄] but [✄] are larger suppliers of [✄] than the Parties.

43. Samworth is the largest supplier in the category with a strong presence in both segments, particularly in the branded segment. Peter's has a share [✄] ([10–20]%). Pork Farms has a small share of [0–5]%. Other suppliers include Welsh Pantry, Cranswick and Higgidy, each with a share equal to or lower than [0–5]%. According to the data submitted by the Parties, there is also a fringe of small suppliers (Wrights, Hollands, Bells) each with a share below [0–5]%.

Competition on branded products

44. As discussed in paragraph 12, the convenience segment is largely dominated by branded products with only a limited number of customers stocking own-label products. By contrast, in the grocery segment branded products account for a minority of the total sales.

45. Most third parties generally consider that branded and own-label products are largely substitutable from a consumer perspective, and that brands are not important in this sector. Some customers, however, suggested that brands

may be relatively more important in some categories,[12] for example: Co-op,[13] Tesco,[14] NISA[15] and Asda[16] told us that brands were important in slices and pasties; Asda indicated that brands were important in hot pies; and NISA indicated that brands were important in pork pies.

46. We considered other evidence regarding the relevance of brands in this industry.

(a) First, consumer research conducted by the Parthenon Group as part of a document prepared in the context of the proposed sale of the Pork Farms business found that consumers tend to attach relatively little weight to brands in the CSP industry (only 24% of respondents said that brand was important when they purchased a CSP product).[17] Factors such as price and quality were more commonly cited by respondents as important in driving their choice.

(b) Second, the evidence we received indicates that retailers purchase branded products through tenders or by approaching multiple suppliers, they concentrate their supply on a limited number of brands and they often switched between suppliers when they put up the branded contracts for tender (see Appendix H).

(c) Third, advertising spend in the industry appears to be rather limited, in particular when suppliers already have a brand. Pork Farms' total budget for marketing ([✂]) was around £[✂] in 2014. Kerry said that it last advertised the Wall's pastry brand at a national level in the period 2010 to 2012 (with a total spend of about £[✂] in 2012). [✂] spend approximately [✂] on advertising.

47. Based on the sales submitted by the larger suppliers, we identified more than 150 different customers purchasing CSP branded products.[18] In 2014, the average total annual spend per customer was around £1.4 million, with the Grocery retailers accounting for approximately 75% of the total sales. We

---

[12] [✂]
[13] Co-op said that 'the only area where brands are important are pasties and slices. Pies has an element of brand strength on a regional basis eg Bells'.
[14] Tesco told us that there are some stronger brands in slices and pasties that are more recognisable by customer.
[15] NISA told us that 'brands are important only in certain areas, eg Ginsters Cornish pasty and Pork Farms pork pie'.
[16] Asda told us that 'branded products of Hot Pies and Pasties and Slices play a more pivotal role than for example Scotch Eggs, Sausage Rolls, Pork Pie and Quiche especially if they offer a point of difference to the consumer e.g. with flavour profiles'.
[17] This holds true for each CSP category. The proportion of consumers who considered brands to be an important factor in their choice was 30%, 25%, 23% and 21% for respectively cold pies, sausage rolls, hot pies and quiche.
[18] In one or more of the categories where the Parties overlapped before the merger (see paragraph 2.2).

noted that the demand for branded products is substantially more fragmented than the own-label demand (see paragraph 53 below). Production volumes are therefore more limited and capacity requirements are typically less onerous than for the production of own-label products.

48. We also noted that retailers tend to concentrate their branded purchases on one brand. For example, in cold pies the largest brand accounted for, on average, almost 70% of the total branded purchases for the Grocery retailers.[19] Of the customers other than the Grocery retailers, 53% appeared to stock one brand,[20] 29% to stock two brands and 18% to stock more than two. In sausage rolls, the largest brand accounted for, on average, 77% of the total branded purchases for the Grocery retailers. Of the customers other than the ten largest retailers, 56% stocked one brand, 23% stocked two brands and 21% stocked more than two.

49. We have also been told that there are regional suppliers that have a relatively strong brand at local level, and may represent good alternatives to the national brands in those areas. For example, Tesco sources branded products from a number of local producers, especially in hot pies where it sources branded products from 18 different local suppliers. Other retailers (eg Co-op, Iceland and Morrisons) told us that they sourced from local suppliers (such as, for instance, [✂]). One customer (Co-op) told us that sometimes it was more attracted to lesser-known brands with personality and provenance rather than the major standard-tier brands.

Competition on own-label products

50. Own-label production is typically characterised by larger volumes. While customers may stock a relatively wide range of SKUs, sales tend to be concentrated around a few large-volume SKUs. For example, Figure 1 below shows that Tesco has 13 (out of 96) sausage roll SKUs with sales in excess of £500,000, which together accounted for [✂]% of Tesco's own-label sausage roll purchases (in 2014). The highest selling SKU has sales of over £[✂] and it accounted for [✂]% of Tesco's total purchase of own-label sausage rolls (in 2014). Although to a different extent, this applies to all categories.

Figure 1: [✂]

[✂]

Source: CMA analysis of data provided by the major suppliers.

[19] With the exception of Aldi and M&S which only sell own-label products.
[20] According to the data we received from the major suppliers.

51. Based on the transaction data provided by the largest suppliers we estimated that Grocery retailers account for more than 95% of the own-label sales.

52. Significant capacity is required to operate in the own-label category for the larger retailers, especially when large-volume products are involved. Large Grocery retailers have mentioned available capacity as a key factor when considering their suppliers. For example, Tesco said that to establish which supplier would be a credible alternative to its current suppliers, one of the factors that it would need to know was 'what they produced in capacities and what their factory standards were like'. A number of competitors ([✄]) have also indicated capacity[21] as a possible limitation in their ability to compete for own-label contracts with large Grocery retailers.

53. The demand for own-label products is more concentrated than for branded products (see paragraph 47). Around 60 different customers purchased own-label CSP products.[22] In 2014, the average spend by customer was around £7 million (five times larger than the average spend for branded products).

54. We have also been told that large-volume production may require significant automation to compete effectively (although there is a great degree of variability in the extent of manual intervention). For example, Cranswick told us that its production was labour-intensive with relatively little automation, thereby making it unsuitable for large-scale production. Pukka Pies told us that [✄].

Third parties' views on pre-merger competition between Pork Farms and Kerry CSP and other suppliers

55. In relation to branded products the majority of the customers ([✄]) shared the view that the Parties' brands were not 'must-stock' brands. For example, [✄]. Similarly, [✄] said that it did not consider any of the Parties' brand as 'must stock' in the sense that it was essential to have them on shelf for consumers. We have received little evidence that the Parties' brands competed more closely than any other brands before the merger. For example, Morrisons said that neither party was 'outstanding' in relation to the relevance of their brands. [✄] told us that from a branded perspective the Parties did not have a competitive advantage over any other suppliers. Only one customer (Iceland) said that the Parties had a competitive advantage over the rivals (with the

[21] [✄]
[22] In one or more of the categories where the Parties overlapped before the merger.

exception of Ginsters) as they both had nationally recognised brands in Wall's and Pork Farms.

56. The views on the own-label segment were mixed and pointed to different extents of competition depending on the category. For example, Morrisons said that the Parties competed mainly in relation to hot pies, sausage rolls and pasties and slices but it did not mention cold pies. Similarly Co-op said that there was little overlap between the Parties on cold pies, but some competition on sausage rolls. Asda said that the Parties competed most closely on hot pies, pork pies and sausage rolls.

57. When asked about whether Pork Farms and Kerry had any competitive advantage over the rivals, retailers have also expressed mixed views. Lidl said that the Parties did not have any advantage either on quality/price or branded/own-label products. One Convenience retailer (NISA) said that due to their size the Parties enjoyed larger economies of scale, but they were less flexible than smaller suppliers. Similarly [✄] pointed to the larger economies of scale that the Parties achieved compared with other suppliers.

58. Some third parties also indicated that the extent of competition between the Parties (and between the Parties and other competitors) varied depending on the quality within the own-label segment. For example, M&S told us that the Parties mainly competed (in the own label segment) within the 'value' and 'standard' segments of the sausage rolls category. Kerry was a significant player in the supply of 'value' sausage rolls and Pork Farms supplied both value and more premium product ranges of sausage rolls. [✄]. [✄], Samworth said that in hot pies there was little direct competition with Pork Farms and Kerry as Samworth primarily operated in the premium tier while the Parties primarily operated in the standard tier.

Additional examples of switching provided by the Parties

59. The Parties submitted a number of examples of business lost to competitors in recent years.

60. In cold pies, Pork Farms mentioned two examples of lost business:

(a) [✄]

(b) [✄]

61. In hot pies, the Parties mentioned additional examples of lost business:

(a) [✄]

(b) [✄]

(c) [✄]

62. In sausage rolls, the Parties mentioned four additional examples of business lost:

(a) [✄]

(b) [✄]

(c) [✄]

(d) [✄]

Third party views on switching costs

63. We gathered views from third parties on the costs and risks involved in switching supplier of CSP products.

(a) a number of customers (Tesco, McColls, Nisa) said that provided that there were a sufficient number of suppliers in the market, switching did not raise significant problems. For example, Tesco [✄].

(b) Iceland told us that there was always a risk in switching because of quality and service levels considerations. It mentioned that when it switched some of its own-label requirements to Welsh Pantry it encountered quality issues for over four months.

(c) Lidl said that when changing suppliers for own-label products, additional considerations in comparison with branded products could include extra costs incurred for quality assurance and packaging development, and an assessment of production capacity.

(d) Morrisons told us that switching supplier for products which had a PGI or PDO status (Melton Mowbray pork pie or Cornish pasties) was more difficult because of the manufacturing and geographical constraints.

(e) Sainsbury's said that any change had a cost to its business. However, in relation to branded products it said that as the Parties were not generally considered 'must-stock' products, Sainsbury's could in principle switch to an alternative supplier.

(f) Samworth told us that switching involved costs in terms of developers' time: 'there is quite a lengthy process clearly of trying to match products and get them to be acceptable … [customers] are busy people. And a big

range in terms of artwork [in terms of packaging design], it may well include art and design if you are moving across as well.'

(g) Asda told us that there is always a risk in changing suppliers as this could impact on a number of factors including quality and consistency of product, sustainability of the new supplier (in particular whether the supplier has the capacity and capability to service the Asda contract), development of a long term plan, etc. However, it also said that if a supplier could meet Asda's technical standards and any other appropriate criteria, it may be eligible to bid for Asda contracts.

Buyer power

64. This section sets out some additional evidence on the negotiating power of retailers vis-à-vis CSP suppliers. In particular:

(a) we report some information submitted by the Parties on outcomes of negotiations with retailers that took place in recent years;

(b) we review retailers' views on their typical behaviour when faced with a supplier's request to increase price; and

(c) we discuss the potential strategies that customers may adopt to play suppliers off.

Examples of price negotiations' outcome: information submitted by the Parties

65. The Parties submitted some examples of Pork Farms' attempts to increase the price of various CSP categories in the last three years in order to pass on input cost inflation. Table 7 shows the percentage of achieved price increase compared with the initial request made by Pork Farms. This ranges from a minimum of [✂]% ([✂]) to more than [✂]% ([✂]) suggesting that the extent to which Pork Farms had been successful in increasing prices varied significantly by customer and product category. However, it is unclear to what extent Pork Farms had to absorb any cost inflation (ie to what extent the initial request only reflected the cost increase of input).

Table 7: Percentage of achieved price increase with respect to the initial request

			%
	Cold pies	*Sausage rolls*	*Hot pies*
Asda	[✂]	[✂]	[✂]
M&S	[✂]	[✂]	[✂]
Sainsbury's	[✂]	[✂]	[✂]
Co-op	[✂]	[✂]	[✂]

Source: Parties' initial submission.
*[✂]

66. The parties also provided specific examples where Pork Farms' attempts to increase prices provoked customers to issue a tender. [✂]

(a) [✂]

(b) [✂]

67. Additional examples included instances of customers threatening Pork Farms to move some or all of their volume to a rival CSP supplier. These examples covered hot pies, cold pies and sausage rolls business.

68. On the other hand, Kerry mentioned a case when it experienced a significant cost increase in raw materials and it said it was ultimately able to fully recover the cost by negotiating an increase in price with retailers although 'the recovery came late' because retailers delayed the implementation of such increase.

Retailers' behaviour when faced with requests for price increases

69. Customers told us that in general when they are faced with a request to increase price they would first try to understand whether the increase is actually justified by a rise in the input costs. If the request appears to be unjustified and the supplier does not retract the request, most of the customers told us that they would consider delisting and switching to alternative suppliers. For example:

(a) Sainsbury's told us that if it did not believe that a cost increase was justified it would consider switching to an alternative supplier;

(b) M&S told us that suppliers understood that an unwarranted major increase could, in certain circumstances, ultimately result in a review of suppliers and they believed that this was likely to exert a restraining influence on suppliers. If the price rise was caused by general industry-wide factors outside the supplier's control, like a general increase in pork prices, there would be no such restraining influence; and

(c) Iceland said that if a supplier did not retract the increase, it would invite other manufacturers to quote for the business.

Potential strategies that customers may adopt to apply pressure on suppliers

70. A condition for buyer power is the ability of customers to substitute away from a supplier and find alternative sources. The existence of buyer power before the merger is not a sufficient condition to conclude that the Parties will be constrained from imposing price increase post-merger. As the merger reduces the customers' available choices, it may affect their negotiating position with the Parties.

71. While some suppliers are currently small in scale and may find it difficult to meet the entire (or most of the) own-label demand of large Grocery retailers, retailers have a number of alternative strategies to mitigate any price effects of the merger.

72. First, customers may consider splitting contracts between different suppliers within a category and switch part of their orders to alternative suppliers as a disciplining threat on current suppliers. While we noted that customers have a tendency to concentrate the bulk of their demand within a category on a single supplier, they often source from more than one supplier.

73. Our analysis indicates that, although generally for small volumes, customers have modified their multi-sourcing policy over time by sourcing from new supplier(s) or stopping purchasing from existing ones (see Annex 1). This suggests that switching supplier, even if only for part of the customer's range, remains a possibility. Peter's told us that even if large retailers may find it difficult to find an alternative supplier capable of absorbing all their requirements in a category, they may nonetheless (threaten to) switch a portion of their demand [✂]. [✂]

74. Second, despite the lack of episodes of deliberate sponsored entry in the past (ie either direct support for entry or an assurance of business being placed for a longer period than in standard agreements), there are some indications that retailers have offered a greater degree of certainty of orders to suppliers in some cases. In this respect we noted that some retailers indicated they would be willing to encourage entry or expansion under certain circumstances.[23]

75. Third, the Parties' range of CSP products includes categories where the Parties' position appears strong and others where it appears less strong.

[23] See Appendix J, paragraph 102.

Large customers could credibly threaten to limit purchases of the latter in order to increase their leverage when negotiating on the former. This form of negotiation does not appear very common in the CSP market[24] and retailers told us that negotiations are typically held on a product-by-product basis. Nevertheless, the option for such behaviour would be open in future and may represent an effective lever that customers may use to discipline suppliers attempting to increase prices in a given category.

76. Fourth, the CSP market is largely driven by promotions and retailers can, to some extent, drive volume from one product to another through the use of promotions. For example, One retailer ([✂]) told us that 'the CSP product area is promotionally driven so our promotional plans will affect consumer switching between products, although there will be some customers who remain brand loyal regardless of promotions.' [✂]. Morrisons told us that its selling strategy [✂] affects the extent of consumer switching between categories. M&S also said that promotional strategy and pricing could drive switching between product categories and labels (though 'this is tempered by the fact that CSP consumers tend to be loyal to a particular product category and not readily willing to switch'). The strategic use of promotions, especially if in conjunction with one or more of the other tactics described above, may be an additional lever that customers can use to discipline a supplier with a strong position in a given category/segment of the industry.

77. We also considered that retailers, and in particular large National retailers, are sophisticated buyers. The evidence we collected revealed that retailers usually have good visibility of the evolution of the raw material costs and some customers regularly track commodity costs. For example, [✂]. [✂]

78. A number of customers told us that if a supplier proposed a price increase they would require a thorough explanation of the reasons for such an increase. For example, Food Service Centre told us that it 'would ask for industry data to back this up'. [✂]. Co-op told us that when it has a contract with a supplier it typically has 'an agreement around commodity movements' which would trigger a transparent conversation on costs with the supplier.

79. We have received limited information on the negotiations between the Parties and retailers that occurred following the transaction. However, some evidence suggests that retailers have managed to maintain some negotiating power, [✂].

[24] The only example we have been told refers to [✂] (see paragraph 7.43).

80. First, both Parties have lost some significant contracts post-merger. [✂]:[25]

(a) [✂][26]

(b) [✂]

(c) [✂]

81. Second, [✂].

82. Third, [✂].

[25] [✂]
[26] [✂]

Multi-sourcing of own-label products

Introduction

1. This annex sets out additional findings in relation to the extent to which retailers source their own-label CSP requirements from multiple suppliers. We also considered whether there is evidence of retailers changing their multi-sourcing practices over time (increasing/reducing the number of suppliers), comparing 2013 data with 2014 data.[27]

2. Our analysis focuses on the multi-sourcing practices of the Grocery retailers, namely: Asda, Tesco, Sainsbury's, Morrisons, Waitrose, Co-op, M&S, Aldi, Lidl and Iceland.[28]

3. The annex is structured as follows:

   (a) First, we analysed the extent of multi-sourcing for each category separately taking into account all the Grocery retailers.

   (b) Second, we looked at the extent of multi-sourcing by quality tier within each category by focusing on the Big 4 retailers[29] which have own-label brands targeting different quality tiers.

Multi-sourcing by category

Cold pies

4. Figure 1 shows the own-label cold pies suppliers (and their relative share of supply) for the Grocery retailers.

---

[27] Our data is based on the sales of major suppliers and as such it may not fully capture all retailers' purchases (see footnote 47). We also note that retailers and suppliers may account for sales in different ways (eg. they may allocate overrider discounts across products and categories differently). As a consequence, in some cases there may be some small discrepancies between our estimates of the shares of supply (derived from our data set) and the shares submitted by retailers.
[28] The sales related to the convenience chains of these retailers (eg Tesco's One Stop) have been considered as part of the overall sales data of the corresponding retailer(s).
[29] We noted that the Big 4 retailers are not necessarily the largest retailers in terms of CSP retail sales (see paragraph 2.11).

Figure 1: Share of supply of own-label cold pies, by retailer (based on 2014 purchases)[30,31,32]

[✂]

Source: CMA analysis of transaction data submitted by the major CSP suppliers.

5. Some retailers sourced from two suppliers while others (eg, [✂]) sourced from a single supplier. Even when they multi-sourced, retailers (eg, [✂]) tended to concentrate their purchase on a single supplier ([✂]%), [✂].

6. Compared with 2013, only one retailer ([✂]) appeared to have somewhat modified its multi-sourcing practices by moving from three (in 2013) to two suppliers (in 2014).[33] [✂]

Hot pies

7. Figure 2 shows the own-label hot pies suppliers (and their relative share of supply) for the Grocery retailers.

Figure 2: Share of supply of own-label hot pies, by retailer (based on 2014 purchases)[34,35]

[✂]

Source: CMA analysis of transaction data submitted by the major suppliers. Note that 0% does not necessarily indicate no sales, but shares of supply lower than 0.5%. In particular, [✂].

8. The extent to which retailers multi-source varies considerably by customer, ranging from a single supplier ([✂]) to four different suppliers ([✂]). As with cold pies but to a lesser extent, even when they multi-sourced, retailers typically concentrated most of their demand ([✂]%) on a single supplier.

9. We noted the following changes in multi-sourcing practices in 2013/14:

   (a) [✂]

   (b) [✂]

   (c) [✂][36] [✂]

[30] [✂]
[31] [✂]
[32] [✂]
[33] [✂]
[34] [✂]
[35] [✂]
[36] [✂]

Sausage rolls

10. Figure 3 shows the own-label sausage rolls suppliers (and their relative share of supply) for the Grocery retailers.

Figure 3: Share of supply of own-label sausage rolls, by retailer (based on 2014 purchases)[37,38]

[✂]

Source: CMA analysis of transaction data submitted by the major suppliers. Note that 0% does not necessarily indicate no sales, but shares of supply lower than 0.5%. In particular, [✂].

11. Some retailers had one supplier ([✂]) while other retailers ([✂]) sourced from two or more suppliers, [✂]. [✂] The extent to which retailers concentrated most of their demand with a single supplier appears to be higher than in hot pies and pasties and slices.

12. We noted the following changes in multi-sourcing practices in 2013/14:

    (a) [✂][39] [✂][40]

    (b) [✂]

Pasties and slices

13. Figure 4 shows the own-label pasties and slices suppliers (and their relative share of supply) for the Grocery retailers.

Figure 4: Share of supply of own-label pasties and slices, by retailer (based on 2014 purchases)[41,42,43]

[✂]

Source: CMA analysis of transaction data submitted by the major suppliers. Note that 0% does not necessarily indicate no sales, but shares of supply lower than 0.5%. In particular, [✂].[44]

14. Most retailers multi-sourced their own-label pasties and slices requirements, with the number of suppliers generally varying from two to five. While typically one supplier accounted for more than half of a customer's purchases, retailers tended to concentrate their demand to a lesser extent than in sausage rolls. We noted that, for instance, [✂].

---

[37] [✂]
[38] [✂]
[39] [✂]
[40] [✂]
[41] [✂]
[42] [✂]
[43] [✂]
[44] [✂]

15. We noted the following changes in multi-sourcing practices in 2013/2014: [✂].

Multi-sourcing within quality tiers

16. The Big 4 retailers adopt different own-labels to target different quality tiers. The distinction is less clear for the National retailers, which do not always have multiple own-labels.

17. We analysed the relative share of suppliers within the various tiers for the Big 4 retailers.[45]

Cold pies

18. Figure 5 below the Big 4 retailers' suppliers (and their relative share of supply) within each tier for own-label cold pies.

Figure 5: Share of supply of own-label cold pies, by quality tier and retailer (based on 2014 purchases)[46]

[✂]

Source: CMA analysis of transaction data submitted by the major suppliers. Note that 0% does not necessarily indicate no sales, but shares of supply lower than 0.5%. In particular, [✂].
Note: Morrisons does not commercialise cold pies under an own-label premium brand.

19. [✂]

20. We noted the following changes in multi-sourcing practices in 2013/14:

    (a) [✂]

    (b) [✂][47]

Hot pies

21. Figure 6 shows the Big 4 retailers' suppliers (and their relative share of supply) within each tier for own-label hot pies.

[45] For the scope of this analysis we considered
- Own-label premium brands as: Extra Special (Asda), Ultimate (Asda), Sainsbury's (Ready to Bake), Taste the Difference (Sainsbury's) and Tesco(Finest);
- Own-label standard brands as :Chosen by You (Asda), M (Morrison's), By Sainsbury's (Sainsbury's) and Tesco (Tesco); and
- Own-label value brands as: Everyday Low Price (Asda), Smartprice (Asda), M Savers (Morrisons), Value (Morrisons), Basics (Sainsbury's), Value (Tesco) and Everyday Value (Tesco).

[46] [✂]
[47] [✂]

Figure 6: Share of supply of own-label hot pies, by quality tier and retailer (based on 2014 purchases)

[✂]

Source: CMA analysis of transaction data submitted by the major suppliers. Note that 0% does not necessarily indicate no sales, but shares of supply lower than 0.5%. [✂]
Note: [✂]

22. We noted that:

    (a) [✂]

    (b) [✂]

    (c) [✂]

23. We noted the following changes in multi-sourcing practices in 2013/14:

    (a) [✂]

    (b) [✂]

Sausage rolls

24. Figure 7 shows the Big 4 retailers' suppliers (and their relative share of supply) within each tier for own-label sausage rolls.

Figure 7: Share of supply of own-label sausage rolls, by quality tier and retailer* (based on 2014 purchases) [48]

[✂]

Source: CMA analysis of transaction data submitted by the major suppliers. Note that 0% does not necessarily indicate no sales, but shares of supply lower than 0.5%. In particular, [✂].
*Morrisons does not commercialise sausage rolls under an own-label premium brand.

25. We noted that:

    (a) [✂]

    (b) [✂]

    (c) [✂]

26. We noted the following changes in multi-sourcing practices in 2013/14:

    (a) [✂]

    (b) [✂]

[48] [✂]

Pasties and slices

27. Figure 8 shows the Big 4 retailers' suppliers (and their relative share of supply) within each tier for own-label pasties and slices.

Figure 8: Share of supply of own-label pasties and slices, by quality tier and retailer* (based on 2014 purchases)

[✄]

Source: CMA analysis of transaction data submitted by the major suppliers. Note that 0% does not necessarily indicate no sales, but shares of supply lower than 0.5%. In particular, [✄].
*[✄]

28. We noted that:

    (a) [✄]

    (b) [✄]

    (c) [✄]

    [✄]

    (d) [✄]

    (e) [✄]

Tender data

Introduction

1. This appendix sets out our analysis of a sample of tender/negotiation data for CSP contracts gathered during our investigation.

2. The appendix is structured as follows:

   - First, we provide a description of the data.
   - Second, we discuss some general statistics about the sample of tenders for which we have information.
   - Third, we look at the frequency in which the Parties competed directly for CSP contracts.
   - Fourth, we analyse the extent to which customers switched between the Parties and between the Parties and other suppliers.
   - Finally, we present our findings.

Description of the data

3. At phase 1, the Parties provided a sample of tender data. The data set submitted by the Parties ('original data set') includes information on a number of negotiations of which the Parties were aware (37 in total). As discussed in Appendix G, the nature of the negotiations in the market varies considerably by customer. Customers adopt different approaches and different degrees of formality, which range from formal tenders to informal negotiations/range reviews. In what follows, for the sake of simplicity, we will refer to all the negotiation episodes as tenders.

4. The Parties told us that suppliers often did not know the identity of rival bidders and that the data set was compiled on the basis of each party's knowledge and/or belief of their own bidding position.

5. The original data set contains details on, among other things, the date of the tender; the customer; the product category (eg sausage rolls) and the label (own-label vs brand); the identity of the incumbent; the suppliers that participated in the tender (ie the suppliers that were invited to bid/negotiate for the contract); the winner of the tender; and the annual value of the contract (£ million) for each tender.

6. Given that we have not found any overlap between the Parties in quiches and scotch eggs, we have not considered tenders that related exclusively to these two categories (six tenders).

7. We updated the data set using information submitted by third parties (customers and competitors). We received additional evidence on 9 out of the 31 tenders which we used to check the information originally submitted by the Parties. We note that, in general, the original data appears to be reasonably complete and accurate although it sometimes failed to include information or contained inaccurate information (eg in relation to the participating suppliers or the value of the contract).

8. We were also able to extend the original data set by including information on 29 additional tenders. Overall, our data set contains details on 60 tenders ('expanded data set').

9. There are some limitations in the data we used. First, although we have tried to complete/extend the data set using information received from third parties, we acknowledge that the data is not complete and might contain inaccurate information regarding some tenders. Second, while the data covers a significant number of tenders/negotiations, we were not able to establish the extent to which the sample is representative of the market as a whole. Therefore, we have been cautious in drawing conclusions from this analysis.

General statistics on the sample of tenders

10. The expanded data set includes tenders that occurred mostly in the last five years (2010 to 2015),[1] two of which were going on at the time the data was submitted (one from [✂] and one from [✂]). The data set covers tenders from 19 different customers and includes contracts which, in aggregate terms, were worth approximately £220 million a year.[2]

11. Of the 60 tenders in the data set, the majority were for own-label products (34). Twenty tenders were for branded products, three covered both types of label and three were unknown. For a number of the own-label tenders (29) and for two of the tenders that included both own-label and branded products, we also have information on the quality tiers of the own-label products. The majority was for standard quality only (21), three tenders were for both standard and premium quality products, and three tenders were for premium

[1] Information on the date of tender and date of start of contract was missing for two tenders.
[2] We have no information on the annual contract value for eight tenders, therefore this figure represents a lower-bound of the total annual value of the contracts covered by the data set.

only products. There were also two tenders covering value/economy products (one in conjunction with standard quality).

12. Table 1 summarises the number of tenders by category. Note that the total does not sum up to 60 as some tenders were for more than one CSP category.

Table 1: Number of tenders by category in the expanded data set

CSP category	*No. of tenders*
Rolls	19
Cold pie	19
Hot pie	18
Pasties & slices	16
CSP (unknown category)	6
Total	**78**

Source: CMA analysis, based on data from the Parties and third parties.

13. The data set includes 19 tenders related to contracts for sausage rolls, the same number for cold pies, 18 for hot pies and 16 for pasties and slices. For six tenders we have no information on the specific CSP category(ies) covered by the contracts.

14. Table 2 provides information on the number of tenders by CSP category broken down by customer. [✂] and [✂] were the most largely represented, with respectively [✂] and [✂] tenders, followed by [✂]. In terms of the value of the contracts put up for tender, [✂].

Table 2: Number of tenders by category in the expanded data set*

Customers	*Hot pie*	*Pasties & slices*	*Rolls*	*Cold pie*	*CSP*	*Total*	*Annual contract value (£m)*	*Share of contract value %*
[✂]	2	3	3	2	2	12	[✂]	[✂]
[✂]	3	1	4	-	1	9	[✂]	[✂]
[✂]	2	3	2	1	-	8	[✂]	[✂]
[✂]	1	1	2	3	-	7	[✂]	[✂]
[✂]	1	1	-	4	-	6	[✂]	[✂]
[✂]	2	2	2	-	-	6	[✂]	[✂]
[✂]	3	1	1	-	-	5	[✂]	[✂]
[✂]	1	1	-	2	-	4	[✂]	[✂]
[✂]	1	1	1	-	-	3	[✂]	[✂]
[✂]	-	1	1	1	-	3	[✂]	[✂]
[✂]	-	1	1	1	-	3	[✂]	[✂]
[✂]	1	-	-	1	-	2	[✂]	[✂]
[✂]	-	-	-	-	2	2	[✂]	[✂]
[✂]	1	-	-	1	-	2	[✂]	[✂]
[✂]	-	-	1	1	-	2	[✂]	[✂]
[✂]	-	-	-	1	-	1	[✂]	[✂]
[✂]	-	-	-	1	-	1	[✂]	[✂]
[✂]	-	-	1	-	-	1	[✂]	[✂]
[✂]	-	-	-	-	1	1	[✂]	[✂]
Total	**18**	**16**	**19**	**19**	**6**	**78**	**220.5**	**100**

Source: CMA analysis, based on data from the Parties and third parties.
*Note that the data we have is incomplete regarding the annual contract value. For example, in the case of [✂] tenders, we do not hold information on the contract value. The share of the value related to these tenders is shown as zero in the table, although that was not the case in reality.

Extent to which the Parties competed in the same tender

15. Of the 60 tenders of the expanded data set, we have complete information on the identity of suppliers participating in the tender for 47 tenders. Our analysis below (paragraphs 16 to 22) focuses on these 47 tenders.

16. Kerry participated in 34 tenders and Pork Farms in 18 tenders. The Parties bid against each other in 11 tenders,[3] of which nine were for own-label products and two for branded products. Of the own-label tenders, five were for the standard tier (of which three also included premium tier). We do not have information on the quality tier for four tenders. The majority (7 out of 11) of the tenders in which both Parties participated were from Grocery retailers ([✂][4] [✂]). Table 3 summarises the information on the tenders in which both Parties took part.

Table 3: Tenders in which the main Parties bid against each other*

Start date of contract	*Customer*	*Products (OL-tier/branded)*	*Incumbent(s)*	*Suppliers participating†*	*Winner*	*Annual value of the contract (£m)*
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis, based on data from the Parties and third parties.
*For tenders including both a category in which we are interested and either eggs or quiche, we considered the aggregate annual value of the contract as we do not have information on the value associated with each category.
†The suppliers included in the 'suppliers participating' column are all the suppliers that participated at the start of negotiations and might not reflect actual competition during the tender.
Note: OL = own-label.

17. In all these 11 tenders, except in one case ([✂][5] [✂]), suppliers other than the Parties also participated in the tender. The Parties competed most often with [✂]. Pork Farms won on seven occasions – two of which were won jointly with another supplier ([✂]) – and Kerry won on three occasions – one

[3] Of which eight were in the original data set.
[4] [✂]
[5] We have no information on the product put up for tender in the [✂] tender.

of which was won jointly with another supplier ([✂]). There were no cases of the Parties winning a tender together.

18. The Parties told us that the limited number of tenders in which they competed directly suggested that competition between Pork Farms and Kerry for the same business was limited, and that in any case a range of alternative suppliers also competed for that business.

19. We note, however, that the Parties competed for some of the largest retailers (eg [✂]). The tenders for which the Parties competed head to head account for [20–40]% of the total annual value of the contracts in the sample (of 47 tenders totalling £210.9 million).

20. We do not have the information about the bids/offers made by the participating suppliers nor indication of how the received offers were ultimately ranked by customers (eg who was the runner up). The fact that suppliers were invited to participate does not necessarily imply that they were all considered an equally valid alternative. [✂][6] [✂][7] [✂].[8] [✂]

Analysis by category

21. The Parties competed head to head [✂] hot pies contracts ([✂] tenders), [✂] sausage rolls ([✂]), pasties and slices ([✂]) and cold pies ([✂]).[9] The total value associated with the contracts where the Parties competed directly was the highest in sausage rolls (£[✂]), followed by hot pies (£[✂]).

Table 4: Competitors in tenders in which Parties competed against each other and value of tenders split by category

CSP category	*Suppliers participating (other than Pork Farms and Kerry)*	*No. of tenders*	*Annual contract value (£m)**
Hot pies	[✂]	[✂]	[✂]
Cold pies	[✂]	[✂]	[✂]
Sausage rolls	[✂]	[✂]	[✂]
Pasties & slices	[✂]	[✂]	[✂]
CSPs (not specific)	[✂]	[✂]	[✂]

Source: CMA analysis, based on data from the Parties and third parties.
*Note that for tenders which included more than one CSP category we only have information on the total value of the contract (no breakdown by category). The figures in this column report the total value associated with the contract and as such they may overstate the value of the sales relative to a specific category.

22. We looked at which competitors the Parties faced in those tenders:

[6] [✂]
[7] [✂]
[8] [✂]
[9] The CSP category was not specified for two tenders.

(a) In hot pies, the Parties competed most often with [✄] were also present in, respectively, [✄] and [✄] tenders.

(b) In cold pies, the Parties competed [✄] with [✄].

(c) In sausage rolls, [✄] participated in [✄] tenders where the Parties competed. [✄] participated in [✄] tenders and [✄] participated in [✄] tenders.

(d) In pasties and slices, [✄] participated in [✄] tenders where the Parties competed. [✄] also took part in [✄] of the tenders.

[✄] tenders

23. We have received information on [✄] tenders[10] carried out by [✄].[11] We have analysed this data separately as including it in the original data set would disproportionally represent [✄] tenders compared to other customers'. [✄][12]

24. [✄]

25. [✄]

26. [✄]

Customers' view on the extent to which the Parties competed directly pre-merger

27. We gathered views from several customers on the extent to which the Parties competed directly for their business. Most of the customers (including some large multiples) responded that direct competition between the Parties before the merger was limited (although this may reflect the suppliers who have been invited to tender by each retailer, see paragraph 7.46):

(a) [✄] told us that the Parties had only competed with each other over the supply of branded pork pies but in the last two years they had not competed directly for own-label savoury pastry.

(b) [✄] submitted that in any tenders it had done over the past two to three years, Kerry and Pork Farms had not directly competed to win the business.

[10] [✄]
[11] [✄]
[12] Note that in our analysis we counted partial switching (ie when the incumbent lost part but not the whole of the contract) as switching.

(c) [✂] said that Pork Farms and Kerry did not compete for the same product categories, as Pork Farms was primarily supplying pork pies and scotch eggs and Kerry was supplying sausage rolls/slices.

(d) [✂] told us that direct competition between the Parties had been negligible [✂].

(e) [✂] said that it was not currently supplied by Kerry and it had no experience of dealing with it.

(f) [✂] also said that it did not trade with Kerry in respect of CSP products.

28. However, a smaller number of customers ([✂],[13] [✂][14] and [✂][15]) indicated that the Parties did compete and tender for their business. [✂].[✂] said that while it had not visited all suppliers, it considered smaller suppliers to be a greater risk. [✂] that the last time it launched own-label products with a smaller supplier ([✂]) it encountered product quality issues for over four months. [✂] said that, in addition to the Parties, it also considered [✂], [✂] and [✂] as credible suppliers.

Switching

29. We considered the outcome of the tenders in relation to the extent of switching between the Parties and between the Parties and other suppliers. We have information about the incumbent supplier and the tender's winner for 53 out of the 60 tenders.[16]

30. Note that in our analysis we counted partial switching (ie when the incumbent lost part but not the whole of the contract) as events of switching.

31. Table 5 shows the number of:

(a) contracts/businesses which switched between the Parties and were retained by the Parties;

(b) contracts which switched from other suppliers to either Kerry or Pork Farms; and

(c) contracts which switched from (or were retained to) other suppliers.

[13] [✂] told us that the Parties competed directly for both its own-label and branded business.
[14] [✂] told us that both parties were invited to tender for its own-label business.
[15] [✂]
[16] Seven tenders related to new products for which there was no incumbent.

Table 5: Contracts switched and retained, by type of label

	Number of tenders/ negotiations	*Own-label*	*Brande d*	*Own-label + branded*	*Unknown*	*Contract annual value (£m)*	*Share of contracted annual value (%)*
Kerry to Pork Farms	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Pork Farms to Kerry	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Retained by Kerry	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Retained by Pork Farms	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Kerry to other	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Pork Farms to other	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Other to Kerry	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Other to Pork Farms	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Other to other–switch	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Other to other–retained	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Total	**53**	**29**	**20**	**3**	**1**	**219**	**100**

Source: CMA analysis, based on data from the Parties and third parties.

32. Of all these tenders, 41 resulted in switching between suppliers and these account together for over half ([✂]%) of the total annual value of the 53 tenders (£219.4 million). In the remaining 12 tenders, the incumbents managed to retain the business. The share of annual value associated with the switched contracts was proportionally less than the share of switching episodes ([✂]%). This suggests that, in general, switching was more common for smaller-value contracts.

33. We also note that the extent of switching in the own-label segment was lower compared with the rate of switching in tenders covering branded products. The proportion of contracts switched was 72% for own-label products and 85% for branded products (and 100% for the tenders where both types of labels were put up for tender).[17] In terms of value, [✂]% of the own-label contracts changed hands, while this figure is [✂]% for branded contracts.

34. Kerry was the incumbent in 13 tenders. It retained the business in two cases and lost it in the remaining 11. On four occasions the business was lost to Pork Farms (and [✂][18]), of which [✂] related to contracts [✂].

35. Pork Farms was the incumbent in 12 tenders. It retained the business in three cases and lost it in nine tenders. Pork Farms' business was lost to Kerry in four cases ([✂][19]), of which [✂] related to contracts [✂].

36. Overall, contracts were switched between the Parties in eight instances and the annual value of these contracts accounted for [✂]% of the total annual value of the 53 tenders. The Parties switched three own-label contracts and five branded contracts.

[17] We have no information about the label for two tenders, of which one resulted in switching between suppliers.
[18] [✂]
[19] [✂]

37. Table 6 summarises the value of the contracts lost and retained by each of the Parties. Kerry retained approximately [✂]% of its contracts (in value terms). Of the contracts it lost, the majority went [✂]. Pork Farms successfully retained [✂]. The contracts lost were [✂].

Table 6: Contracts lost and retained by the Parties

		%
	Kerry	*Pork Farms*
Lost to the merging party	[✂]	[✂]
Lost to others	[✂]	[✂]
Retained	[✂]	[✂]

Source: CMA analysis, based on data from the Parties and third parties.

38. Looking at the switching by label (see Table 7), we note that Pork Farms was more successful in retaining the own-label contracts (in terms of value) than Kerry, which lost the majority of own-label contracts. By contrast, the tenders related to branded products most often resulted in the Parties losing their contracts.

Table 7: Contracts retained and lost by the Parties, split by label type

						£ million
	Kerry			*Pork Farms*		
	Own-label	*Brand*	*Own-label + brand*	*Own-label*	*Brand*	*Own-label + brand*
To the merging party	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
To others	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Retained	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Total	**[✂]**	**[✂]**	**[✂]**	**[✂]**	**[✂]**	**[✂]**

Source: CMA analysis, based on data from the Parties and third parties.

39. In terms of the overall value of the contracts that the Parties lost and retained (see Table 8), the Parties were mostly successful in retaining their own-label contracts compared with branded ones ([✂]%), lost [✂] their contracts to others when own-label and branded products were jointly put up for tender, and switched among each other [✂]% of [✂] and [✂]% of the branded contracts.

Table 8: Contracts lost and retained by the Parties in terms of value

			%
	Own-label	*Branded*	*Own-label + branded*
Switched between the Parties	[✂]	[✂]	[✂]
Switched to others	[✂]	[✂]	[✂]
Retained by the Parties	[✂]	[✂]	[✂]

Source: CMA analysis, based on data from the Parties and third parties.

Switching by category

40. We next consider the extent of switching by product category (see Table 9). For 5 of the 68 tenders[20] we have no specific information on the CSP categories put up for tender (in the table below, these are listed under CSP). Our assessment focused on the remaining 63 tenders.

Table 9: Contracts switched and retained by category

	Hot pie	*Pasties & slices*	*Rolls*	*Cold pie*	*CSP*	*Total*
Kerry to Pork Farms	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Pork Farms to Kerry	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Retained by Kerry	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Retained by Pork farms	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Kerry to other	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Pork Farms to other	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Other to Kerry	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Other to Pork Farms	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Other to other–switch	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Other to other–retained	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Total	**15**	**15**	**15**	**18**	**5**	**68**
Total annual value (£m)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis, based on data from the Parties and third parties.

41. Tenders including cold pies were the most common (18) although sausage rolls and hot pies accounted for a larger part in terms of contract value (£[✂] million and £[✂] million respectively versus £[✂] million for [✂]).

42. Of the tenders that resulted in switching between the Parties, [✂] related to cold pies, [✂] to sausage rolls, [✂] to pasties and slices and [✂] to hot pies.

43. In terms of the overall value of the contracts that the Parties lost and retained (see Table 10), the Parties were mostly successful in retaining their [✂] contracts ([✂]%) and lost almost or all their contracts [✂]. In [✂] the lost contracts went mostly to other suppliers ([✂]%), whilst in [✂] the lost contracts went fairly equally to the merging party ([✂]%) and the other suppliers ([✂]%).

Table 10: Contracts lost and retained by the Parties in terms of value

%

	Hot pie	*Pasties & slices*	*Rolls*	*Cold pie*	*CSP*
Switched between the Parties	[✂]	[✂]	[✂]	[✂]	[✂]
Switched to others	[✂]	[✂]	[✂]	[✂]	[✂]
Retained by the Parties	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis, based on data from the Parties and third parties.

[20] Note that we consider overall 68 episodes. This number is higher than the 53 tenders discussed in paragraph 30 above because some of the tenders included multiple CSP categories. For the scope of this analysis we counted any category included in a tender as a different episode.

Findings

44. Our findings from this analysis can be summarised as follows:

(a) Before the merger the Parties competed head to head for a relatively limited number of contracts. However, when they did compete, it was typically for high-value contracts with large Grocery retailers.

(b) The switching analysis suggests that Pork Farms was in general more successful in retaining business than Kerry. Contracts lost by Kerry were mostly to suppliers other than Pork Farms, while contracts lost by Pork Farms were equally split between Kerry and other suppliers.

(c) The Parties tended to be more successful in retaining their own-label contracts than their branded contracts, when they were up for tender (the branded contracts were, to a large extent, switched between the Parties).

(d) Switching at category level suggests the Parties were mostly successful in retaining their [✂] contracts but lost a significant part of the contracts related to [✂]. In [✂], around half of the contracts lost were to the other merging party while the majority of contracts lost in [✂] switched to other suppliers.

Analysis of capacity

Introduction

1. The extent to which existing competitors would be able to exert a constraint on the Parties after the merger depends on, among other things, whether competitors have sufficient capacity to absorb the additional volumes coming from customers who would switch away from the Parties in response to a price increase.

2. This appendix sets out our analysis of the available spare capacity in the market and the competitors' ability to prevent attempts to increase own-label prices post-merger.

3. The appendix is structured as follows:

   (a) First, we discuss the 'critical loss' framework that we used to assess the extent of spare capacity in the market.

   (b) Second, we describe how we calculated the 'critical loss' for the Parties.

   (c) Third, we discuss how we estimated the current spare capacity of the Parties' major competitors.

   (d) Fourth, we consider how competitors' plans for expansion would impact on the spare capacity available in the market.

   (e) Finally, we set out our conclusions based on the comparison between the critical loss and the competitors' spare capacity.

The framework

4. While the capacity available in the market may not be enough to absorb all the volume currently supplied by the Parties, the Parties would not need to lose all their volume to make a price increase unprofitable. Any price increase results in a gain for the company (the additional margin on any unit sold) as well as a cost (the sales lost as customers switch away to competitors in response to the price rise). A price increase would be profitable only to the extent that the gains outweigh the costs. In other words, the Parties would 'only' need to lose part of their sales such that the margin foregone on the volume lost would be higher than the additional margin gained on the retained volume.

5. To assess how much volume the Parties should lose in order to make a price increase unprofitable, we followed the 'critical loss analysis' framework. Essentially, the critical loss identifies the amount of sales that a company can afford to lose before the price rise becomes unprofitable.[1]

6. Formally, the critical loss can be expressed as

$$\frac{X}{X+m}$$

where X is the price increase (%) and m is the gross profit margin on the sold units.[2]

7. The logic is as follows:

   (a) If competitors' spare capacity is lower than the critical loss, the Parties may have incentives to increase the price following the merger because competitors would not have enough capacity to absorb all the sales that would make the price increase unprofitable.

   (b) If, instead, competitors' spare capacity is higher than the critical loss, the Parties may not be able to increase prices because customers would switch away to competitors who would have sufficient capacity to accommodate the sales requirements of these customers.

8. In theory, even if competitors have large spare capacity there may be an effect on prices if competitors are relatively less efficient than the Parties. Under these conditions, the merging parties may still have incentives to increase the price because competitors would not be able to match the Parties' prices despite the availability of capacity to absorb significant volumes. We note, however, that the evidence we collected does not suggest any significant difference in the production costs between the Parties and their major competitors.

9. There are a number of caveats that apply to this analysis.

10. First, estimating capacity and spare capacity in this industry presents a number of difficulties:

---

[1] See Bishop and Walker (2010), *The Economics of EC Competition Law*, chapter 11.

[2] Note that this is the formula for the break-even critical loss, ie the loss that would make a given (typically 5 to 10%) price increase unprofitable. However, this does not necessarily reflect the price increase that would maximise the Parties' profits post-merger. The profit-maximising price increase depends on the demand curve and may be either higher or lower than the assumed 5 to 10% rise. This formula also ignores that a volume contraction driven by a price increase may provide scope for fixed cost savings in the form of shutting down capacity. The potential (large) savings resulting from capacity closure may give further incentives to the Parties to reduce volume and increase the prices post-merger. Our approach is therefore conservative.

(a) The production capacity of a line depends on the product (type of product, size, etc.) that is manufactured on the line. As several products can be produced on a line, it is difficult to identify a consistent unit to measure the available capacity.

(b) The presence of common elements in the production process (such as rack ovens, chilling machinery, etc) may act sometimes as bottlenecks and prevent lines operating at their full (theoretical) capacity. Assessing whether, and when, these elements may constrain the overall capacity depends, as above, on the products that are manufactured on different lines and may therefore vary according to the product mix.

For these reasons, the capacity estimates presented in this appendix only provide a rough indication of the actual amount of spare capacity that competitors have.

11. Second, our approach looks at the combined spare capacity of the competitors, thereby implicitly assuming that customers can easily divide and reallocate their volume requirements across many suppliers. However, as discussed in Appendix G (paragraph 23), customers do not often split supply of the same range/tier among multiple manufacturers. Our approach may tend to overstate the competitors' ability to defeat a price increase as it does not capture situations where the demand of a customer who considers switching away from the Parties could only be met by multiple suppliers (as opposed to a single supplier absorbing the entire volume switched).

12. Third, the analysis only considers the ability of competitors to counteract any attempt of the Parties to increase prices post-merger. However, the ability alone is only a necessary, but not sufficient condition. Whether competitors would have incentives to increase sales or to follow a hypothetical price increase imposed by the Parties would depend on the nature of competition in the CSP market. The own-label segment of the market is characterised by limited differentiation between suppliers (see paragraph 7.23) and a significant degree of buyer power (see paragraph 8.54). This suggests that to the extent that competitors have spare capacity customers may be able to play them off and to preserve their incentives to compete on prices in order to attract volumes switching away from the Parties.

13. Finally, this analysis does not take into account other factors that can constrain the suppliers' ability to increase prices. These factors include the entry of new suppliers which may bring additional capacity into the market and any constraint from the demand side in the form of either retailers or final consumers switching away to other products in response to a price increase (elasticity of demand). For these reasons, this analysis can only provide a

prima facie indication of whether existing competitors would represent credible alternatives to the Parties.

The critical loss for the Parties

14. Estimation of the critical loss requires information on *(a)* the margin and *(b)* the hypothetical price increase.

15. As part of its initial submission, Pork Farms provided information on its gross margin by product category for the period 2010 to 2014.[3] While we acknowledge that the margins of the Parties might have been somewhat different before the merger, we consider that Pork Farms' margin can nonetheless provide a proxy for the merged entity's margin post-merger.[4]

16. Table 1 shows Pork Farms' margin in 2014, separately by branded and own-label products. The margin varies by category and by label, being the highest for [✂] and the lowest for [✂]. The last column of Table 1 above reported the average margin across labels, weighted by Pork Farms' sales in 2014. The average margin ranges [✂].

Table 1: Pork Farms' margin by category, 2014

%

	Branded	*Own-label*	*Weighted average (by sales)*
Cold pies	[✂]	[✂]	[✂]
Sausage rolls	[✂]	[✂]	[✂]
Hot pies	[✂]	[✂]	[✂]
Pasties & slices	[✂]	[✂]	[✂]

Source: The Parties' transaction data.

17. In relation to the hypothetical price rise, we considered a 5 to 10% price increase (in line with the approach commonly adopted in the SSNIP test for market definition).

18. Using the information above and the formula described in paragraph 6, we calculated the 'critical' loss[5] of own-label sales that would make it unprofitable for the Parties to increase the price post-transaction. Table 2 shows that, for example, a 10% price increase of cold pies would be unprofitable only if the Parties were to lose at least £[✂] of own-label business as a result of the

[3] Pork Farms' gross margin has been calculated as the difference between the net value of the sales and the standard costs of production which include direct labour (including factory management), raw materials, packaging (including an allowance for origination) and distribution.
[4] In any case, we considered this to be a cautious assumption. The Parties told us [✂] which would imply [✂], our assumption tends to [✂].
[5] The critical loss identifies the percentage reduction in volume that would make a price increase unprofitable. Due to the difficulties in identifying a consistent unit to measure volume across different products within a category, we expressed the critical loss in terms of value of sales (£).

price rise. The higher the price increase, the higher the sales that the Parties could afford to lose before the price increase becomes unprofitable.

Table 2: The Parties' critical loss

Critical loss	*% reduction in sales*		*£ reduction in sales*	
Hypothetical price increase	*5%*	*10%*	*5%*	*10%*
Cold pies	[✂]	[✂]	[✂]	[✂]
Sausage rolls	[✂]	[✂]	[✂]	[✂]
Hot pies	[✂]	[✂]	[✂]	[✂]
Pasties & slices	[✂]	[✂]	[✂]	[✂]

Source: CMA calculation based on Pork Farms' and Kerry's data.
Note: To calculate the critical loss in value terms (£) we apply the percentage critical loss to the Parties' combined sales of own-label products in 2014.

Competitors' spare capacity

19. We gathered evidence on the current spare capacity of the Parties' major competitors.[6,7] The information received is summarised in Table 3:

(a) Samworth told us that its spare capacity ranged from [✂].

(b) Vale of Mowbray [✂].

(c) Peter's told us that it had approximately [✂]% spare capacity across all the lines.

(d) Welsh Pantry said that around [✂]% of its capacity[8] was currently spare.[9]

(e) Higgidy told us that its spare capacity amounted approximately to [✂]%.

Table 3: Competitors' spare capacity*

%

	Samworth	*Vale of Mowbray*	*Peter's*	*Welsh Pantry*	*Higgidy*
Cold pies	[✂]	[✂]	Not active in this category	Not active in this category	Not active in this category
Sausage rolls	[✂]	Not active in this category	[✂]	[✂]	[✂]
Hot pies	[✂]	Not active in this category	[✂]	[✂]	[✂]
Pasties & slices	[✂]	Not active in this category	[✂]	[✂]	Not active in this category

Source: Information provided by competitors.
*[✂]

6 Pukka Pies told us that [✂].
7 Cranswick said that [✂].
8 [✂]
9 It said that [✂]. It also said that [✂].

20. Table 4 shows the total sales of these suppliers in 2014 (including both own-label and branded products), broken down by category.

Table 4: Competitors' sales in 2014 (£) by category

	Samworth	*Vale of Mowbray*	*Peter's*	*Welsh Pantry*	*Higgidy*
Cold pies	[✂]	[✂]	[✂]	[✂]	[✂]
Sausage rolls	[✂]	[✂]	[✂]	[✂]	[✂]
Hot pies	[✂]	[✂]	[✂]	[✂]	[✂]
Pasties & slices	[✂]	[✂]	[✂]	[✂]	[✂]

Source: Information provided by competitors.

21. On the basis of this information and using the data on 2014 sales, we estimated the competitors' spare capacity, in terms of additional sales that each competitor could make.[10]

Table 5: Competitors' spare capacity (£m)

	Samworth	*Vale of Mowbray*	*Peter's*	*Welsh Pantry*	*Higgidy*	*Total*
Cold pies	[✂]	[✂]	Not active	Not active	Not active	**[✂]**
Sausage rolls	[✂]	Not active	[✂]	[✂]	[✂]	**[✂]**
Hot pies	[✂]	Not active	[✂]	[✂]	[✂]	**[✂]**
Pasties & slices	[✂]	Not active	[✂]	[✂]	Not active	**[✂]**

Source: CMA analysis based on information provided by competitors.

22. Samworth holds [✂], although its spare capacity varies significantly by category, [✂]. Vale of Mowbray [✂]. Peter's has [✂] spare capacity which would enable it to increase its sales by £[✂] depending on the product category. Welsh Pantry has [✂] spare capacity in [✂] and [✂], of respectively £[✂] and [✂]. Higgidy has [✂] spare capacity, however it told us that [✂].

Critical loss and spare capacity

23. Table 6 compares the critical loss that would make it unprofitable for the Parties to increase the price with the estimate of competitors' spare capacity discussed above.

[10] Knowing the spare capacity in percentage terms (s) and the current sales (p), it is possible to derive an estimate of the spare capacity expressed in terms of additional sales that a firm could make if it fully utilised the spare capacity. Formally, spare capacity = $p * s / (1-s)$.

Table 6: Spare capacity vs critical loss

£

	Critical loss		*Spare capacity of competitors*
Price increase	*5%*	*10%*	
Cold pies	[✂]	[✂]	[✂]
Sausage rolls	[✂]	[✂]	[✂]
Hot pies	[✂]	[✂]	[✂]
Pasties & slices	[✂]	[✂]	[✂]

Source: CMA analysis based on information provided by the Parties and competitors.

24. In cold pies, the amount of spare capacity is well above the critical loss (even assuming a 10% price increase post-merger), which may suggest that the competitors would have the capacity to prevent a price increase. However, we note that the spare capacity in the category [✂].

25. In hot pies and pasties and slices, overall capacity also appears to be significantly larger than the critical loss. [✂]

26. In sausage rolls, the extent of spare capacity appears to be more limited than in the other categories. The overall competitors' capacity is in the order of £[✂] which would be [✂] below the level of critical loss triggered by a 10% price rise.

27. However, to the extent that the spare capacity currently available for the production of pasties and slices can be easily and quickly shifted to produce sausage rolls, there would be enough additional capacity to cope with the sausage rolls volume that the Parties would lose as a consequence of a price increase.

28. We considered the view expressed by some of these customers in relation to the availability of alternatives to the Parties in this category. [✂]. Tesco told us that [✂] may have the capability to meet its sausage roll requirements (but not [✂]).

29. Our investigation suggests that [✂] the ability of Higgidy and Cranswick to constrain the Parties [✂] would be limited. Higgidy told us that [✂].[11] Cranswick, as set out above, told us that [✂]. [✂] told us that if a retailer wanted all SKUs from a single supplier, it could not manufacture all [✂] without substantial investment. [✂] believes that it lost [✂] because [✂] wanted to maintain consistency across the range.

[11] [✂]

Impact of expansion plans

30. [✂] suppliers have indicated that they are planning to expand (or they would consider doing so if significant opportunities for new business would emerge):

   (a) Vale of Mowbray has started work on the expansion of its factory. [✂]

   (b) [✂]. It [✂] said that [✂] but it would consider doing so should significant opportunities emerge. In that case it would consider [✂] which would increase its capacity by [✂]%.

   (c) [✂].[12] [✂]

   (d) [✂]

31. Table 7 summarises this information by reporting the percentage increase in the available capacity that these plans would create.

Table 7: Additional capacity (%) resulting from expansion plans

	Samworth	*Vale of Mowbray*	*Peter's*	*Welsh Pantry*	*Higgidy*
Cold pies	[✂]	[✂]	Not active	Not active	Not active
Sausage rolls	[✂]	Not active	[✂]	[✂]	[✂]
Hot pies	[✂]	Not active	[✂]	[✂]	[✂]
Pasties & slices	[✂]	Not active	[✂]	[✂]	Not active

Source: CMA analysis based on information provided by competitors.
Note: [✂]

32. Table 8 shows the additional sales that could be made thanks to the increased capacity generated by the expansion activity.

Table 8: Additional capacity resulting from expansion plans*

£

	Samworth	*Vale of Mowbray*	*Peter's*	*Welsh Pantry*	*Higgidy*	*Total*
Cold pies	[✂]	[✂]	Not active	Not active	Not active	[✂]
Sausage rolls	[✂]	Not active	[✂]	[✂]	[✂]	[✂]
Hot pies	[✂]	Not active	[✂]	[✂]	[✂]	[✂]
Pasties & slices	[✂]	Not active	[✂]	[✂]	Not active	[✂]

Source: CMA analysis based on information provided by competitors.
*This is based on the same calculation described in footnote 10.

33. We considered how the competitors' ability to absorb the Parties' critical loss would change when we take into account the additional capacity generated by the expansion plans described above. The table below compares the critical loss with the estimate of the total spare capacity (including the expansion plans).

[12] [✂]

Table 9: Spare capacity and expansion plan vs critical loss

£

	Critical loss		*Spare capacity of competitors*
Price increase	*5%*	*10%*	
Cold pies	[✂]	[✂]	[✂]
Sausage rolls	[✂]	[✂]	[✂]
Hot pies	[✂]	[✂]	[✂]
Pasties & slices	[✂]	[✂]	[✂]

Source: CMA analysis based on information provided by the Parties and competitors.

34. In cold pies, hot pies and pasties and slices the expansion plans would further increase the spare capacity which in any case appears to be higher than the critical loss even without any additional investment in capacity. In relation to cold pies we note that [✂].

35. The spare capacity available in sausage rolls would increase, [✂]. The overall spare capacity would be higher than the critical loss if these expansion plans were implemented, although the difference between capacity and critical loss would be significantly lower compared with other categories.

Freezing and additional shifts

36. The Parties told us that all CSP manufacturers were capable of smoothing demand by freezing quantities of CSP products in order to avoid capacity constraints.[13] For example, Pork Farms can freeze around [✂]% of its current cold pie production post-baking and it thought that a manufacturer could be expected to be able to freeze 70% (or possibly more) of its cold pie production by value.[14]

37. The Parties also told us that there was a broad range of different steps that manufacturers may take to increase current available capacity.[15] In particular, the Parties mentioned[16] the option of introducing additional shifts (if a manufacturer was not currently operating on a three-shift pattern seven days a week) and/or modest investment in items such as racks for ovens that could remove bottlenecks and have a significant impact on the available capacity.[17]

38. A number of suppliers ([✂]) told us that they relied on additional shifts, including weekends, or increased the staff to cope with additional demand (especially at peak times). For example, [✂] told us that it could increase capacity by approximately [✂]% by operating three shifts seven days a week.

[13] Pork Farms initial submission, paragraph 6.27.
[14] ibid, paragraph 6.27.
[15] ibid, paragraph 6.30.
[16] ibid, paragraphs 6.31 & 6.32.
[17] For example, the Parties mentioned that a simple change from 18- or 16-shelf racks to 20-shelf racks in a batch manufacturing process could deliver a capacity uplift of 11 or 25%.

[✂] 'capacity can be easily increased through adding shifts to run production lines for longer, running through tea breaks and scheduling the production to maximise'. [✂] told us that if the volumes stepped up to a level that required regular weekend working, arrangements were in place with the workforce which would allow a compulsory Saturday shift manned on a rota basis within a five-day working week.

39. A number of suppliers confirmed that freezing could also be used to deal with increased demand. [✂]

40. We do not have estimates of the additional capacity that freezing and increasing the number of shifts could generate. Therefore, we were not able to assess how this would impact on the overall ability of competitors to defeat a price increase. We acknowledge, nonetheless, that both strategies would help relax some of the capacity constraints we observed in cold pies and sausage rolls and can be implemented relatively cheaply and quickly. The additional capacity generated by freezing capability and adding shifts could be particularly effective to accommodate small quantities resulting, for example, from customers switching away only part of their requirements and/or splitting the switched volumes across a number of suppliers.

Preliminary findings

41. The provisional findings from this analysis, subject to the caveats in paragraphs 10 to 13, are the following:

(a) In cold pies, competitors' spare capacity could be sufficient to accommodate a significant proportion of the sales diverting away from the Parties in response to a price increase. However, the spare capacity [✂]. Vale of Mowbray [✂] has started work on the expansion of its factory.

(b) In sausage rolls, the amount of spare capacity appears to be more limited.

(c) In hot pies and pasties and slices, there seems to be sufficiently large spare capacity for competitors to accommodate any significant volume that could be switched away from the Parties in response to a price rise. Competitors' expansion plans reinforce this finding.

Barriers to entry

Introduction

1. This appendix looks at potential barriers to entry in to the UK CSP market either through switching or expansion, or for a new entrant. In assessing this our guidelines state that the consideration must take into account 'whether such entry, expansion or switching would be (a) timely, (b) likely, and (c) sufficient.[1]

2. The appendix is structured as follows:

   (a) The first section examines cost and other factors which may act as barriers to either switching and/or expansion. This covers:

      (i) capital cost and timing; and

      (ii) other factors.

   (b) The second section looks at the possible different methods a new entrant may use to enter the industry: de novo; from a parallel industry; and a retailer deciding to supply its products itself (in-house supply).

   (c) The third section looks at the willingness and ability of:

      (i) current CSP manufacturers to switch and/or expand;

      (ii) potential new entrants to enter; and

      (iii) Grocery retailers to sponsor entry.

3. We have not in this appendix assessed the extent of any spare capacity that may be present in the CSP industry. This is addressed in Appendix I. Spare capacity does though have an effect on, in particular, the willingness of a manufacturer to switch or expand production and on a potential new entrant's decision to enter or not, and is addressed as such in this appendix.

Switching and/or expansion

4. In this section we look at the costs and other factors which may affect the ease with which a current CSP manufacturer may either switch supply or

[1] See the Guidelines, paragraph 5.8.3.

expand into a new CSP category. We first look at the cost of, and the time to, acquire and install equipment.

Equipment cost and timing

5. We consider it reasonable to assume that in a manufacturing business the most significant cost a manufacturer would incur, and therefore a potentially material barrier to entry, is that of the plant and machinery.

Similarity in CSP production processes

6. To understand the costs and timeliness of switching, expansion and/or entry we first look at the manufacturing process and the type of equipment required to produce the different CSP categories. In Appendix B we set out details of the CSP manufacturing process. In this section we look at what the Parties and third parties viewed as the similarities and differences in the processes and the resulting effect this has on equipment requirements. The more generic manufacturing equipment is (so not requiring significant modifications) and the more similar the processes are (so not requiring material site reconfigurations), the lower the likely sunk cost of entry. This results from both the lower cost of purchasing equipment and the lower exit costs as equipment can be resold and reused.

7. The majority of respondents told us that there are sufficient similarities between CSP processes and equipment to mean that switching between CSP products was possible. The extent of similarities submitted differed between parties but we note in particular that:

   (a) sausage rolls, pasties and slices had a high degree of shared equipment; and

   (b) hot pies shared some but not all of its equipment with sausage rolls, pasties and slices.

8. The main differences highlighted were in relation to:

   (a) cooked filling products (eg hot pies, pasties and slices), which also required vegetable preparation and cookhouse equipment; and

   (b) cold pies although having similarities with other CSP production processes required certain bespoke equipment, being hot water pastry preparation and jellying equipment.

9. Pork Farms and Kerry both submitted that there were substantial similarities between CSP processes and equipment. Annex 1 shows details of generic

equipment for CSP production and the specific equipment required for sausage rolls, pasties and slices (folded pasties), cold pies and hot pies submitted by Kerry.

10. Samworth submitted that pieces of equipment such as ovens, chillers and mixers were capable of being used on different CSPs but each CSP category required an element of unique manufacturing equipment which was not interchangeable across CSPs. Tulip also told us that many of the basic equipment functions were similar between CSP products, although it would normally require some investment to switch from one segment of CSP products to another.

11. Peter's told us that it was easy to switch machinery between sausage rolls and pasties. Similarly Greencore told us that the equipment to produce quiche could produce other types of CSP products with modifications and additional equipment. Tesco believed that sausage rolls and slices were similar from a manufacturing viewpoint and that if a manufacturer produced pastry, although it would require different machinery, it was likely that it would also produce hot pies.

12. Peter's, Vale of Mowbray and Tesco though all highlighted the difference in cold pie manufacture from other CSP products and thought this made it more difficult to switch production into or from this category. Vale of Mowbray, for example, told us that based on its equipment, there were difficulties in switching production between different CSP products as machinery/processes were different for each CSP product.

Cost and timeliness

13. Having determined the level of similarity in the processes for different CSP products we now look at the cost and lead time for purchasing and installing equipment and the differences between expansion and switching. The following analysis assumes that existing buildings and infrastructure can accommodate new or changes to existing production lines.

New equipment expansion

14. Pork Farms submitted that a new line (sausage rolls or cold pies) of capacity of at least £5 million (retail sales value) a year could be acquired at a cost of approximately £2 million and with a lead time for installation of up to 12

months. Peter's also told us that an additional line would cost around £2 million.[2]

15. Samworth provided estimates for the costs of cold pie (Table 1) and hot pie lines (Table 2). It told us that the difference in cost between lines was dependent on the volume of production of a given product which in turn dictated the 'size of the equipment' required to manufacture efficiently the product.[3] The higher the volume or speed of a line the costlier the equipment. Samworth's estimates were between £1.2 million and £4.8 million for a cold pie line and between £1.5 million and £2.5 million for a hot pie line.

Table 1: Samworth estimate of the cost of a cold pie line (new equipment)

Cold pies	*Cost (£)*	*Time (weeks)*
Mini	4.8	42
Buffett	4.9	42
5oz/10oz	2.6	42
1lb	3.1	42
1¾ lb	1.7	35
2lb, 3lb & Gala	1.2	35

Source: Samworth.
Note: Cost and timings assume that there is sufficient space within the existing building footprint to accommodate the additional line.

Table 2: Samworth estimate of the cost of a hot pie line (new equipment)

Hot pies	*Cost (£)*	*Time (weeks)*
250g	1.5	35
550g	2.4	35

Source: Samworth.
Note: Cost and timings assume that there is sufficient space within the existing building foot print to accommodate the additional line.

16. Welsh Pantry told us that if it were to invest in another pie line it would cost in the region of £0.8–£1.2 million. It also told us that when it won the contract to supply [✄] it invested £[✄] in new equipment. It began supplying the contract in [✄].

Second-hand equipment expansion

17. All respondents thought that second-hand equipment was generally available and could be installed significantly quicker than new equipment. Estimates were generally in the range of £0.7–£1.0 million with installation between three and six months. However, one respondent caveated this in respect of

[2] Complete line would include: front-end make-up line; oven; spiral chiller/packing equipment.
[3] Samworth gave as an example mini Melton Mowbray pork pies which require high volume capacity lines to achieve economies of scale.

bespoke and large items (eg ovens) which it considered were not readily available.

18. Pork Farms submitted that that as the majority of the equipment required for CSP manufacturing was widely used across the food manufacturing sector, equipment frequently became available on the second-hand market. It told us that currently two full cold pie lines were being auctioned. Peter's also stated that in general suitable second-hand production lines might be available.

19. Kerry told us that as 'any food manufacturing equipment has to be maintained to a level; it has to be kept above a certain hygiene level. So, equipment out there is often in very good working order'. As such the use of second hand equipment was a 'credible way of getting into a new area, but you probably would not do it for a major, long-term contract that is going to be immediately very, very high volume.'

20. Samworth thought that second-hand equipment might be available for hot pies, rolls and pasties, but after the cost of transportation and installation it would probably not be cheaper. Smaller pieces of equipment were relatively generic and might be available (eg mincers or packing lines) but the bigger equipment tended to be bespoke, for example its ovens at Tamar were bespoke (length and burner times). However, Samworth submitted that as pork pie equipment was bespoke, second-hand equipment was not generally available. Samworth stated that it did not look to buy second-hand equipment.

Entry through diversification using existing production lines

21. We noted in paragraphs 6 to 12 respondents' views on the similarity between different CSP manufacturing processes. We set out below the evidence submitted on the cost of switching existing production lines between CSP categories.

22. Kerry provided estimates for the cost of second-hand lines for low-volume production entry (50 tonnes per week). These estimates are shown in Table 3. A detailed breakdown of cost estimate is included in Annex 2.

Table 3: Kerry estimate of second-hand equipment costs by manufacturing line

£'000

Equipment	*Folded products*	*Folded products (hot filling)*	*Cold pies*	*Hot pies*
Generic	440	440	440	440
Product specific	275	275	280	245
Hot fill		100		100
Total	**715**	**815**	**720**	**765**

Source: Kerry.

23. Pork Farms submitted that a suitable second-hand line could be acquired for somewhere in the region of £1 million and installed within three months. Kerry submitted that second-hand lines could be procured, installed and commissioned within six months.

24. The costs for switching production were seen as substantially lower by parties as a result of a supplier only having to acquire change parts. Estimates were generally in the range of around £200,000 to £500,000. Installation times were similar to second-hand expansion.

25. Kerry provided estimated costs of switching production based on second-hand equipment (Table 4).[4] A detailed breakdown of the estimated cost by equipment is included in Annex 3.

Table 4: Kerry estimates of the equipment cost of switching (second-hand equipment)

£'000

Switching			*From*	
To	*Cold pies*	*Hot pies*	*Sausage rolls*	*Pasties and slices*
Cold pies	X	220	370	370
Hot pies	295	X	245	245
Sausage rolls	260	160	X	20
Pasties and slices	260	160	20 or 120 hot fill*	X

Source: Kerry.
*If a manufacturing site made cold pies and sausage rolls and cold fill pasty only then they would not need a facility to cook hot fills, eg the Spalding factory only made sausage rolls and cold fill pasties and therefore did not have a hot fill cooking facility. If the Spalding site was to enter the hot pie or slice market it would need to install a facility to pre-cook the pie and slice fillings. The estimated cost of setting up hot fill capability would be in the region of £120,000. Most businesses in the industry would have hot fill capability available in any event.

26. Pork Farms estimated that the cost of switching from a sausage/pasty/slices line to cold pies (with a capacity of at least £5 million retail sales value a year) would be around £225,000 comprising: hot water pastry preparation equipment at around £185,000 bunch wrapper equipment at around £20,000 and services/installation at £20,000.[5]

27. Peter's told us that switching from a pie line to flat-bed line (sausage rolls or pasties) or vice versa would require a new 'front end' to the production line with the oven, spiral chillers and packing equipment largely unaffected. The cost would be up to £0.5 million and could take up to six months.

28. Vale of Mowbray submitted estimates for switching production from its current cold pies to other CSP products. This ranged from £[✄] for sausage rolls to £[✄] for each of hot pies and pasties and slices.

[4] Costs based on the assumption that the business does not have spare capacity and would need to procure the relevant equipment in order to switch from one product to another.
[5] Costs are based on a production line of capacity of around £10 million a year.

Table 5: Equipment cost and timing

Switching	*From*	
To	*Cold pies*	
Hot pies	£[✂]	[✂] months
Sausage rolls	£[✂]	[✂] months
Pasties and slices	£[✂]	[✂] months

Source: Vale of Mowbray.

29. Greencore stated that modifications and additional equipment to switch production from its current CSP product (quiche) to other CSP products could cost hundreds of thousands of pounds.

Sunk cost

30. The quantum of entry or expansion costs on their own though does not tell us whether these costs are a barrier to entry. To understand this we now look at the extent these costs are sunk.

31. In assessing the extent that equipment costs are sunk we need to take into account how liquid the second-hand market is for equipment and whether the sales value of equipment is taken into account in the investment decision.

32. We note that there is a second-hand market for food manufacturing equipment. The general view was that there was a liquid second-hand market for generic equipment. However, we received a mixed response in regard to the market for specific/bespoke pieces of equipment required for each of the different CSP processes. The requirement for second-hand machinery, especially for expansion through a complete production line is lumpy. We note, for example, that the current auction of a complete orbiter pie line (see paragraph 18) states in the description that that 'these machines are extremely rare on the second hand market.'

33. We have doubts over how liquid the second-hand market is and therefore whether a new entrant would have confidence in the resale value of its equipment to factor this into its investment decision. We therefore consider that total equipment costs are best viewed on a conservative basis as sunk costs.

Minimum entry size

34. We now turn to whether there is a minimum size for entry to be economic.

35. Samworth stated that the high capital cost of entry to compete in the volume segment could be prohibitive from an investment point of view for smaller manufacturers. Samworth told us that in order to keep its operation flexible to

meet the fragmented, small-run nature of the market it had 12 different manufacturing routes. In terms of entry it believed that a universal line would give flexibility (especially for a small manufacturer who did not have volume), but it would not be cheap and would require significant amounts of tooling. It believed it would also have a lot of downtime so an entrant may need a second line.

36. Peter's believed that entrants on a smaller scale with one or two production lines could work, as illustrated by Cranswick and Welsh Pantry. Peter's told us that if it invested it would be looking for a [✄]-year payback.

37. Pork Farms argued that a supplier's ability to expand its capacity was far from limited to the binary decision of whether to acquire and install a new production line or not. Capacity expansion in order to accommodate increased customer volumes could be undertaken incrementally.[6]

38. Pork Farms stated that supplying own-label (cold) pie products to a retailer meant it did not have to produce high volumes. It argued that on a basic single line costing around £150,000 (second-hand), a CSP supplier would be able to manufacture 3,000 pies per hour. On a 12-hour production day operating only five days a week that would equate to a retail sales value of around £5.2 million. It submitted that this volume would be more than enough to absorb many existing retailer own-label 'contracts' for cold pie in their entirety.

39. In terms of payback or investment decision Pork Farms argued that equipment costs needed to be considered in relative terms. It submitted that a £1 million investment to gain effective entry to a market might seem material at first glance but, if an incumbent would have to invest close to that to maintain an effective presence without being marginalised, such an investment was, in any real sense, much less of a barrier.[7]

40. It also argued that compared with the levels of investment into the Kerry CSP business that were required to maintain it as a going concern, on a sustainable basis and as a continuing competitive presence in the CSP market, the costs of entry or expansion by other actual or potential CSP manufacturers were readily surmountable.

41. We noted that a number of businesses had invested in new lines recently (see paragraphs 85 to 102).

---

[6] Pork Farms initial submission, paragraph 4.4.
[7] Pork Farms initial submission, paragraph 4.3.

42. We noted that some retailers thought there might be economies of scale within the industry but we saw no substantial evidence of this. We noted that there are both small and large businesses operating within the industry, using both batch and in-line processing, targeting different segments of the market both in product terms and branded or own-label.

43. The evidence strongly suggests that there is no definitive minimum size of entry or segment of the market that an entrant needs to target to operate in CSP. This does not mean that an entrant would be able to compete for all SKUs with a small size entry but it would be able to compete for some.

Barriers to entry in own-label supply

44. Having looked at equipment costs we now look at whether there are other costs which could act as a barrier to entry in *(a)* own-label and *(b)* branded CSP.

Retailer technical standards

45. We received consistent evidence that it was easy to switch between branded and own-label manufacturing if the manufacturer already produced both. This was as a result specifically of the fact there was no difference in the manufacturing process. For example, Tulip told us that switching between own-label and branded products was about using another recipe and other packaging. Switching within this area was relatively easy.

46. However, we also received submissions from some third parties that if a manufacturer expanded into own-label from branded there were additional costs relating to meeting the technical standards required by some Grocery retailers.

47. Vale of Mowbray stated that new businesses would need to achieve stringent food safety standards and audits in order to supply ‘own label’ to have its factory approved by the retailer. Welsh Pantry told us that in order to supply [✂], an initial audit, a second audit and an ethical audit were carried out. These audits required investment. Welsh Pantry could not deliver to [✂] until it had passed the audits, [✂]. Welsh Pantry stated that the audit process for customers supplied on a regional basis was easier.

48. Peter’s told us that the technical standards required by the major retailers meant it would be difficult for a completely new entrant, or a smaller manufacturer seeking to expand, to break into the own-label market. However, it believed that established reputable food manufacturers supplying own-label

products in other categories should be able to convince retailers of their credentials.

49. Samworth stated that it was a robust, extensive exercise to be audited and have the technical controls in place to be able to supply a major multiple. It believed that as a result the smaller, more regional players would be branded manufacturers because they could not easily meet the quality standards on own-label without significant cost.

50. [✂]. Tesco also told us that once a factory was approved for CSP there was [✂].

51. Pork Farms though argued that compliance with the manufacturing/technical standards of retailers in respect of own-label products was not a meaningful barrier. For suppliers entering from another CSP market, most would already supply own-label products to retailers. In any event, it argued that the technical standards required for own-label products were fundamentally no higher than those that may be demanded in respect of branded products.[8] Pork Farms also told us that, in general, if a supplier complied with one retailer's requirements it would probably only need to make a few changes/additions to meet other retailers' requirements. The exceptions to this were [✂] where it would probably require significant changes. In addition it argued that retailers could, and did, allow new suppliers time to meet technical standards. This allowed those suppliers to start supplying own-label products whilst they developed their site to meet full technical standards.[9]

Premium or standard/value

52. We received no evidence that there were different costs associated with entry or expansion into premium products compared with standard/value products. Samworth told us that the difference in investment between everyday and premium brands was primarily within the raw material costs used in the products rather than in the capital cost of setting up a production facility. Vale of Mowbray told us economy products were still required to be produced at the same standard as the premium.

53. Peter's, however, believed that within own-label ranges it should be more viable to develop new capacity at the premium end. It argued that these

[8] Pork Farms initial submission, paragraph 4.6.3.
[9] Pork Farms told us 'If a retailer is encouraging a new entrant into the marketplace, they will be allowed to take a view. Take, for example, levels of metal detection. You can go down to 1 micron, 1.5 micron, or 2 micron; clearly, the expensiveness of the equipment changes. Larger suppliers get a high tariff on that, smaller suppliers will have a lower tariff. It works through into the technical. At no stage would [✂] ever put customer care at risk, but they take a balanced view, if you like, to encourage new suppliers'.

products should be more profitable and volumes were lower and better suited to a lower level of expansion. Peter's thought that a major expansion of capacity to produce own-label products might only be justified if the retailer(s) gave assurances that volumes would be forthcoming and there was some guaranteed period of tenure.

Advertising and marketing costs

54. Pork Farms argued that there were no discrete advertising or promotion costs that a manufacturer would have to incur for the purposes of entry or expansion because successful entry or expansion may be effected purely through the capture of own-label CSP business from retailers.[10] It further argued that, although the own-label retailer(s) would require some level of trade support, including a level of commitment to promotional funding on a year-to-year basis, these were components of the typical supplier-retailer commercial relationship and were common to all CSP manufacturers. As such, those costs were relevant for the purposes of understanding the net supply price actually paid by retailers to suppliers, but did not represent a cost that was properly attributable to entry or expansion.

55. No other party indicated that there were advertising or marketing costs necessarily incurred in entry into own-label provision.

Customer relationships

56. No party submitted that access to retailers in terms of being able to make initial contact/introduction was a potential barrier to entry.

57. [✂] submitted that it believed that cross-category deals were in place and that these had restricted its ability to compete for tenders. It provided examples of [✂] tenders[11] which it believed demonstrated that competitors by being able to tender across more CSP categories were effectively able to prevent it winning business in single category. However we received no evidence that cross-subsidisation was occurring within the industry which would act as a barrier to entry.

58. The CMA notes that common practice among the larger Grocery retailers is to have a supplier (usually the largest) act as a Category Leader on their behalf. The role of this supplier is then to provide additional analysis and data around the category, and assist the retailer in making its sourcing decisions. The

[10] Pork Farms initial submission, paragraph 4.6.4.
[11] [✂]

Category Leader also provides input around ranging decisions, shelf placement, promotional activity, gives insight around consumer behaviour and implied areas for innovation, as well as a number of other areas: 'A category leader is the first person a customer calls for insight on shopper, categories, markets and competitors.'[12]

59. Samworth told us that it was probably a barrier for smaller companies.

> It is actually a benefit to be category captain because in the main you would have more available data to be able to interpret things like switching, things like promotional effectiveness and impact and all those types of things. But also you would understand probably more about the company strategy within there if you are in seeing. It is more of a breadth of relationship than just a single relationship potentially with the buyer.
>
> An advantage it gives us is collectively identified opportunities to supply and to sell more to customers and we want to be part of that and we want to be the ones making those products rather than our next competitors, so it does give you that advantage.

60. Tesco told us that its larger suppliers provided insights into categories through the use of bought-in data and analysis. As a result of the size of these suppliers they tended to have a large amount of acquired data. However, it was still possible for smaller suppliers to provide insight through smaller data acquisition and activities such as in-store panels and trials.

61. Pork Farms told us that whilst it, as a category leader, would get the information first, the retailer was free to share any insights Pork Farms provided with other suppliers or possible entrants. In addition, a new entrant would not be expected to provide such a service to a retailer until it achieved a certain size and as such did not carry the same financial cost as Pork Farms.

62. Co-op told us that where it had had dual supply in the past, for example for cold pies, it had experienced issues with inconsistent category management focus, with suppliers' objectives being more about gaining volume from each other, rather than growing the total category.

63. We note that there have been examples of entry at the margins for branded products and in own-label in premium (Cranswick) and standard and value

[12] Source: The Institute of Grocery Distribution. Grocery MI 2006 category management – practice whereby a Grocery retailer exchanges information with one or more of its suppliers (usually a large supplier of branded goods) to help the retailer manage the way that products within a particular category are presented and sold to consumers.

(Welsh Pantry) segments. We consider that category leadership does provide that supplier with a closer relationship with the retailer but that it is still open for smaller suppliers to provide insight to retailers. There is also a requirement for the Category Leader to be to a large degree agnostic to suppliers and if it is not then it may damage the long-term relationship and therefore sales it makes to that retailer.

Customer switching costs

64. Customer switching costs are discussed in more detail in Appendix G paragraph 63.

65. Samworth told us that if a supplier had an ongoing relationship with a retailer and won some more business from it, then there was some certainty that the supplier would be able to fulfil the retailer's requirements and therefore investment was justifiable. There was a reputational effect. Samworth believed that in this respect a new entrant would struggle.

66. Pork Farms argued that 'the switching costs to customers are negligible and any of the retailers could move significant volumes from one supplier to another within a lead time not exceeding twelve weeks and at only marginal cost.'

Branded entry

Advertising and marketing costs

67. In contrast to views received on own-label we were told that advertising and marketing costs may be a barrier to entry or expansion in branded CSP.

68. Samworth submitted the media investment required to build brand recognition etc, could be in the region of £5–£10 million a year initially to build measurable brand awareness.

69. Higgidy told us that it spent around [✂]% of annual revenue on marketing; Pukka Pies told us it [✂] spent around [✂]%.

70. Peter's told us that whilst expansion to facilitate an increase in branded sales (higher margin) would likely be more viable than for own-label products, establishing a completely new brand would almost certainly not be viable.

71. Tulip stated in relation to savoury eggs, that building a brand and consumer preference for such a brand took a long time and huge investment. Furthermore a supplier would have to overcome the problem of getting the brand listed with the retailers in competition with their own labels. It considered that

the likelihood that such a brand would become a success with consumers ([✂]) and the potential additional margin to be earned did not justify the risk of investing in building a brand in our opinion.

72. Pork Farms argued that as brands were not generally important in CSP, the time and costs associated with building a brand could not be material and so the investment of significant time and money to establish a brand to compete in such a market could not credibly be regarded as rational, profit-maximising behaviour.[13]

73. Peter's believed that expansion was more likely through the extension of existing food brands into the CSP sector. This would require substantially less investment in marketing.

74. We note that a number of originally non-CSP brands have been launched within the CSP market. These include Heinz, Wall's, Branston, and Sharwood. We also note that there has been entry by manufacturers such as Higgidy and Pieminister at the premium end of the market. It would therefore appear that although the costs of entering into the large-volume (standard/value) tier of the CSP market with a completely new brand would not look attractive there are a variety of other strategies available to manufacturers that can be adopted to enter with a brand.

New entry

75. In the second part of this appendix we look at new entry into the CSP sector. We assess the evidence on new entry under three different methods a new entrant may use to enter the industry: de novo; from a parallel industry; and a retailer deciding to supply its products itself (in-house supply)

De novo entry

76. Pork Farms stated that it had not considered the full costs of genuine de novo entry into CSP manufacture in any great detail as it believed there were a range of more tenable alternatives (in terms of cost and speed of expansion). Kerry told us that it was not aware of any manufacturer looking to enter the retail CSP market. However, it noted that it probably had not seen Cranswick entering.

77. Samworth estimated that a new entrant would need to spend around £20 million on investment in a new production facility and between 12 and 18 months on a land acquisition/build programme to build and fit out the facility.

---

[13] Pork Farms initial submission, paragraph 3.2.

Peter's considered that it was difficult to see how a new entrant could achieve an acceptable return on a large-scale investment (eg [✂] production lines).[14]

Parallel industry

78. Pork Farms argued that in addition to entry or expansion by manufacturers with existing CSP activities, manufacturers in other related food markets already benefited from a similar platform that would allow them to enter any CSP segment for a similar cost and within a similar time frame. It believed that the field of potential entrants in this regard was broad, but in particular included suppliers of frozen food pastry products and food service industry suppliers and other chilled food manufacturers with factories that had a generic chilled design incorporating the required high/low care barriers etc. Both of these had the necessary expertise infrastructure in place and could enter by investing in new equipment at an existing facility.

79. Sainsbury's told us of a business ([✂]) that it believed could be a potential entrant. Sainsbury's understood that this business had a site which Sainsbury's believed could produce CSP products. [✂]

80. In the food service industry sector Pork Farms told us that Greggs, which manufactures pastry products for its own retail estate, had recently entered the market for the supply of frozen unbaked roll pastry products through the introduction of its own branded range into Iceland. It believed that Greggs could easily take the next step into CSP production and supply.

81. However, Kerry told us that although Pukka Pies had entered (on branded products) from the food service sector it believed that a lot of the food service market was frozen produce which needed reheating on site or baking. This meant that the manufacturing model for these businesses was sufficiently different (especially in uncooked product) from the retail CSP market to make entry unlikely.

82. Samworth also believed that the food service market was different from the retail market as food service products might be unbaked or frozen. A manufacturer/supplier of unbaked product would need to make a big investment in a 'high care operations' environment, which it stated was very stringent, as well as incurring capital cost (eg ovens). However, Samworth also told us that Square Pie had just entered the hot pie retail market from the food service sector (branded).

---

[14] [✂]

83. Pork Farms also believed that Shire Foods was a potential entrant. It argued that Shire Foods used to be in the CSP market delivering freshly baked chilled products. However, Shire told us that it was not considering entering the CSP market at the moment.

In-house supply

84. Pork Farms argued that retailers could, as they had done in the past (eg Asda, Sainsbury's) and do so now (eg Morrisons), decide to self-supply part or all of their CSP business. No retailer submitted to us that it was currently considering in-house supply or was likely to do so as a result of the merger.

Ability and willingness

85. In the third part of this appendix we look at the ability and willingness of:

(a) current CSP manufacturers to switch and/or expand their CSP products; and

(b) retailers to assist switching, expansion or entry through sponsorship.

Current CSP manufacturers

86. Kerry told us that the decision to switch and/or expand depended on the scale of investment, the financial position of the entity, its ownership structure and the payback period required on investments. It stated that

> If you have got a very tight balance sheet then, clearly, you are looking for a very quick payback. If your balance sheet is, maybe, less stressed and you are taking a longer term view that says, 'Actually, I want to be a reasonable-scale player in CSP over ten years and I am happy for this to be a four or five-year payback'.

87. Pork Farms submitted that it believed a number of CSP manufacturers had recently undertaken, were undertaking, or were planning to undertake investments or projects that would increase their respective capacities materially. These included Samworth, Vale of Mowbray, Welsh Pantry, Cranswick and Wrights.

88. Cranswick told us that so far it had concentrated its production/selling activity on premium niche products and it had no capacity to produce mass-market products. It told us that its production process was labour-intensive with relatively little automation. This it considered made it unsuitable/non-profitable for large-volume production. It also added that the CSP was a difficult industry with some already established large players and relatively small margins. [✄]

89. Welsh Pantry told us that it received two rounds of grant funding from the Welsh Development Agency, due to low employment in the area of Wales in which it was operating. Between £[✂] and £[✂] of this had been invested in machinery.

90. Welsh Pantry told us that for the larger contracts it would need to invest in additional capacity. It planned to expand its capacity by [✂]% over [✂]. This included [✂]. Welsh Pantry also stated that it had recently moved into new premises. It currently occupied only around [✂]% of the floor space. It planned to expand to fill the remaining space over the next [✂]. [✂]. Welsh Pantry stated that it could not at present produce cold pies, and would not expand into this area easily.

91. Peter's told us it was currently looking at expansion. [✂][15] This expansion would be in current CSP products. It considered, for example, that the cost of it expanding into cold pie production would be prohibitive. However, Peter's stated that [✂]. The anticipated payback period would likely need to be [✂] to make it attractive.

92. Peter's [✂][16] [✂].

93. Vale of Mowbray announced on 8 April 2015 that it had started work to expand its factory.[17] It told us that [✂].[18] [✂]. Vale of Mowbray stated that the costs to set up a new CSP product would not be prohibitive, [✂].

94. Samworth (Walker & Son) told us that it tended to expand capacity in most years. [✂]

95. Higgidy stated that it was not set up for high-volume low-value products because it did not have an automated plant. Higgidy concentrated on high-value handmade products. High-volume production would require specific equipment, such as for instance travelling ovens, spiral chillers etc. [✂]

Sponsored entry

96. Pork Farms submitted that large retailers were able to encourage or sponsor entry. It believed that there was a clear track record of retailers encouraging or sponsoring supplier entry or expansion in the CPS market whenever it had

---

[15] [✂]
[16] [✂]
[17] Vale of Mowbray website.
[18] [✂]

been in their interests to do so. Pork Farms highlighted the following examples of perceived sponsored entry.

97. Pork Farms argued that Samworth entered the quiche market in 2006 through support from a large retailer. When Northern Foods decided to close its Trafford Park factory in 2006, the retailer persuaded Samworth to invest in a quiche line (in its desserts factory) in order to address the perceived risk of dependency on one other supplier for the retailer's quiche volumes.

98. Pork Farms submitted that the support of a second large retailer had been vital to [✄] investing £[✄] in [✄] new facility in [✄].[19] It believed the investment was as a result of securing a new contract with that retailer. [✄] told us that [✄] supported its entry in the CSP market. It believed that [✄] might be interested in further supporting its growth in this market but it would be up to [✄] to propose a plan to increase production and persuade [✄] to support it.

99. Pork Farms believed that a third large retailer supported the growth of [✄]. It stated that [✄] had been successful in winning a proportion of the [✄]. It also noted that [✄]. [✄] told us that it did not receive any additional support from [✄], and [✄] gave no commitments on volumes.

100. Peter's told us that [✄], [✄] and [✄] supported it when it launched Heinz-branded pastry products.

101. Higgidy told us that CSP product categories were own-label dominated sectors. Supermarkets, even when interested in a new supplier entering the market, were unlikely to commit on volume; typically suppliers took all the risk.

102. We received the following information from retailers:

(a) [✄] told us that it worked with [✄] to develop new products and facilities to scale up production. It often worked with small producers as it gave the company unique products that its customers expected and which differentiated [✄] from its competitors. It did not, however, sponsor entry through financial support. We note, however, that in relation to [✄]. We consider that for this to be in place and for [✄] to invest in the required production capacity there must be a very high degree of interrelationship between the supplier and customer, [✄].

(b) [✄] told us that, on the unlikely hypothetical assumption that its existing suppliers were unable to rectify performance difficulties with a particular

[19] The facility produces sausage rolls, pasties, quiche and hot pies and substantially increased the production and distribution capability of Cranswick across the UK.

product, it could look at exploring options with alternative non-CSP suppliers to encourage entry, depending on the circumstances.

(c) [✄] stated that it saw no need to proactively support entry or expansion in the CSP category at present (even after the merger of the Parties). However, it caveated this response in regard to own-label sausage rolls (and own-label quiche) where the potential supplier base in the UK might be materially reduced post-merger.

(d) [✄] stated that it would not rule out such actions, if they added value to the product category.

(e) [✄] said that it focused on own-label products and was not a brand-maker. Sponsoring the entry of a new brand was not part of Lidl's market strategy.

(f) [✄] stated that it did not have the ability and/or incentive to sponsor the entry or expansion of another brand to achieve the same position in its stores as the Parties' branded products. [✄] stated though that it was working with a smaller supplier of CSP and that supplier's products had grown both in number of products and value over the last three years.

(g) [✄] stated that it had not explored sponsored entry and there were no plans to within its three-year plans.

Kerry generic and specialist equipment by CSP catergory

Equipment			
Generic	*Sausage rolls, pasties and slices*	*Hot pie*	*Cold pie*
Meat prep: • Breakers • Chopper • Mincers • Mixers Pastry preparation: • Pastry mixer Depositors Ovens Pack lines: • Flow • Carton lines Ancillary equipment: • Glazing units • Floor scales • Tote bins/hoists • Metal check • Weigh check • End of line sealers • Racks/trays • Tray up units Conveyors	Laminator Folded product make line Fill pump Deposit/extrusion head Forming parts Hot fill slices and pasty will also require a fill cooking and cooling system	Laminator Pie forming line Change parts Meat fill depositor Hot fill cooking/cooling system.	Hot pastry mixer Base pastry depositor Pie forming line including pastry sheeter Change parts Meat depositor/blocker

Kerry estimated second-hand equipment costs

Table 1: Generic equipment

		£'000
Meat prep	Breakers	20
	Choppers	50
	Mincers	30
	Mixers	25
Pastry prep	Pastry mixer	20
	Depositors	20
	Ovens	50
Pack lines	Flow wrap	
	Carton lines (not necessary for start-up if using flow wrap	30
Ancillary equipment	Glazing units	10
	Floor scales	10
	Tote bins/hoists	15
	Metal check	15
	Weigh check system	10
	End of line sealers	5
	Racks/trays	20
	Tray up units	20
	Conveyors	40

Table 2: Specific equipment

		£'000
Sausage rolls, pasties and slices		
Laminator		100
Folded product make	Line	100
	Fill pump head	30
	Forming parts	30
Deposit/extrusion	Hot fill slices and pasties will also require a fill	15
	cooking and cooling system	100
Cold pie		
Hot pastry mixer		40
Base pastry		-
depositor		15
Pie forming line (including pastry sheeter)		150
Change parts		15
Meat depositor/blocker		30
Jelly equipment		30
Hot pie		
Laminator		100
Pie forming line		100
Change parts		15
Meat fill depositor		30
Hot fill cooking/cooling system		100

Kerry detailed switching costs

1. This annex sets out in Tables 1 to 6 Kerry's view on what equipment would be needed in each scenario to enable a supplier to switch from its current production of one CSP category to another CSP category, for example hot pies to cold pies, and the estimated cost involved.

Hot pies to cold pies

Table 1: Equipment and estimated cost to switch between hot pies and cold pies

	£'000
Modifying a pastry mixer for hot fill base	75
Procuring a pastry blocking unit	20 (second-hand)
Procuring: Blocking heads Lidding heads Plattens Take off parts Depositor drop head/pump	95
Jelly equipment	30 (second-hand)
	220

Notes:
1. The infrastructure of food grade buildings, steam, refrigeration, potable water and compressed air would all be in place
2. The manufacturer would most likely already have in place some meat preparation and pastry mixing equipment, baking ovens, wrapping capability and ancillaries
3. [✂]

Cold pies to hot pies

Table 2: Equipment and estimated cost to switch between cold pies and hot pies

	£'000
Installing a laminator for puff pastry (large-scale second-hand/ small-scale entry (rondo type) second-hand – £20k)	100/ 20
Used hot fill make equipment	100
Procuring: Blocking heads Lidding heads Plattens Take off parts Meat pump/depositor (second-hand) Pastry depositor (second-hand)	95
	215–295

Notes:
1. The infrastructure of food grade buildings, steam, refrigeration, potable water and compressed air would all be in place.
2. The manufacturer would most likely already have in place some meat preparation and pastry mixing equipment, baking ovens, wrapping capability and ancillaries.
3. [✂]

Cold pies to sausage rolls, pasties or slices

Table 3: Equipment and estimated cost to switch between cold pies and either sausage rolls, pasties or slices

	£'000
Installing a laminator for puff pastry (large-scale second-hand/ small-scale entry (rondo type) second-hand – £20k)	100/ 20
Procuring sausage folding make line (Second-hand)	100
Procuring: Folding assembly Take off change parts Meat pump (second-hand) Meat deposit/extrusion head (second-hand) Pastry depositor/sheeter (second-hand)	60
	180–260

Notes:
1. The infrastructure of food grade buildings, steam, refrigeration, potable water and compressed air would all be in place
2. The manufacturer would most likely already have in place some meat preparation and pastry mixing equipment, baking ovens, wrapping capability and ancillaries
3. [✂]

2. If the business is making hot fill slices or pasties (which can be optional depending on recipe) and not currently making hot pies then a further investment in hot fill cooking of £100,000 for second-hand equipment would be required.

Hot pies to sausage rolls, pasties or slices

Table 4: Equipment and estimated cost to switch between hot pies and either sausage rolls, pasties or slices

	£'000
Procuring sausage folding make line (second-hand)	100
Procuring: Folding assembly Take off change parts Meat pump (second-hand) Meat deposit/extrusion head (second-hand) Pastry depositor/sheeter (second-hand)	60
	160

Notes:
1. The infrastructure of food grade buildings, steam, refrigeration, potable water and compressed air would all be in place
2. The manufacturer would most likely already have in place some meat preparation and pastry mixing equipment, baking ovens, wrapping capability and ancillaries.
3. [✂]

Sausage rolls, pasties or slices to hot pies

Table 5: Equipment and estimated cost to switch from either sausage rolls, pasties or slices and hot pies

	£'000
Procuring pie forming line (second-hand)	150
Procuring:	
Blocking heads	
Lidding heads	
Plattens	
Take off change parts	
Meat pump (second-hand)	
Meat deposit	
Pastry depositor (second-hand)	95
	245

Notes:
1. The above assumes that hot fill capability (£100K) in place for slice production.
2. The infrastructure of food grade buildings, steam, refrigeration, potable water and compressed air would all be in place
3. The manufacturer would most likely already have in place some meat preparation and pastry mixing equipment, baking ovens, wrapping capability and ancillaries
4. [✄]

Sausage rolls, pasties or slices to cold pies

Table 6: Equipment and estimated cost to switch from either sausage rolls, pasties or slices to cold pies

	£'000
Modifying a pastry mixer for hot fill base	75
Procuring pie forming line (second-hand)	150
Procuring a pastry blocking unit (second-hand)	20
Procuring:	
Blocking heads	
Lidding heads	
Plattens	95
Take off parts	
Depositor drop head/pump	
Jelly equipment (second-hand)	
i.	
	30
ii.	
	370

Notes:
1. The above assumes that hot fill capability (£100k) in place for slice production.
2. The infrastructure of food grade buildings, steam, refrigeration, potable water and compressed air would all be in place.
3. The manufacturer would most likely already have in place some meat preparation and pastry mixing equipment, baking ovens, wrapping capability and ancillaries.
4. [✄]

Interchanging between sausage rolls, pasties and slices

For a supplier to switch its production between cold fill sausage rolls, pasties and slices it would require a change of extrusion or deposit head/cutters/ serators/pumps. This would cost between £15,000 and £30,000. If the supplier is switching from cold fill to hot fill, for example sausage rolls to hot fill slices, a further £100,000 for hot fill equipment would be required (second hand).

Glossary

Act	Enterprise Act 2002.
Aldi	ALDI Stores Limited.
Asda	Asda Stores Ltd.
Big 4 retailers	The four largest **grocery retailers** in the UK, namely **Asda**, **Sainsbury's**, **Tesco** and **Morrisons**.
Branded products	Products which are made by a manufacturer and have the manufacturer's brand, or a brand licensed by the manufacturer on them.
Caspian	Pork Farms Caspian Limited, a private limited company incorporated in England and Wales. Caspian is 100% owned by **Pork Farms Group** and was set up prior to the **Transaction** to be the vehicle through which **Pork Farms Group** acquired **Kerry CSP**. Post **Transaction**, **Caspian** is the trading entity holding and operating the assets acquired through the **Transaction**.
CMA	Competition and Markets Authority.
Cold pies	The product type of cold pies. That is pies which are generally bought chilled and eaten cold – primarily pork pies.
Convenience retailers	Retailers that provide grocery retail outlets outside of those provided by **grocery retailers**.
Co-op	The Co-operative Group Ltd.
Cranswick	Cranswick Gourmet Pastry Company.
CSP	Chilled savoury pastry, including **hot pies**, **cold pies**, **sausage rolls**, **pastries**, **slices**, **quiches**, and **savoury eggs**.
Delis and counters	Independent outlets and counters, but including counters within the large **grocery retailers**' own premises as well as in other high street outlets.
Discount retailers	Limited range retailers that operate significant stores on a national level, namely **Aldi**, **Lidl** and **Iceland**.

Farmers Boy	Farmers Boy Ltd. The in-house producer of a range of **CSP** products among other things for **Morrisons**.
Food service industry	The industry comprising companies involved in the preparation of meals outside of the home. Typical companies are restaurants, schools, hospital cafeterias and catering operations.
Ginsters	Ginsters of Cornwall, a division of **Samworth**.
Greencore	Greencore plc.
Grocery retailers	The main large grocery supermarket retailers in the UK, including their smaller convenience outlets, namely: **Aldi**, **Asda**, **Co-op, Iceland, Lidl, M&S, Morrisons**, **Sainsbury's**, **Tesco**, **Asda** and **Waitrose**. They are subdivided into the **Big 4 retailers and National retailers**
Higgidy	Higgidy Ltd.
Hot pies	The product type of hot pies That is hot pies containing a variety of cooked fillings (meat and/or vegetables) encased in a savoury pastry. While these are sold chilled, they are typically (re)heated and eaten hot.
Iceland	Iceland Foods Ltd.
IEO	Initial enforcement order.
Inquiry group	A group of **CMA** panel members constituted to decide the questions set out in section 35 of the **Act** in respect of the **Transaction**.
Kerry	Kerry Foods Limited is a private limited company incorporated in England and Wales. Further information on Kerry can be found in Appendix C.
Kerry CSP	The **CSP** business acquired by **Pork Farms Group** from **Kerry Foods Ltd** as a result of the **Transaction**. Further details of the assets acquired under the **Transaction** are in Appendix C.
KerryFresh	KerryFresh Limited, a company within the **Kerry Group** responsible for delivery of the **CSP** production of the Target to **convenience retailers**.

Kerry Group	Kerry Group plc and its group of companies. Kerry Group is an international food corporation comprising a wide range of businesses involved in ingredients, agriculture and consumer food products.
Lidl	Lidl UK GmbH.
M&S	Marks and Spencer plc.
McColl's	McColl's Retail Group Ltd.
Morrisons	Wm Morrison Supermarkets plc.
National retailers	**Grocery retailers** outside of the **Big 4 retailers** that have a large national presence, namely **Aldi**, **Co-op**, **Iceland, Lidl**, **M&S** and **Waitrose**.
Nisa	Nisa Retail Limited.
Own-label	A product marketed under the brand name of a particular retailer rather than that of the manufacturer.
Palmer and Harvey	Palmer and Harvey McLane Ltd.
Parties	Together, **PFGL** and **Kerry CSP**.
Pasties and slices	The product type of pasties and slices. Baked pasties made by placing uncooked filling, typically meat and vegetables, on flat shortcrust pastry and folding the pastry in half to wrap the filling.
Peter's	Peter's Food Service Limited.
PFGL	Pork Farms Group Limited (formerly Poppy Acquisition Limited) is a private limited company incorporated in England and Wales. PFGL is the parent company of both **Pork Farms** and **Caspian**. Further background detail about PFGL is in Appendix C
PGI	Protected Geographical Indication
Phase 1	The investigation of the **Transaction** to determine whether the statutory test for reference was met (section 22 of the **Act**).

Phase 2	The investigation of the **Transaction** following reference launched on 5 January 2015 to decide the questions set out in section 35 of the **Act**.
Pieminster	Pieminster Ltd.
Poppy	Poppy Acquisition Limited is the former name of **PFGL**. In November 2014 Poppy Acquisition Limited changed its name to **PFGL**.
Pork Farms	Pork Farms Limited, a private limited company incorporated in England and Wales. Pork Farms operates a **CSP** business, which involves the manufacture and supply of **CSP** products into the food retail sector as **branded products** as well as **own-label**.
Pork Farms Group	The Pork Farms Group as a whole.
Pukka Pies	Pukka Pies Limited.
Quiche	The product type of quiche. That is savoury, open pastry with a filling of savoury eggs, milk or cream with cheese, meat or vegetables.
Retail CSP	All retail outlets that offer **CSP** products for sale direct to consumers.
Sainsbury's	Sainsbury's Supermarkets Ltd
Samworth	Samworth Brothers Limited is a group of 16 businesses that individually produce chilled and ambient foods. (Blueberry Foods/Bradgate Bakery/Brooksby Foods/Dickinson & Morris/**Ginsters**/Kensey Foods/Kettleby Foods/Melton Foods/Saladworks/Samworth Brothers Distribution/Soreen/ **Tamar/Walkers**/Walkers Deli/Walkers Sausage Co/Westward Laboratories).
Sausage rolls	The product type of sausage rolls (usually a pork meat filling but alternatives are also used). The basic composition of a sausage roll is generally a sheet or sheets of puff pastry formed into tubes around sausage meat and glazed with egg or milk before being baked. They can be served either hot or cold.

Scotch eggs	The product type of scotch and savoury eggs, primarily Scotch eggs.
SKU	Stock-keeping unit. This is a code, usually alphanumeric, that uniquely identifies a product. It is typically used by businesses for inventory management purposes.
SLC	Substantial lessening of competition. The competition test in one of the questions to be decided at phase 2 under section 35 of the **Act**.
Spar	Spar (UK) Ltd.
Stobart's	Stobart's (Bradford) Ltd.
Tamar	Tamar Foods, a division of **Samworth**.
Tesco	Tesco Stores Limited.
Transaction	The elements of the acquisition by **PFGL**, through **Caspian**, of **Kerry CSP** that are relevant for the phase 2 investigation. Further details are in Appendix D. The **Transaction** completed on 17 August 2014.
Tulip	Tulip Ltd.
UK	United Kingdom
Vale of Mowbray	Vale of Mowbray Ltd.
Vision Capital	A private equity firm with offices in London and New York. Entities within the Vision Capital group act as manager and/or adviser in respect of the **Vision Funds**.
Vision Funds	The private equity firms Vision Capital Partners VI L.P. and Vision Capital Partners VI E L.P. (managed by **Vision Capital**). Vision is the majority shareholder and ultimate controller of **Pork Farms Group**.
Waitrose	John Lewis Partnership (including Waitrose Partnership)
Walkers	Walkers Charnwood Bakery, a division of **Samworth**.
Welsh Pantry	Winning Blend Limited (trading as The Welsh Pantry).

Wholesalers	Wholesalers that are active in the **CSP** market. For example, **Palmers and Harvey**.
Wrights	Wrights Pies (Shelton) Limited.