

COMMISSION OF THE EUROPEAN COMMUNITIES

**A STUDY OF THE EVOLUTION
OF CONCENTRATION
IN THE FOOD INDUSTRY
FOR THE UNITED KINGDOM**

Product market structure

VOLUME I

October 1975

The following report is the first volume of Part 2 of a study of concentration in the United Kingdom food processing industry.

Part I of the study, entitled "Industry Structure and Concentration 1969-72", which was published in January 1975, dealt with trends in the food industry, structural changes and various indices for assessing concentration in the industry as a whole.

Part 2 deals with the structure and level of concentration in a number of product markets and submarkets.

Part 2 is itself divided into two volumes, this, the first volume, dealing above all with markets and submarkets in manufactured milk products, infant foods, ice-cream, grain milling products and biscuits.

The second volume deals with the markets and submarkets in margarine, sugar, canned, frozen and dehydrated foods, and dietetic and health foods.

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P R E F A C E

The present volume is part of a series of sectoral studies on the evolution of concentration in the member states of the European Community.

These reports were compiled by the different national Institutes and experts, engaged by the Commission to effect the study programme in question.

Regarding the specific and general interest of these reports and the responsibility taken by the Commission with regard to the European Parliament, they are published wholly in the original version.

The Commission refrains from commenting, only stating that the responsibility for the data and opinions appearing in the reports, rests solely with the Institute or the expert who is the author.

Other reports on the sectoral programme will be published by the Commission as soon as they are received.

The Commission will also publish a series of documents and tables of syntheses, allowing for international comparisons on the evolution of concentration in the different member states of the Community.

This Report commissioned by the Directorate-General for Competition of the Commission of the European Communities has been carried out by Development Analysts Ltd., under the direction of R.W. Evely, B.Sc. (Econ), in consultation with Professor P.E. Hart, B.Sc. (Econ), of the University of Reading, and Professor S.J. Prais, M.Com., Ph.D., Sc.D (Cantab) of the City University, London and the National Institute of Economic and Social Research. Thanks are also due to the staff of Development Analysts Ltd., more particularly to Mrs. J.A. Carter, B.Sc. (Econ), Miss B.A. Playll, B.A., and Mr. A.J. MacNeary, B.A., who contributed greatly to the study.

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CHAPTER 1

INTRODUCTION

1.1: This Report presents the results of the second stage of a Study of Concentration in the UK Food Processing Industry, commissioned by the Directorate-General for Competition of the Commission of the European Communities. The first stage of the Study was published in January 1975 as Part 1: Industry Structure & Concentration, 1969-72, and dealt with the trends in the food processing industry, changes in its structure, and measures of concentration at the industry scale.

1.2: The second stage of the Study has been concerned with the structure and level of concentration in a number of industries and product-markets specified by the Directorate-General. There were nine such industries and product-markets originally listed, but in August 1975, another was specified, namely dietetic and health foods.

1.3: The results of the studies form the main body of this Report, which is itself being published in two volumes. In this volume, apart from the Introduction, there are five chapters dealing with:

- Manufactured Milk Products
- Infant Foods
- Ice-Cream
- Grain Milling
- Biscuits

In the remaining volume, there are another four chapters covering the following trades or markets, together with a final chapter summarising the salient features of all:

- Margarine
- Sugar
- Canned, Frozen and Dehydrated Foods
- Dietetic and Health Foods

1.4: The trades or product markets studied vary considerably in their size, scale and complexity. Four of them correspond to Census of Production industries, namely, Grain Milling, Biscuits, Margarine and Sugar, and while they range in terms of net output in 1973 from £19.3

millions (Margarine) to £128.2 millions (Grain Milling), and in their employment from 3,800 (Margarine) to 45,000 (Biscuits) they together comprise about 17 per cent. of the total net output and 14 per cent. of employment in the UK food processing industries.

1.5: The other trades and product-markets are less easily related to Census industries. The commodities covered under the heading of manufactured milk products, together with ice-cream and some infant foods, all come within the scope of the Census Milk and Milk Products industry, but they do not comprise the whole of that Census industry since a large part consists of the processing of liquid milk. Canned, frozen and dehydrated products are to be found among the principal products of more than one Census trade, but are mainly classified to the Fruit and Vegetable Products and Bacon curing, meat and fish products' industries. Finally, dietetic and health foods are not always readily distinguishable from the more normal product-lines of the industries that produce them, and are part of the principal products of a number of industries, among them biscuits, grain milling, fruit and vegetable products, margarine, manufactured milk products and soft drinks.

1.6: However, it is likely that these trades and product-markets account for a further 40-45 per cent. of net output and employment. In combination, the industries and product-markets specified by the Directorate-General comprise about 60 per cent. of net output and 56 per cent. of employment in the UK food processing industries in 1973.

1.7: Taken together, the trades and product-markets covered by the second-stage of our study represent an interesting cross-section of the food processing industries as well as illustrating a variety of characteristics. Some are industries which are traditional food trades and whose present structure has evolved over a long period of years; examples are flour milling and biscuits. Others are much more recent in their development and growth, as for example, infant foods, frozen and dehydrated foods, and dietetic and health foods. State intervention has shaped and moulded the structure of the industry in the case of sugar-refining, and the direct as well as indirect influence of government is also an important factor for the manufactured milk products trade. Some industries, like margarine and breakfast cereals have been highly concentrated almost since inception; in others, the present level of concentration has come about by mergers and acquisitions at varying times both before and since World War II.

1.8: While the time-scale of our industry-scale study was 1969-72, it would have been quite inappropriate to confine our attention to that most recent and short period as far as the product-market studies were concerned. Indeed, it is often necessary to retrace the history of the trade and the leading companies within it in order to understand or assess their present position and the factors underlying it.

1.9: The approach that we have adopted in studying the structure and concentration of the industries and product-markets has followed a certain pattern. In the first place, as much relevant information as possible has been assembled and collated from published sources, including industry studies, company histories, company reports and financial accounts, works of reference, statistical sources and press-cuttings. In many cases, too, approaches have been made to the leading companies in one or perhaps several of the industries under consideration, and their assistance sought in establishing or confirming points of substance in relation to their activities. The response has varied considerably, but where firms have been willing to cooperate, their assistance and advice has been substantial and much appreciated.

1.10: There are a number of general points that should be noted in relation to some of the statistics that are common to most chapters of this Part II of our Report:

- (a) Consumption and spending per head. For the most part, the data on consumption-levels and spending per head given for individual products have been taken from the Annual Report of the National Food Survey Committee entitled Household Food Consumption and Expenditure. These data relate to Great Britain and not to the United Kingdom (i.e. Northern Ireland is excluded), which means that they are not strictly comparable with most other statistical material which covers the United Kingdom. In addition, the data shown in the tables do not always precisely correspond with those in the Report for the stated year, since a change in the definition of a household occurred in 1972. An adjustment has, therefore, been made to the figures for 1968-71 inclusive to make them comparable with those for 1972 and 1973.

- (b) Brand shares. For a number of products, data are given on the shares of the retail market represented by sales of different brands. These data are subject to certain qualifications arising from the methods by which they are compiled, and in some cases they sum to more than 100 per cent. According to the IPC Marketing Manual of the United Kingdom, the brand-share data should, therefore, be taken as indicating the relative positions of the listed brands and not as absolute percentages for shares of the total market.
- (c) Advertising expenditures. A number of sources have been used for the statistics on press and television advertising expenditures, and there is some uncertainty as to the strict comparability of the data as between 1968 and 1969 on the one hand, and 1970 to 1973 on the other. Thus, while comparisons have been made in the text as between 1968/69 and 1972/73, this qualification should be borne in mind, although it should not affect the relative importance of spending for the various brands or by the named manufacturers in any particular year.
- (d) Company data. In the individual chapters, data are presented on the turnover and financial results of some of the principal companies in that industry. In the first place, it should be noted that these data have been extracted from the company accounts, and do not always correspond with those used in the preparation of the concentration indices stipulated by the EEC which form Chapter 5 of Part 1 of this Study. The reason is that the data used then were in a standardised form as prepared by the Companies Division of the Department of Industry, but since the Division does not cover all the companies to which reference is made in this Part 2, it was considered that the company accounts as published should be used in all cases. Secondly, it will be appreciated that the company data presented in the various chapters of this report relate to the whole of their activities and not simply or solely to that part concerning the subject of the chapter.

- (e) The conventions that have been followed in the presentation of the statistical data have been as follows:

- ... denotes Not available or not disclosed.
- denotes Nil or insignificant.
- N.a. denotes Not applicable.
- * denotes Insignificant, unless otherwise stated.

1.11: In Part 1 of this Study, various concentration indices were presented, based on a number of variables, for a "population" of companies which fell in actual numbers from 110 in 1969 to 72 in 1972. No attempt has been made to provide similar concentration-indices for any of the trades or product-markets covered in this part of our Study. The main reason for this decision is the absence of financial data which relate wholly and exclusively to a company's activities in the trade or product-market being studied. To have included data relating to the whole of one, or more, companies' operations where they are spread across several trades and activities (e.g. retailing) alongside that of smaller and more specialised enterprises would have led to misleading conclusions about their relative importance and influence on the market.

1.12: It must also be mentioned that while every effort has been made to record accurately the interests of individual companies and more particularly their subsidiaries and associated companies, the situation may have changed since the date of the information to which reference was made, so that some interests may have been disposed of or others acquired in the meantime.

1.13: Finally, an attempt has been made in Chapter II (in the second volume of this Part 2 of our Study) to draw together the threads of the material to be found in the studies of the individual trades and product-markets, and to identify the general pattern that seems to emerge. We have sought to be objective in describing that general pattern, both in terms of concentration at the level of production and competition in the market, but no doubt the analysis may be challenged and different interpretations could lead to alternative conclusions being drawn. What is certain is that the UK food processing industries as a whole, as evidenced by what is happening already in some of the product-markets studied, are being subject to new sets of circumstances arising from the United Kingdom's accession to the European Economic Community. The effect of these influences have not

as yet been fully felt, so that the evolution of concentration in the food processing industry, and still more the scale and form of market competition, could change in many ways in the coming years, as they have done in the period covered by this study.

CHAPTER 2

MANUFACTURED MILK PRODUCTS

1: GENERAL INTRODUCTION

1.1: Dairy products, including liquid milk, form a substantial part of the diet of British families, accounting for 15 per cent. of total household spending on food in 1973, of which some two-thirds consists of manufactured milk products, such as butter, cheese, cream, milk powder and condensed milk. In value terms, milk is also the most important single agricultural product of the United Kingdom, accounting for over one-fifth of the total value of farm sales of all produce which amounted to nearly £3,000 millions in 1972-73.

1.2: The UK dairy farmer provides all the milk required for liquid consumption and close on two-fifths of the home demand for milk products. In that task, the farmer has been supported by UK Government measures relating to guaranteed prices, subsidies, import quotas and tariffs. But policies of foreign governments have also had a bearing on the size of the milk manufacturing industry in the UK, to the extent that they have subsidised exports of dairy products to the UK market.

1.3: In preparation for, and as a consequence of the UK's accession to the Common Market, agricultural policy generally and the situation of the dairy farmer and the manufacturers of milk products in particular, have been going through a period of substantial change. Mention is made of some of these changes later, but in order to understand the situation as it has developed in the last decade or so, the main characteristics of the industry must be stated at the outset.

1.4: In the United Kingdom, the provision of milk for liquid consumption takes precedence over the supply of milk for manufacturing into such products as butter, cheese, milk powder, condensed milk and cream. This situation is maintained, as part of Government policy for the dairy industry, through powers vested in the Milk Marketing Boards (MMBs), which were set up as producer boards before the war. * The primary function of the MMBs is to buy milk from dairy farmers and to sell it to milk distributors and manufacturers, and in this

* There are five Milk Marketing Boards in the UK: one covers the whole of England & Wales, three cover Scotland, and the other Northern Ireland.

respect they act within their own areas as both monopoly buyers and monopoly sellers of milk, and trade on terms determined by Government in negotiations with the National Farmers' Union.

1.5: The first responsibility of the MMBs is to meet the requirements of the market for liquid milk, but thereafter in effect they allocate the remaining surplus milk between different manufactured milk products in order to obtain the best overall return for the dairy farmer. This can be achieved because higher prices are charged by the MMBs for milk going into the manufacture of products such as cream, full cream powder, condensed milk and chocolate crumb - collectively known as the "higher category" products - than for other products like cheese and butter.

1.6: Besides occupying this dominant position in relation to the allocation of milk between the liquid and manufactured milk products markets, the MMBs are themselves involved in milk manufacturing, operating at least 40 creameries producing butter, cheese, skim powder and concentrate, and cream as well as bulk handling depots and bottling plants. The rest of the milk manufacturing industry comprises the private trade, and while the interests of the principal concerns straddle many of the individual product-markets, there are differences in the identity of the main producers between one product and the next.

1.7: The prices at which the Boards buy and sell milk for the liquid market are, in practice, determined by the Government, and prices for the surplus milk destined for the manufactured market are fixed by negotiations between the Boards and the manufacturers' trade association, the National Association of Creamery Proprietors & Wholesale Dairymen to take effect from the beginning of October each year. During these negotiations, the Boards pursue the objective of maximising the overall return from milk supplied for manufacturing, but there is a considerable degree of flexibility available to them in balancing a concession on the suggested price of milk for one product by demanding something extra on the price for another.

1.8: The factor which determines the extent to which the Boards can push up the price of milk for manufacturing at any one time is the degree of competition from imports to which the domestic manufacturers may be exposed. Since the liquid market has first claim on all milk produced, and the supply of milk is not only subject to normal seasonal influences but also liable to be affected severely by any periods of abnormal weather (such as a summer drought) milk manufacturers cannot depend on a regular and sustained throughput of milk for their creameries. If the outlook for milk supplies generally is poor, and to encourage greater production by farmers the Boards obtain higher prices

for manufacturing milk, the result may be that the amount of milk for manufacturing will strain the capacity of the creameries. Moreover, if the effect of the higher prices for manufacturing milk means that the prices of the domestic products rise out of step with those of foreign manufacturers, imports to the domestic market may increase and exports fall.

1.9: The relationship between home and imported supplies, and more particularly the prices of these imported supplies, not only influences the overall return which the MMBs can obtain from sales of milk for manufacturing but determines the price-differentials between the "higher-category" products at one end of the scale and the "sink" product, butter, at the other.

1.10: It is against this background of the powers and responsibilities of the MMBs, the basis of price-fixing for the raw material, and the strength of competition from imports that the structure of the industry as a whole, and the situation in the individual product markets must be reviewed.

1.11: The sources for all the statistical tables are grouped together at the end of the chapter.

2: THE MILK MANUFACTURING INDUSTRY

2.1: The total sales of milk off farms has been rising steadily. In the first five years after the MMBs resumed direct contact with milk distributors and manufacturers in 1954, total sales of milk averaged 2,078 million gallons a year. In the 1959-63 period, they increased by 12 per cent. to 2,330 million gallons, followed by a further rise of over $5\frac{1}{2}$ per cent. to 2,461 million gallons in 1963-68. Thereafter as can be seen from Table 2.1, average yearly sales have risen to 2,936 million gallons in 1972-73, 14 per cent. higher than in 1968-69, and over 40 per cent. higher than the average for 1954-58.

2.2: Sales of milk on the liquid market increased more slowly: between 1954-58 and 1964-68 they rose only 9 per cent., and then fell below the 1964-68 average of 1,650 million gallons from 1968 onwards, except for 1973. Milk sold for manufacturing has provided the real momentum to sales: after rising by 44 per cent. between 1954-58 and 1964-68, its 1972-73 volume of 1,290 million gallons was 130 per cent. higher than in 1954-58. Consequently, whereas little more than one-quarter of milk sales off farms went to manufacturing in 1954-58, the proportion had risen to one-third in 1964-68 but in the three years, 1971, 1972 and 1973 it was more than two-fifths.

2.3: The utilisation of manufacturing milk between the principal products for the same periods is shown in Table 2.2. More milk is generally used for the manufacture of cheese than for any other product-group: between 1954-58 and 1964-68, the gallonage rose by nearly three-tenths, although the share of total manufacturing milk claimed by cheese manufacture fell from over $36\frac{1}{2}$ per cent. to under 33 per cent. Furthermore, between 1968 and 1973, milk for cheese manufacture increased by over one-half, although its claim remained more or less constant at 30-33 per cent. of total milk for manufacturing. Relatively small changes have occurred in the gallonages used for the manufacture of condensed milk, whole milk powder and sterilised cream: their combined claim amounted to 190 million gallons in 1954-58, rose only to 208 million gallons in 1964-68 and fell back to 200 million gallons in the five-years 1969-73.

2.4: In contrast, the utilisation of milk for fresh cream manufacture has risen dramatically. Between 1954-58 and 1964-68, it rose nearly fivefold in volume, and its share of all manufacturing milk increasing from under 5 per cent. to over 15 per cent. during the same period. In 1972-73, the volume of milk used for fresh cream had risen to over 187 million gallons, half as much again as in 1964-68, although its share had fallen back to $14\frac{1}{2}$ per cent.

2.5: As already mentioned, the amount of milk available for butter manufacture fluctuates according to the overall supply situation and the demand for milk represented by other products. Thus, while the average quantity of milk going to butter rose from 136 to 222 million gallons (or by over three-fifths) between 1954-58 and 1959-63, it fell in the next five years to 192 million gallons. The five-year averages, however, conceal the variation in yearly supplies: they ranged from 90 to 214 million gallons during the 1954-58 period, from 111 to 293 million gallons in 1959-64, and from 124 to 272 million gallons in 1964-68. After 1968, however, the milk used for butter manufacture increased year by year up to 1972, when at 504 million gallons, it was over four-fifths higher than the 1968 level, falling back to 424 million gallons in 1973. However, in 1972-73 over 35 per cent. of all manufacturing milk went into butter as compared with 30 per cent. in 1968-69, and under one-quarter in 1954-58 and 1964-68.

2.6: Although butter is regarded as the "sink" product for manufacturing milk, the price realised by the MMBs for that milk was substantially higher in 1973 than in 1968. From Table 2.3, it will be seen that the price of milk for butter was 166 per cent. higher in 1973 than in 1968, as compared with an increase in the average (gross) realised price of 93 per cent. for all manufacturing milk. Thus, the increase for butter was much more than the 83 per cent. rise in prices realised on milk for whole milk powder and cheese, or the 70 per cent. obtained on milk going into condensed milk and fresh cream, or the doubling of the price of milk for sterilised cream.

2.7: Consequently, milk for butter was contributing more than three-tenths of the total gross revenue of the MMBs from sales of manufacturing milk in 1972-73 as compared with under one-fifth in 1968-69. Cheese had also become a more important contributor, but to a comparatively small extent. The contribution from condensed milk was down from over one-sixth to under one-tenth and that of fresh cream from over one-fifth to one-sixth.

Relative importance of net imports

2.8: Home produced milk used in manufacturing has been increasing in importance in relation to the total supply of manufactured milk products in the UK. In Table 2.5 is shown the composition of the UK supply with net imports of manufactured milk products converted into their milk equivalents, from which it will be seen that net imports represented nearly four-fifths of the UK supply in 1964-66 but only two-thirds in 1970-73. At the same time, the total UK supply, after rising from 3,535 million gallons in 1964-66 to 3,671 million gallons in 1967-69, was down to 3,442 million gallons by 1970-73 a fall of $2\frac{1}{2}$ per cent. compared with 1964-66.

2.9: The composition of the total supply of manufactured products (by milk equivalents) is shown in part A of Table 2.6, and the relative shares of different products in part B. It will be seen that the principal changes have occurred for butter, cheese and fresh cream. The proportion of butter in total UK supplies has fallen from 73 per cent. in 1964-66 to 67 per cent. in 1970-73, while that of cheese has risen from 17 per cent. to 20 per cent., and fresh cream from 3 per cent. to 5 per cent.

2.10: The third part C of Table 2.6 shows the relative importance of net imports (except for condensed milk where there are net exports) for the various products. Net imports have become less important for both butter and cheese between 1964-66 and 1970-73. For butter, their share of total UK supplies has fallen from 94 per cent. to 82 per cent.; for cheese, from 57 per cent. to 48 per cent. There has also been a fall in the share of net imports for sterilised cream: from 44 per cent. in 1964-66 to 32 per cent. in 1970-73. Otherwise the main changes have been an increase in the share of net imports in the Other Products category from 19 per cent. to 24 per cent. during the same period.

TABLE 2.1UK: Utilisation of Milk sold off farms, 1954-73

	Million gallons								
Years from April	1954- 58	1959- 63	1964- 68	1968	1969	1970	1971	1972	1973
Liquid sales	1,515	1,588	1,650	1,643	1,645	1,641	1,618	1,635	1,650
Sales for Manufacturing	<u>563</u>	<u>742</u>	<u>811</u>	<u>921</u>	<u>964</u>	<u>1,021</u>	<u>1,141</u>	<u>1,308</u>	<u>1,270</u>
Total sales	2,078	2,330	2,461	2,564	2,609	2,662	2,759	2,943	2,920
Sales for manu- facturing as percent. of Total	27	32	33	36	37	38	41	44	43

TABLE 2.2UK: Utilisation of Milk Sold for Manufacturing, 1954-73

Years from April	Million gallons							
	Butter	Cheese	Condensed Milk	Whole Milk Powder	Fresh Cream	Sterilised Cream	Other	Total
<u>5-year Averages:</u>								
1954-58	136	206	129	47	26	14	5	563
1959-63	222	246	131	46	67	15	14	742
1964-68	192	266	141	47	124	20	22	811
<u>Years:</u>								
1968	272	273	138	47	146	21	24	921
1969	303	281	134	45	156	22	23	964
1970	319	314	135	43	163	22	25	1,021
1971	375	368	131	52	168	21	25	1,140
1972	504	404	127	46	183	18	26	1,308
1973	424	425	131	53	192	20	27	1,272

TABLE 2.3UK: Average Prices (gross) realised for manufactured milk, 1968-73

Years from April	Pence per gallon							Total
	Butter	Cheese	Condensed Milk	Whole Milk Powder	Fresh Cream	Sterilised Cream	Other	
1968	5.58	9.49	9.76	9.06	11.39	9.32	10.84	8.67
1969	6.04	9.50	9.74	9.02	11.40	9.07	10.28	8.72
1970	6.91	10.48	9.77	9.07	11.78	9.12	10.78	9.38
1971	13.06	14.44	12.47	12.26	14.75	12.24	13.02	13.67
1972	12.51	17.06	15.48	15.46	16.77	16.15	16.41	14.96
1973	14.85	17.39	16.44	16.57	19.48	18.71	16.91	16.75

TABLE 2.4UK: Composition of Gross Revenue from sales of manufacturing milk

	Per cent.							
	Butter	Cheese	Condensed Milk	Whole Milk Powder	Fresh Cream	Sterilised Cream	Other	Total
1968	19	33	17	5	21	2	3	100
1969	22	32	15	5	21	2	3	100
1970	23	34	14	4	20	2	3	100
1971	31	34	11	4	16	2	2	100
1972	31	35	10	4	16	2	2	100
1973	30	35	10	4	17	2	2	100

TABLE 2.5

UK: Net Imports* in relation to Total Supply of Manufactured
Milk Products

	Milk equivalents			
	Net Imports*	Home Production ⁺	Total	Net imports as % of Total
	Million gallons			%
1964 - 66	2,783	752	3,535	78.7
1967 - 69	2,772	899	3,671	75.5
1970 - 73	2,270	1,172	3,442	66.0

* Net imports are milk equivalent of imports after allowing for exports and re-exports.

+ Home production relate to sales of milk off farms.

TABLE 2.6

UK: Total Supply and Net Imports of Manufactured Milk Products,
by Category

	Butter	Cheese	Condensed Milk	Cream		Other ⁺	Total
				Fresh	Sterilised		
Million gallons equivalent							
<u>A: Total Supply</u>							
1964-66	2,571	598	75	116	33	142	3,535
1967-69	2,599	656	78	151	33	154	3,671
1970-73	2,299	704	66	185	31	158	3,443
Per cent.							
<u>B: Composition of</u>							
<u>Total Supply</u>							
<u>(percent.)</u>							
1964-66	73	17	2	3	1	4	100
1967-69	71	18	2	4	1	4	100
1970-73	67	20	2	5	1	5	100
Per cent.							
<u>C: Net Imports as</u>							
<u>percent. of Total</u>							
<u>Supply</u>							
1964-66	94	57	(27)*	5	44	19	79
1967-69	90	58	(17)*	4	28	25	76
1970-73	82	48	(28)*	6	32	24	66

* Net exports

+ Includes milk powder, chocolate crumb and other milk manufactured products.

3: STRUCTURE OF MILK MANUFACTURING INDUSTRY

3.1: Manufactured milk products form part of the Milk and Milk Products Industry (Minimum List Heading 215) of the UK Census of Production, which relates to:

"... establishments engaged wholly or mainly in pasteurising etc. and homogenising liquid milk for wholesale and retail distribution; in manufacturing butter, cheese, condensed, evaporated and dried milk, etc. including fresh and preserved cream and infant and invalid foods with a milkbase, and ice-cream. The wholesale and retail distribution of milk is excluded as is ice-cream production undertaken on a small scale by retailers and caterers."

3.2: The coverage of the whole industry by including processing dairies handling liquid milk precludes the usage of the size-distribution of establishments contained in the 1968 Census as an indicator of the structure of milk manufacturing proper. Moreover, the inclusion of processing dairies also precludes direct comparison with the results of the 1963 Census, from which they were excluded.

3.3: Comparison is possible between 1963 and 1968 for the larger establishments (i.e. those employing 25 or more persons) classified to four sub-divisions (and excluding processing dairies) of the Industry. These data are shown for the main activity indicators in Table 3.1. Thus, the gross output of the milk manufacturing sub-divisions rose from £228.1 millions in 1963 to £295.8 millions in 1968 (or by 30 per cent.), with net output increasing from £38.7 millions to £56.0 millions (or by nearly 45 per cent.). Employment fell by 2½ per cent. during the same period as compared with a 3½ per cent. fall in the number of establishments.

3.4: In relation to all the indicators, butter increased in importance between 1963 and 1968, while cheese has decreased along with condensed milk. The remaining group - other milk products (including ice cream) - increased in relative importance, except in terms of employment.

Size-distribution of establishments

3.5: In view of the difficulties surrounding the use of Census data, it is fortunate that the Milk Marketing Boards publish data relating to the size-distribution of milk manufacturing establishments which are summarised in Table 3.2. This shows a decline in the number of milk manufacturing establishments from 517 in 1964/65 to 416 in 1972/73, or by nearly one-fifth while the quantity of milk handled by them has risen from 753 million gallons to 1,237 million gallons, or by nearly two-thirds.

3.6: As a result, the proportion of the total gallonage handled by the largest establishments (i.e. 6 million or more gallons a year) has risen from 55½ per cent. in 1964/65 to 75 per cent. in 1973/74, while their numbers have risen from around 40 to 62 in the same period. By contrast, the number of smaller establishments (under 1 million gallons a year) have fallen by over 100, and their gallonage share has dropped from 8 per cent. to less than 4 per cent.

Size-distribution of organisations

3.7: The same source also publishes a size-distribution of the organisations owning these establishments, as shown in Table 3.3. In numbers they have fallen from 312 in 1964/65 to 290 in 1968/69, (or by 7 per cent.), and by 1973/74 to 259 (or by a further 11 per cent.).

3.8: In 1964/65, there were 16 organisations with an annual utilisation of manufacturing milk exceeding 10 million gallons, and together they accounted for 80 per cent. of the total gallonage. By 1973/74, the number of the largest organisations in the same size-category had risen to 20, and their share of the total gallonage to 83 per cent.

3.9: At the other end of the scale, the number of organisations with a yearly utilisation of under 1 million gallons had fallen from nearly 260 to under 200, and their gallonage share had fallen from 4.3 per cent. to 2.4 per cent.

The Division of the Industry

3.10: The point has already been made that the milk manufacturing industry consists in part of the activities carried on by the five MMBs, and on the other by the private trade. In 1972/73, the MMBs collectively took about 250 million gallons of milk for manufacturing, or just under one-fifth of the UK total. Their combined total number of creameries and dairies was 49, but some of these units are wholly or primarily liquid milk processing and distributing depots. Allowing for the latter, the MMBs operated about one-tenth of the UK milk manufacturing plants in 1972/73, as compared with around one-fourteenth in 1964/65.

3.11: In view of the range of products produced by both the MMBs and the private milk manufacturing firms on the one hand, and variations in the relative importance of the principal producers for different products on the other, it is more meaningful to consider next the situation for the main milk products individually.

TABLE 3.1

UK: Census of Production data for larger establishments engaged in milk manufacturing (employing 25 or more persons)

		Gross Output	Net Output	Employment	Sales and work done	Merchanted goods and canteen takings	No. of establishments
		£ Mns.	£ Mns.	Thousands	£ Mns.	£ Mns.	No.
Total	1963	228.1	38.7	24.4	124.3	71.2	174
	1968	295.8	56.0	23.8	152.4	87.3	168
Butter	1963	59.7	4.8	3.4	48.3	11.6	33
	1968	86.0	8.6	3.8	54.3	32.3	38
Cheese and processed cheese							
	1963	53.1	10.7	6.2	38.2	15.2	55
	1968	59.3	13.4	5.7	43.7	14.9	45
Condensed milk							
	1963	31.7	7.1	2.8	26.2	5.6	14
	1968	34.0	7.9	2.7	25.6	4.4	10
Other milk products*							
	1963	83.6	16.0	12.0	45.0	38.8	72
	1968	116.5	26.0	11.6	80.9	35.7	75

* Including ice cream

TABLE 3.2UK Milk Manufacturing Establishments, by Size, 1964-1973

Annual Gallorage	1964/65*		1968/69*		1972/73*	
	Nos.	Gallorage (Millions)	Nos.	Gallorage (Millions)	Nos.	Gallorage (Millions)
Total	517	753	480	900	416	1,237
	Per cent.					
Under 0.25 m. galls.	57	2.2	54	1.5	46	0.9
0.25 - 0.99	16	5.8	16	4.7	16	3.0
1.00 - 1.99	8	8.3	6	5.2	10	4.8
2.00 - 3.99	6	12.8	8	12.4	8	7.9
4.00 - 5.99	5	15.5	6	15.8	5	8.4
6.00 and over	8	55.4	10	60.4	15	75.0
	100	100.0	100	100.0	100	100.0

* October - September

+ April - March

TABLE 3.3

UK Milk Manufacturing Organisations, by Size, 1964-74

Annual Gallage	1964/65		1968/69		1973/74	
	No. of orgns.	Gallage (millions)	No. of orgns.	Gallage (millions)	No. of orgns.	Gallage (millions)
Total	312	753	290	900	259	1,237
	Percent.					
Under 1 m. gallons	83	4.3	82	3.3	75	2.4
1 - 2 m. gallons	7	4.8	6	3.7	8	2.9
3 - 9 m. gallons	5	11.1	6	13.1	9	11.5
10 m. gallons & over	<u>5</u>	<u>79.8</u>	<u>6</u>	<u>79.9</u>	<u>8</u>	<u>83.2</u>
	100	100.0	100	100.0	100	100.0

4: BUTTER

4.1: While the production of creamery butter in the United Kingdom has increased from little more than 50,000 tons in 1968 to nearly 95,000 tons in 1973, or by as much as 85 per cent., the "disappearance" of butter* on the UK market has fallen from over 475,000 tons to an average of 400,000 tons for 1972 and 1973. As can be seen from Table 4.1, imports of butter have dropped from 440,000 tons to 327,000 tons between 1968 and 1973, and in the latter year represented 80 per cent. of apparent consumption as compared with 90 per cent. five years earlier.

4.2: Coupled with the fall in imports of butter, there has been a marked change in the relative importance of the supplying countries as shown in Table 4.2. In 1968 and 1969, 56 per cent. of the UK imports came from Commonwealth countries (43 per cent. from New Zealand alone) but by 1972-73, its share had fallen to 43 per cent. (and that of New Zealand to 37 per cent.). Imports from the original EEC countries rose during the same period from 4½ per cent. to nearly 13½ per cent., with the Netherlands contributing 3½ per cent. in 1968-69 and 11½ per cent. in 1972-73. The other two principal suppliers to the UK market and more recent members of the EEC - Denmark and Eire - accounted for another 29 per cent. of total imports in 1968-69 and 32 per cent. in 1972-73.

4.3: With increasing domestic production of butter, there has developed an export trade; the quantities exported have increased from 700 tons a year in 1968-69 to 7,600 tons a year in 1972-73. In 1972-73, the EEC countries (including Eire) took one-third of UK butter exports, as compared with one-quarter to Commonwealth countries (principally in the Caribbean and West Africa), with the USA absorbing most of the remainder.

Consumption Trends

4.4: The level of per capita consumption of butter has been falling and that of margarine increasing in recent years. From Table 4.3 it will be seen that butter consumption averaged 19.5 lbs. per head in the three years 1968-70 but only 16.8 lbs. per head in 1971-73, a fall of about one-seventh. Margarine consumption increased from 8.9 lbs. per head to 10.4 lbs. per head during the same period, an increase of one-sixth.

* By "disappearance" is meant home production plus imports less exports less increase in stocks.

4.5: At the same time, annual household spending per head on butter has risen (at current prices) from £3.33 in 1968-70 to £3.93 in 1971-73, a rise of 18 per cent., whereas annual spending per head on margarine has increased by over one-half from £0.95 in 1968-70 to £1.45 in 1971-73. Even so, butter's share of the total spending on butter and margarine has fallen comparatively slightly from 78 per cent. to 73 per cent. between the two sets of years.

4.6: The movement in the average prices paid for butter and margarine in the 1968-73 period is also shown in Table 4.3. In 1972, the average price paid for butter of 25.75 pence per lb. was more than one-half higher than in 1968, although the drop in the average price in 1973 brought the increase over 1968 down to one-quarter. Margarine prices rose by 38 per cent. between 1968 and 1972, and by 43 per cent. by 1973. While the price-differential enjoyed by butter over margarine fell from 7 pence to under 6 pence between 1968 and 1970, it rose to 12 pence in 1972, only to fall back again to the 1968 level in 1973.

4.7: Purchases of butter (and of margarine) are affected both by changes in real incomes and in their relative prices. The National Food Survey's data on income elasticities of expenditure and quantities purchased for butter and margarine for the 1971-73 period are shown in Table 4.4. For butter in 1971, a 10 per cent. increase in real incomes was associated with a rise of nearly 2 per cent. in expenditure and quantity purchased, whereas the same increase in real incomes was associated with a fall of $3\frac{1}{2}$ per cent. in expenditure and quantity purchased for margarine. In 1973, a 10 per cent. increase in real incomes was associated with a rise of nearly $2\frac{1}{2}$ per cent. in both expenditure and quantity purchased of butter, and much the same percentage fall in the case of margarine.

4.8: Furthermore, Table 4.5 shows the price and cross-price elasticities for butter and margarine in the 1966-73 period, which are consistent with those commodities being mild substitutes for each other. Reading across the first row, it will be seen that average purchases of butter would be expected to decrease by 0.43 per cent. for each 1 per cent. increase in its average price but to increase by 0.22 per cent. for each 1 per cent. increase in the price of margarine. Conversely, from the second row, average purchases of margarine would be expected to increase by 0.7 per cent. for each 1 per cent. increase in the price of butter, but to decrease by only 0.02 per cent. for each 1 per cent. increase in its own price. The r^2 in the final column indicates that these estimates are subject to some uncertainty: only

35 per cent. of the variation in the monthly averages of butter purchases over the period are explained by the two elasticity co-efficients and the variation in the prices of butter and margarine, and 38 per cent. in the case of margarine.

The Division of the UK Market

4.9: There are no official statistics available which relate to the value of the total UK market for butter, but using the Family Expenditure Survey data, it is possible to obtain reasonable estimates of total private household spending on butter. These data suggest that annual household spending averaged £180 millions a year in 1968-70 and £205 millions a year in 1971-73.

4.10: In 1972, when annual household spending is estimated at £210 millions, it is further estimated that New Zealand and Danish butter sold as such each accounted for 22 per cent. of that total spending, as compared with 18 per cent. claimed by UK butters. The remaining 38 per cent. of the household market comprised both butters of defined origin (such as Dutch or Normandy butters) and blended butters.

4.11: In that year, the average prices paid by consumers for UK butters was 25.9 pence per lb., less than that for New Zealand (26.3 pence) and Danish (27.2 pence) butters but representing a premium of about 1.2 pence per lb. over the average price for all other (including blended) butters.

4.12: The traditional situation in the UK market, has been that the home manufacturers have sought to promote domestic butter as a premium product along with supplies imported from Denmark and the Netherlands, with imported butter from New Zealand and Australia setting the basic price. Consequently a substantial part of home-produced butter was not marketed as such but used for blending with imported bulk butter from countries such as Poland and the Argentine. The formula used to fix the price paid for milk used to manufacture butter reflected this situation, in that between 1968 and 1971, it was assumed that the first 8 million gallons of milk would be used each month to manufacture premium English packet butter (and thereby sold at a price related to, but higher than the New Zealand butter price), with the remainder going into butter for the blending market (sold at a discount compared with the New Zealand butter price). After 1971, the growth in the English packet butter market was recognised by basing the milk price directly on the English butter price.*

* See OECD: Changes in the Processing and Distribution of Milk and Milk Products: a challenge to farmers. Vol. 2, 1974.

4.13: In considering the structure of the UK butter industry it is necessary to bear these developments in mind, and more particularly to recognise the distinction between the degree of concentration in manufacturing and the home producers' shares of the domestic market.

Concentration in Butter Manufacture

4.14: In Table 4.6 are shown the Census of Production data for the butter trade, and also sales of the principal products by larger establishments (i.e. employing 25 persons or over) in 1963 and 1968. Between the two years, the number of establishments in the trade rose from 33 to 38, while the number of enterprises rose from 15 to 17.

4.15: The number of enterprises classified to the butter trade were, however, only a fraction of all the enterprises producing butter. In 1968, the principal product data show 44 such enterprises, with total sales of over £54 millions compared with under £51 millions in 1963. The share of those sales claimed by the 5 organisations with the largest sales fell from $85\frac{1}{2}$ per cent. in 1963 to under $78\frac{1}{2}$ per cent. in 1968.

4.16: Data are available for 1972 and 1973 on sales of butter by UK manufacturers, both those classified to the Milk & Milk Products industry (MLH 215) and in establishments classified to other industries. From Table 4.7, it will be seen that there were 36 enterprises selling unblended (or churned) butter in 1972, and 35 in 1973, and that their total sales in both years amounted to around £33 millions. There were 18 enterprises engaged in the sale of blended butter in 1972 and 16 in 1973, but their sales fell from over £35 millions in 1972 to £29 millions in 1973. As many as 61 enterprises were engaged in sales of straight-packed purchased butter in 1972, but their number fell to 55 in 1973, with their sales amounting to around £22 millions in both years.

4.17: The rise in the number of butter-making enterprises from 17 in 1968 to 36 in 1972 arises, in all probability, from the increase in the gallonage of milk available for butter. Thus, plants with unused butter-making capacity in 1968 may have been producing by 1972, while others have qualified for inclusion by increasing their numbers employed from under to over 25 persons.

4.18: Despite the increase in the number of enterprises and the volume of creamery butter produced, it is likely that the proportion of total sales claimed by the 5 largest enterprises has not changed significantly since 1968. According to the OECD report, the Milk

Marketing Board for England & Wales produced 24,200 tons of butter in 1972-73, which would be equivalent to around 25 per cent. of the national production. It is believed that Unigate's share of UK butter production is in the region of 33-35 per cent., with the next largest manufacturer, Express Dairy Co. accounting for about 12-13 per cent. The other two major producers - the Co-operative Wholesale Society Ltd. and Northern Dairies - are thought to account for another 6 - 8 per cent. between them. On this basis, the 5 largest enterprises producing butter could have represented 76-80 per cent. of total UK creamery production in 1972 and 1973.

Market Shares

4.19: The shares of the principal branded butters in the total UK branded butter market for 1969-70 and for 1972-73 are shown in Table 4.8. The two leading brands are Lurpak (Danish) and Anchor (NZ), and their combined share of the branded butter market has risen from 28 per cent. in 1969 and 38 per cent. in 1970 to an average of 47 per cent. in 1972-73. The other main imported brands are Kangaroo (Australia), Kerrygold (Irish) and Fernleaf (NZ), which together accounted for 20 per cent. of the branded market in 1972-73 as compared with 16 per cent. in 1969. This, in the region of two-thirds of the branded butter market was accounted for the five leading imported butters in 1972-73, as compared with between two-fifths and one-half in 1969.

4.20: The Co-op butters have maintained a share of around 7 per cent. of the total branded market, but the Adams brand have fallen slightly in their relative importance. One factor of particular interest is the 6 per cent. share claimed by the Country Life brand in 1973, since this product was launched in 1970 by the English Butter Manufacturing Co., a consortium of 11 producers (including the England & Wales MMB, Unigate, Express and the CWS), and replaced about a dozen existing brands separately marketed by the consortium's members.

Advertising Expenditure

4.21: The total amount of press and TV advertising expenditure for butter is shown in Table 4.9, from which it will be seen that total spending in 1972-73 averaged nearly £2 millions as compared with under £1½ millions in 1968-69. On this basis, advertising expenditures were equivalent to about 1 per cent. of total household spending on butter in 1972-73 as compared with about 0.8 per cent. in 1968-69.

4.22: The relative importance of the various advertisers can also be seen from Table 4.9. In the first place, it will be noted that spending by the Butter Information Council - formed in 1954 to promote the consumption of home and imported butter and funded by overseas as well as domestic marketing organisations - fell from around two-fifths of the total in 1968-70 to as low as one-tenth in 1973. The launching of Country Life butter has been supported by advertising which represented 17 per cent. of the total in 1973 as compared with 6 per cent. in 1971. Otherwise the principal advertisers are, Anchor, Lurpak and Kerrygold, their combined proportion of advertising expenditure corresponding broadly with their combined brand shares.

4.23: Although home production of butter is highly-concentrated, in relation to total sales (including imported butter), concentration is much lower.

TABLE 4.1UK: Butter Supply Position, 1968-73

	Thousand tons				
	Production of Creamery Butter	Imports	Exports	Apparent Consumption	"Disappearance" (i.e. Apparent Consumption less stock change)
1968	51.1	440.4	0.7	490.8	475.5
1969	55.7	410.0	0.7	465.0	477.0
1970	62.9	387.6	1.8	448.7	466.7
1971	64.9	367.5	2.4	430.0	435.7
1972	93.6	339.3	2.6	430.3	384.8
1973	94.7	326.9	12.6	409.0	416.0

TABLE 4.2UK: Butter Imports, by Source, 1968-73

	Thousand tons					
	1968	1969	1970	1971	1972	1973
EEC	24.2	14.5	24.2	28.1	22.0	67.4
of which Netherlands	17.7	11.7	13.1	17.1	17.3	60.1
Commonwealth	230.4	245.3	220.3	179.7	146.0	143.3
of which New Zealand	176.5	189.1	154.9	144.5	116.1	129.9
Australia	53.7	56.2	65.3	32.1	27.7	12.9
Other Countries	185.8	150.2	143.1	159.7	175.7	116.2
of which Denmark	101.6	92.9	83.0	69.4	70.4	73.1
Eire	27.9	23.7	32.0	30.0	34.6	36.8
USA	-	-	-	25.8	18.7	-
Total	440.4	410.0	387.6	367.5	339.3	326.9

TABLE 4.3

Great Britain: Butter and margarine: Annual consumption and
spending per head, and average prices paid, 1968-73

	1968	1969	1970	1971	1972	1973
Annual consumption per head (lbs)						
Butter	19.6	19.6	19.2	17.7	15.6	17.0
Margarine	8.9	8.8	9.1	10.0	11.4	9.9
Annual spending per head (£)						
Butter	3.32	3.33	3.35	4.21	3.98	3.60
Margarine	0.88	0.91	1.07	1.35	1.60	1.40
Average prices paid (pence/lb)						
Butter	16.92	17.00	17.56	23.78	25.75	21.20
Margarine	9.92	10.37	11.64	13.45	13.70	14.19
Average retail prices (pence/lb)						
Danish Butter	19.2	19.0	20.0	27.6	28.7	23.9
New Zealand Butter	16.7	16.8	16.8	24.2	27.6	20.4

TABLE 4.4Income-elasticities of demand for butter and margarine, 1971-73

	Income elasticities of expenditure		Income elasticities of quantity purchased	
	Butter	Margarine	Butter	Margarine
1973	0.24	- 0.23	0.23	- 0.27
1972	0.31	- 0.27	0.32	- 0.28
1971	0.19	- 0.35	0.18	- 0.36

TABLE 4.5Price and cross-price elasticities for butter and margarine, 1966-73

	Elasticity with respect of the price of:		r^2
	Butter	Margarine	
Butter	- 0.43 (0.07)	0.22 (0.03)	0.35
Margarine	0.70 (0.10)	- 0.02 (0.32)	0.38

TABLE 4.6

UK: Butter: Census Data on Enterprises and Sales, and Sales
Concentration-Ratios, 1963 and 1968

	1963	1968
<u>Butter Trade</u>		
No. of enterprises	15	17
No. of establishments	33	38
Total sales and work done (£ Mns)	48.35	54.25
<u>Principal Products:</u>		
Butter (including whey butter)		
No. of enterprises	...	44
Sales Quantity: 000 tons	154.30	170.05
Value: £Mns	50.89	54.11
<u>Butter (including Whey Butter)</u>		
Proportion of principal products' total sales value by 5 largest enterprises (%)	85.5	78.4

TABLE 4.7

UK: Sales of Butter by UK Manufacturers, 1972 and 1973

		Butter not blended	Blended butter	Purchased butter: straight packed*
No. of enterprises	1972	36	18	61
	1973	35	16	55
Sales Quantity:				
000 tons	1972	67.7	69.9	51.2
	1973	75.3	67.6	55.7
Value: £ Mns.	1972	33.0	35.4	21.7
	1973	33.3	29.1	22.8

* Sales of merchanted goods

TABLE 4.8UK Branded Butter: Principal Brand Shares

	Per cent.			
	1969	1970	1972	1973
Lurpak (Danish)	13	17	22	22
Anchor (NZ)	15	21	26	24
Coop	7	8	7	7
Kangaroo (Australia)	6	7	8	8
Kerrygold (Irish)	5	7	8	8
Fernleaf (NZ)	5	5	4	4
Adams	4	4	3	3
Country Life	-	3	*	6 ⁺
Other branded butter	<u>45</u>	<u>27</u>	<u>22⁺</u>	<u>18⁺</u>
	100	100	100	100

* Included in "Other" below

+ Of which, Sainsbury's own label amounted to 7 per cent.

5: CHEESE

5.1: Cheese production in the UK rose from an average of 118,500 tons in the two years 1968-69 to over 179,500 tons in 1972-73, or by over one-half. Consumption of cheese did not keep pace with this increase in production, rising only by about one-tenth from 278,000 tons in 1968-69 to 308,000 tons in 1972-73. Apart from stock-changes and a relatively small increase in exported cheese, the main change has been in the level and relative importance of cheese imports. Thus, whereas imports averaging nearly 165,000 tons in 1968-69 were equivalent to three-fifths of UK consumption, their fall to little more than 140,000 tons in 1972-73 reduced their share of consumption to under one-half.

5.2: As with butter, the relative importance of the supplying countries has changed as total cheese imports have fallen. From Table 5.2 it will be seen that in 1968-69, three-fifths of UK cheese imports came from the Commonwealth (and over two-fifths from New Zealand), whereas by 1972-73, the Commonwealth's share was down to around two-fifths (with New Zealand's share about one-third). The original EEC countries contributed about one-sixth of the UK imports of cheese in 1968-69, but over one-fifth in 1972-73, while the rest of the world supplied the remaining one-third in 1972-73 as compared with under one-quarter in 1968-69. The two more recent entrants to the EEC - Denmark and Eire - increased their combined share from 17 per cent. in 1968-69 to 30 per cent. in 1972-73. Thus, the expanded EEC was accounting for over seven-tenths of the UK cheese imports in 1972-73 as against one-third in 1968-69.

5.3: The fall in imports of cheddar cheese from an average of over 132,500 tons in 1968-69 to 103,000 tons in 1972-73 has exceeded the total decrease, the off-setting increased imports being of processed cheese and other speciality cheeses. (See Table 5.3).

Consumption Trends

5.4: Annual consumption per head of cheese has been rising in recent years, and as can be seen from Table 5.4 it was about 7 per cent. higher in 1972-73 than in 1968-69. This increase in total consumption conceals a fall of $5\frac{1}{2}$ per cent. in processed cheese consumption per head, with the result that for natural cheese the rise in consumption per head has been about 8 per cent.

5.5: The rise in consumption has occurred despite substantial increases in price: for natural cheese, the rise in average prices paid between 1968-69 and 1972-73 was as much as 70 per cent. as compared with 50 per cent. for processed cheese. For all cheese purchases, therefore, annual spending per head averaged £2.19 in 1968-69 but rose by four-fifths to £3.93 per head in 1972-73, with natural cheese increasing its share of total spending from 87 per cent. to nearly 90 per cent. during the same period.

Division of the UK Market

5.6: Using the Family Expenditure Survey data for household spending on cheese, the annual total expenditure is estimated to have risen from £106.5 millions in 1968-69 to £197.5 millions in 1972-73, or by 85 per cent. Furthermore, in 1972 when the total household market was around £190 millions, its composition as between different types of cheese was as follows:

	<u>£ Mns</u>	<u>%</u>
Natural cheese		
of which:	171	90
Hard, Cheddar and Cheddar type	117	61½
Hard, other UK varieties or foreign equivalents	39	20½
Hard, Edam and other continental	9	5
Soft	6	3
Processed cheese	19	10
	<hr/>	<hr/>
	190	100

5.7: In terms of quantity, home-produced cheese represented about two-fifths of the supplies available to the domestic market in 1968-69, but nearer three-fifths in 1972-73. But as can be seen from Table 5.5, the UK cheese manufacturers were relatively strongest for processed cheese, where they accounted for nearly 85 per cent. of the apparent supply in 1972-73, as against 55 per cent. of cheddar and 64 per cent. of other cheeses.

Concentration in Cheese Manufacture

5.8: In 1968, the Census trade - cheese and processed cheese - comprised 17 enterprises with 45 larger establishments, as compared with 19 enterprises and 55 establishments in 1963. From Table 5.6, it will be seen that the principal products data distinguishes two main divisions - natural and processed cheese. The total sales value of the natural cheese sector amounted to £32.7 millions in 1968, or 72 per cent. of the total sales of principal products, as compared with £22.0 millions (67 per cent) in 1963.

5.9: The number of enterprises producing Cheddar cheese in 1968 was 21, as against 12 producers of Cheshire cheese and 17 of all other natural cheeses. The number of enterprises manufacturing processed cheese spreads was 10, and there were also 10 manufacturers of other processed cheese. Many of the cheese manufacturers will, of course, have been classified under more than one of the five sub-trades. The sales concentration data apply to natural and processed cheese together, and show a very small fall between 1963 and 1968 in the share held by the 5 largest enterprises, but the level is high at around 78 per cent. In addition, the proportion of sales held by foreign-owned enterprises was as high as 30 per cent. in 1968, although this was lower than in 1963.

5.10: The later data on the number of enterprises with larger establishments engaged in cheese manufacture make a distinction between cheddar cheese and other unprocessed cheese and processed cheese. They show that the number of enterprises producing cheddar cheese was 18 in 1973, while the number of enterprises producing other types of natural cheese was 21. The number of enterprises producing processed cheese was much lower, numbering 10 in 1973 and 8 in 1972. There will, of course, be companies which appear under each of these three heads, so it is not possible to say precisely how many cheese-producing enterprises there was in 1973 on a basis comparable to the 17 enterprises as given in the 1968 Census. However, it is fairly certain that the number of cheese enterprises, on a basis comparable to the 1968 Census, was higher in 1973 than in 1968.

5.11: It will be seen from Table 5.7 that the quantity of cheddar cheese sold by the UK producers amounted to over 120,000 tons in 1973, more than twice the quantity of other natural cheese sold, and equivalent to three-fifths of the total for the three categories combined. In value terms, the combined sales of the three categories amounted to over £111 millions, some $2\frac{1}{2}$ times the 1968 Census sales value.

5.12: The leading UK manufacturer of cheese is Unigate Ltd., being accredited with about 30 per cent. (by weight) of the total domestic cheese production. Next in order of importance as a cheese producer is Express Dairy, with a share of above one-half that of Unigate. The next two largest producers are the Milk Marketing Board of England & Wales and Kraft Foods, each with a share of about one-tenth of cheese production. Other cheese producers with significant shares are the Co-operative Wholesale Society Ltd. and Horlicks Ltd., a subsidiary of the Beecham Group.

5.13: The relative importance of the principal UK producers varies between the different categories of cheese. Unigate's share of the production of "territorial" cheeses, like Caerphilly, Cheshire, Wensleydale, Stilton etc., is larger than its share of Cheddar production, while in the processed cheese field, Kraft Foods has a much greater share of total production than it holds for cheddar.

5.14: The probability is, however, that the combined share of the 5 producers with the largest shares of total sales in 1973 was lower than the 1968 equivalent of nearly 78 per cent., partly due to the increased numbers of cheese-producing enterprises and partly to the changes in the relative importance of different types of cheese.

Market Shares and Advertising Expenditure

5.15: One of the principal developments since 1968 has been the growth in pre-packed and branded natural cheeses, processed cheese having been the market where branding had hitherto been important. Even so, about three-quarters of the UK cheese market comprises sales of unbranded cheese, and of the branded cheese, as much as three-fifths still consists of processed cheese.

5.16: The three largest concerns involved in the branded cheese market are Unigate, the US-owned Kraft Foods and the New Zealand Dairy Board (Anchor brand), with a combined share of nearly two-thirds of total sales. There is probably very little difference in the relative importance of Unigate and Kraft, each with more than one-quarter of the branded cheese market, and while Kraft undoubtedly dominates the processed cheese sector its share has fallen compared with 1968.

5.17: In 1973, total expenditure on press and TV advertising amounted to nearly £3.6 millions, an increase of more than one-third compared with under £2.7 millions spent in 1972. Indeed the 1972-73 average was as much as 70 per cent. higher than was spent in 1968-69. From Table 5.8, it will be seen that Kraft accounted in 1972-73 for over one-third of the combined total spending for cheese, the most heavily

advertised of its processed cheese being Dairy Lea and Cheese Slices, followed by Philadelphia cream cheese and Crackerbarrel cheddar. In 1968-69, Kraft accounted for three-tenths of the total cheese advertising expenditure.

5.18: The other brands of individual UK producers most heavily advertised in 1972-73 were St. Ivel Count Wedges (Unigate), Rowntree's Cheese Spread, Eden Vale Cottage Cheese (Express), but together they spent little more than one-half of Kraft's expenditure.

5.19: Apart from individual brand advertising, collective sales promotion is important for cheese. In 1968-69, over 55 per cent. of total advertising spending came from collective campaigns, but in 1972-73 (excluding the MMB's expenditure) the proportion was down to one-quarter. In 1973, however, the Milk Marketing Boards alone spent £774,000, with another £647,000 being spent by the English Country Cheese Bureau, on promoting domestic cheeses.

5.20: Finally, there is a point of special interest concerning the Milkana brand, which was a processed cheese marketed by Unilever. In 1968-69, an average of £105,000 a year was spent on advertising Milkana, but in 1970, Unilever spent as much as £324,000 (or 15 per cent. of the total cheese advertising expenditure in that year) in an attempt to challenge Kraft's dominant position in processed cheese. The effort failed, but no doubt Unilever's endeavours to secure a significant share of the processed cheese market accounts in large measure for the larger volumes of advertising expenditure by Kraft and Unigate in 1971 and 1972.

TABLE 5.1UK: Cheese Supply Position, 1968-73

	Thousand tons					
	Production:			Imports	Exports	Consumption
	Factory	Farm-house	Total			
1968	108.7	10.1	118.8	177.5	2.3	274.8
1969	108.5	9.8	118.3	153.1	3.3	281.6
1970	117.9	10.6	128.5	154.3	3.3	295.8
1971	146.8	12.4	159.2	164.7	3.3	309.5
1972	166.1	15.1	181.2	148.7	4.0	298.3
1973	162.3	15.8	178.1	135.2	6.8	318.3

TABLE 5.2UK: Imports of Cheese, by Main Suppliers, 1968-73

	Thousand tons					
	1968	1969	1970	1971	1972	1973
EEC	29.8	23.3	16.3	19.2	30.1	30.3
of which Netherlands	19.4	14.2	14.3	17.4	18.8	19.6
Commonwealth	107.7	93.1	90.2	89.3	74.3	48.5
of which Australia	15.0	11.3	11.0	6.6	3.0	0.5
Canada	19.0	13.1	12.7	12.2	7.6	1.1
New Zealand	73.5	68.5	66.2	70.3	63.3	46.6
Other Countries	40.0	36.7	47.8	56.2	44.3	56.4
of which Denmark	10.7	9.3	9.0	9.8	11.0	13.8
Eire	19.6	17.4	19.9	25.3	23.0	36.2
Total	177.5	153.1	154.3	164.7	148.7	135.2

TABLE 5.3UK: Imports of Cheese, by type, 1968-73

	Thousand tons					
	1968	1969	1970	1971	1972	1973
Processed Cheese	2.9	4.0	6.0	5.1	6.0	5.8
Blue-veined Cheese	4.0	3.8	3.8	4.1	4.0	4.1
Cheddar Cheese	143.5	121.8	119.9	131.0	111.9	94.4
Other (incl. Cream)	<u>27.1</u>	<u>23.5</u>	<u>24.8</u>	<u>24.5</u>	<u>26.8</u>	<u>30.9</u>
Total	177.5	153.1	154.5	164.7	148.7	135.2

TABLE 5.4

Great Britain: Cheese, Natural and Processed: Annual consumption
and spending per head, and average prices paid, 1968-73

	1968	1969	1970	1971	1972	1973
Annual consumption per head (lbs)						
Natural	9.87	10.10	10.42	10.47	10.50	11.08
Processed	<u>1.06</u>	<u>1.12</u>	<u>1.09</u>	<u>1.22</u>	<u>0.97</u>	<u>1.11</u>
Total	10.93	11.22	11.51	11.69	11.47	12.19
Annual spending per head (£)						
Natural	1.88	1.93	2.09	2.57	3.36	3.68
Processed	<u>0.28</u>	<u>0.29</u>	<u>0.30</u>	<u>0.36</u>	<u>0.37</u>	<u>0.44</u>
Total	2.16	2.22	2.39	2.93	3.73	4.12
Average prices paid (pence/lb)						
Natural	19.10	19.14	20.10	24.61	31.90	33.21
Processed	<u>26.31</u>	<u>25.96</u>	<u>27.55</u>	<u>30.02</u>	<u>38.30</u>	<u>40.06</u>
All	19.80	19.82	20.78	25.06	32.48	33.83
Average retail price (pence/lb)						
Cheddar Cheese	17.5	17.4	18.3	22.6	31.5	32.1

TABLE 5.5Cheese: Supply Position in UK Market, 1972-73

	Thousand tons					
	Cheddar Cheese		Processed Cheese		Other Cheese	
	1972	1973	1972	1973	1972	1973
UK Manufacturers' Sales	123.9	123.9	26.2	28.8	54.3	54.3
Exports	1.3	2.3	0.7	1.0	1.8	3.2
Imports	111.9	94.0	6.0	5.8	30.8	35.0
Total Apparent Supply	234.5	215.6	31.5	33.6	83.3	86.1

TABLE 5.6

UK: Cheese: Census Data on Enterprises and Sales, and Sales
Concentration Ratios, 1963 and 1968

		1963	1968
<u>Cheese and Processed Cheese Trade:</u>			
No. of enterprises		19	17
No. of establishments		55	45
Total sales and work done (£ Mns)		38.23	43.72
<u>Principal Products:</u>			
Natural cheese:			
Cheddar	No. of enterprises	...	21
	Sales Quantity: 000 tons	43.75	61.40
	Sales Value: £ Mns	11.14	18.05
Cheshire	No. of enterprises	...	12
	Sales Quantity: 000 tons	19.35	27.55
	Sales Value: £ Mns	5.21	7.86
Other	No. of enterprises	...	17
	Sales Quantity: 000 tons	17.85	...
	Sales Value: £ Mns	5.67	6.81
Processed Cheese:			
Cheese spread	No. of enterprises	...	10
	Sales Quantity: 000 tons	16.20	15.45
	Sales Value: £ Mns	6.77	7.08
Other processed	No. of enterprises	...	10
	Sales Quantity: 000 tons	11.90	13.05
	Sales Value: £ Mns	4.25	5.44
<u>Cheese and Processed Cheese</u>			
Proportion of total sales value by 5 largest enterprises (%)		78.5	77.7
Sales by foreign owned enterprises as percent. of total sales (%)		34	30

TABLE 5.7UK: Sales of Cheese by UK Manufacturers, 1972 and 1973

		Cheddar Cheese	Other Unprocessed Cheese	Processed Cheese
No. of enterprises	1972	19	19	8
	1973	18	21	10
Sales Quantity: 000 tons				
	1972	123.9	54.3	26.2
	1973	123.9	54.3	28.8
Sales Value: £ Mns				
	1972	64.7	28.4	18.8
	1973	66.8	28.4	20.5

TABLE 5.8

UK: Cheese: Press & TV Advertising Expenditure, 1968-73

	1968	1969	1970	1971	1972	1973
Total Advertising Expenditure (£000)	1,733	1,904	2,143	2,268	2,658	3,585
	Per cent.					
Kraft:						
Crackerbarrel	8.6	5.9	6.3	3.0	5.7	6.7
Cheese Slices	3.2	4.8	1.3	9.5	10.7	7.3
Dairy Lea	5.0	3.3	2.7	8.2	12.0	7.5
Philadelphia	8.5	9.3	8.4	8.6	8.0	5.4
Other	<u>6.1</u>	<u>5.4</u>	<u>-</u>	<u>4.1</u>	<u>8.0</u>	<u>1.1</u>
	31.4	28.7	18.7	33.4	44.4	28.0
Eden Vale Cottage	0.9	0.7	1.1	1.9	3.5	6.1
Unigate brands	2.1	*	*	*	*	*
St Ivel Count Wedges	...	...	9.9	13.5	12.2	2.7
Milkana	5.0	6.5	15.1	3.5	...	...
Kerrygold Irish Cheddar	*	2.7	0.8	3.5	3.5	0.5
Rowntree's Cheese Spread	-	-	-	0.3	6.4	5.3
MMB Cheese	*	*	*	*	0.9	21.6
New Zealand Dairy Board	5.0	6.5	5.3	7.7	3.6	5.8
English Country Cheese Bureau	16.0	17.6	12.3	10.1	11.5	18.0
Cheese Bureau	22.9	22.5	20.8	14.7	-	-
Dutch Cheese Campaign	5.7	4.9	5.0	4.8	5.9	1.5
French Cheese Campaign	2.4	2.5	2.4	...	...	0.5
Swiss Cheese Union	2.0	3.4	1.9	...	...	...
Danish Blue	...	...	1.0	3.7	3.1	1.6
Others	6.6	4.0	5.7	2.9	5.0	8.4

6: FRESH & STERILISED CREAM

6.1: The quantity of milk used in the manufacture of fresh and sterilised cream rose by one-fifth between 1968 and 1972 (see Table 2.2), with the proportion going into fresh cream manufacture increasing at the same time. In Table 6.1 is shown the supply position for fresh cream on the UK market during the 1968-73 period, from which it will be seen that total production rose from an average of 52,000 tons in 1968-69 to nearly 64,000 tons in 1972-73, while the total "disappearance" on the UK market increased from 54,000 tons to 67,000 tons during the same period. On this basis, net imports (with exports generally being small) represented less than 5 per cent. of the UK market on both sets of two years.

6.2: By contrast, as can be seen from Table 6.2 net imports accounted for nearly one-third of the "disappearance" of sterilised cream on the UK market in 1972-73, and while this represented a fall compared with their share of nearer two-fifths in 1968-69, the production of sterilised cream by UK manufacturers fell by over $6\frac{1}{2}$ per cent. during the period.

6.3: Imports of fresh cream into the UK come almost entirely from Eire, which also accounted for 15 per cent. of UK imports of sterilised cream in 1972-73, double its share in 1968-69. The major supplier of sterilised cream to the UK market is Denmark; in 1968-69, it accounted for $91\frac{1}{2}$ per cent. of UK imports, and still as much as 84 per cent. in 1972-73.

Consumption Trends

6.4: As far as private household spending is concerned, no distinction is drawn in the National Food Survey between fresh and sterilised cream. It will be seen from Table 6.3 that taken together consumption per head of both types has fluctuated from year to year during the 1968-73 period, although annual spending per head has shown an upward trend, rising from an average of under 51 pence in 1968-69 to 65 pence in 1972-73. The combined average prices paid for fresh and sterilised cream have risen by nearly 30 per cent. during the same period.

6.5: On the basis of the National Food Survey data, the retail market for fresh and sterilised cream together in the UK will have accounted for around $\pounds 35\frac{1}{2}$ millions in 1972-73, as compared with $\pounds 27\frac{1}{2}$ millions in 1968-69. But a significant proportion of total sales of fresh cream are taken both by larger users, such as plant-bakers and frozen-food processors, as well as caterers, small bakers and other non-household consumers.

In 1968-69, it was estimated that over two-fifths of total fresh cream sales (by volume) went to such users and consumers. Since then the proportion has undoubtedly increased, with as much as 55-60 per cent. of the fresh cream sales going to manufacturing and other non-household users in 1972-73.

Industry Structure

6.6: Unlike most other manufactured milk products, including sterilised cream, the production of fresh cream is carried on by a large number of dairy concerns, and notably by liquid milk processors. The Census of Production data show 121 enterprises producing 13.6 million gallons, and another 16 enterprises producing 4,760 tons of fresh cream (including pasteurised and clotted cream) in 1968. Similarly, there were 15 enterprises producing other types of cream (including sterilised cream) amounting to 17,300 tons in 1968. No concentration data were given for fresh or sterilised cream in that Census.

6.7: The more recent data on the number of enterprises with large establishments manufacturing fresh cream (of three types) and sterilised cream are shown in Table 6.4. As far as fresh cream is concerned, the largest number of enterprises are shown under the heading of double cream, the 94 enterprises in 1972 having average production sales of 76,700 gallons as compared with 82,000 gallons for the 91 enterprises in 1973. The number of enterprises producing whipped cream rose from 67 in 1972 to 74 in 1973, with average production sales increasing from under 57,500 gallons to over 61,000 gallons. The number of enterprises producing single cream also increased from 44 in 1972 to 47 in 1973, their average production sales rising from 54,000 gallons to over 61,000 gallons.

6.8: It must be noted that the total sales of fresh cream produced by these larger establishments can only be a fraction of the total output. However, it is probable that Unigate is responsible for about one-third of the total UK production of fresh cream in 1973, although the Unigate brands' share of fresh cream sales through grocers is only one-fifth as compared with the Express brands' share of nearer three-tenths.

6.9: As far as sterilised cream is concerned, there were 9 enterprises with larger establishments in 1972 and 8 in 1973, and the total production of these concerns fell, as can be seen from Table 6.4 from nearly 12,000 tons in 1972 to little more than 10,000 tons in 1973.

6.10: The largest producer of sterilised cream in the UK is the Nestle Company, with other significant producers being Pickering's Foods Ltd. (a subsidiary of H. J. Heinz Co.) and the Co-operative Wholesale Society Ltd., while imported Danish sterilised cream is marketed principally by the Flying Bird Cream Co. and Plumrose Ltd.

Advertising Expenditure

6.11: Since sterilised cream is not only a competitor with fresh cream but perhaps even more a substitute for condensed milk, consideration of its advertising support will be dealt with later. In Table 6.5 is shown, therefore, advertising expenditure on fresh cream only in the four years from 1970 to 1973, comparable data not being available for the earlier years.

6.12: It will be seen from Table 6.5 that collective advertising of cream, through the National Dairy Council and the Scottish Milk Publicity Council, far exceeds the spending on individual brands. Thus, expenditure by the two collective campaigns averaged about £540 millions in 1972-73, whereas the average for all the other brands shown in Table 6.5 was little more than £125 millions. Among these brand advertisers, the largest expenditure in each year was on Unigate's St. Ivel cream, although in 1973, the margin over the next two most heavily-advertised brands - namely, Express's Eden Vale cream and the Irish Kerrygold cream - was comparatively small. Other advertised brands in 1973 were the MMB's Dairy Crest and Northern Dairies Dale Farm cream, with Marks & Spencer's own label St. Michael's cream as well.

TABLE 6.1Fresh Cream: UK Supply Position, 1968-73

	Thousand tons		
	Total Production*	Net Imports	Disappearance on UK Market
1968	50.8	2.2	53.0
1969	53.1	2.6	55.7
1970	55.5	4.5	60.0
1971	57.7	4.3	62.0
1972	61.3	2.6	64.0
1973	66.3	4.1	70.4

* Based on milk gallonage for manufacturing

TABLE 6.2Sterilised Cream: UK Supply Position, 1968-73

	Thousand tons		
	Total Production	Net Imports	Disappearance on UK Market
1968	14.1	8.7	22.8
1969	16.0	9.2	25.2
1970	16.2	8.5	24.7
1971	15.9	7.3	23.2
1972	13.7	6.9	20.6
1973	14.4	6.5	20.9

* Based on milk gallonages for manufacturing

TABLE 6.3

Great Britain: Fresh and sterilised cream: Annual consumption and
 spending per head, and average prices paid, 1968-73

	Annual consumption per head (pints)	Annual spending per head (pence)	Average prices paid (pence/pt)
1968	1.58	48.0	30.28
1969	1.79	53.7	29.98
1970	1.70	51.9	30.44
1971	1.69	59.1	34.97
1972	1.62	62.4	38.57
1973	1.72	67.6	39.34

TABLE 6.4Fresh and sterilised cream: Enterprises and Sales Data, 1972 and 1973

	Fresh cream:			Sterilised cream
	Double	Whipping	Single	
<hr/>				
No. of enterprises:				
1972	94	67	44	9
1973	91	74	47	8
<hr/>				
Sales Quantity:		Mn. galls		000 tons
1972	7.21	3.85	2.38	11.96
1973	7.46	4.53	2.88	10.11
<hr/>				
Sales Value: £ Mns				
1972	17.8	6.9	3.4	3.2
1973	18.0	8.2	4.0	3.0
<hr/>				

TABLE 6.5UK: Fresh Cream: Expenditure on Press & TV Advertising, 1970-73

	£ 000s			
	1970	1971	1972	1973
Dairy Crest Cream	...	...	3.4	4.1
Eden Vale Cream	30.7	38.6	11.4	33.6
Kerrygold Cream	...	2.6	...	43.8
St. Ivel Cream	113.3	90.3	65.8	45.7
Dale Farm Cream	...	23.4	24.7	1.0
St. Michael's Cream	12.2	8.1	9.0	2.7
Aberdeen MMB	3.9	5.7	3.1	2.9
NDC Cream	415.0	512.9	516.7	512.6
SMPC Cream	18.3	2.1	25.2	25.8

7: CONDENSED MILK

7.1: Condensed milk is produced from whole, partly skimmed or skimmed milk, and in both sweetened and unsweetened form. As far as UK production is concerned, Table 7.1 shows that the bulk of output is in unsweetened whole condensed milk, its share of total condensed milk production increasing from under 73 per cent. in 1968-69 to 78 per cent. in 1972-73. Over the same period, however, the total output of condensed milk in the UK has fallen by one-fifth from 196,000 tons to 158,000 tons, the fall being greatest for sweetened whole condensed milk where production in 1972-73 was little more than one-half of the 1968-69 level.

7.2: In addition to the production of condensed milk shown in Table 7.1 - which excludes milk used directly in the manufacture of chocolate crumb and skimmed milk concentrate used in the manufacture of such products as margarine and ice-cream mixes - there is also unsweetened skim concentrate, whose production has averaged around 43,500 tons in the five years to 1973.

7.3: The change in the UK supply position for condensed milk between 1968-69 and 1972-73 can be seen from Table 7.2. For both unsweetened and sweetened whole condensed milk, "disappearance" on the domestic market was lower in 1972-73 than in 1968-69, and for each category, too, the UK is a net exporter, although imports of unsweetened whole were nearly as large as exports in 1972-73. Over nine-tenths of the UK's imports of unsweetened whole condensed milk have come from the Netherlands in 1972-73, while the main export markets are the Caribbean and African countries.

Consumption Trends

7.4: Consumption per head in private households of condensed milk of all types has fluctuated during the 1968-73 period, but in 1972-73 it was much the same as in 1968-69. Annual spending per head had risen by two-fifths during the same period, largely as the result of price-increases.

7.5: The retail market for all types of condensed milk was in the region of £26½ millions in 1972-73 as compared with under £19 millions in 1968-69, with evaporated milk (i.e. unsweetened whole condensed) accounting for £13 millions in 1968-69 and £20 millions in 1972-73.

Concentration in Manufacturing

7.6: The 1968 Census of Production classifies 10 establishments owned by 6 enterprises to the Condensed Milk trade, and the sales of goods produced and work done by these establishments came to £29.6 millions in 1968. Compared with 1963, the number of establishments had fallen from 14 to 10, but the number of enterprises had increased from 5 to 6, while the sales value had risen by about one-eighth.

7.7: Taking into account sales of condensed milk by establishments classified to other trades, and introducing a distinction between sweetened and unsweetened condensed milk, the principal product data in the 1968 Census (as given in Table 7.4) show there to have been 6 enterprises producing sweetened condensed as compared with 8 enterprises producing unsweetened condensed milk in 1968. Of the total sales of both types of condensed milk, the 5 largest enterprises accounted for nearly 94½ per cent. in 1968 as compared with 93½ per cent. in 1963.

7.8: Furthermore, apart from the high degree of concentration in condensed milk manufacture, the 1968 Census also shows that the proportion of total sales represented by foreign companies has risen from 45 per cent. in 1963 to 73 per cent. in 1968.

7.9: Later data on the number of enterprises and sales quantities of condensed milk products are shown in Table 7.5. Thus, there were 8 enterprises with larger establishments producing full-cream condensed milk in 1973, one fewer than in 1972, while there were 6 enterprises producing unsweetened skim concentrate in both 1972 and 1973. (The number of enterprises producing sweetened skim condensed was not given).

7.10: The two largest concerns in the condensed milk market are undoubtedly Carnation Foods Ltd. (a subsidiary of the US firm, Carnation Company) and the Nestle Co. Ltd. (a subsidiary of Nestle Alimentana A.G. of Switzerland), and together they are believed to have accounted for nearly three-quarters of the UK market in 1972-73, with Carnation's share alone coming to over 40 per cent. The other main producers of condensed milk are Unigate, Cadbury-Schweppes, Horlicks, the Co-operative Wholesale Society, and Northern Dairies.

Advertising Expenditure and Brand Shares

7.11: The main product of the condensed milk industry - evaporated milk - is dominated by two concerns, Carnation and Nestle, both overseas controlled with the support of large volumes of advertising

spending. As will be seen from Table 7.6, Carnation has spent an average of nearly £350,000 a year in the 1968-73 period, and Nestle over £240,000 a year on advertising its Ideal evaporated milk. In addition, Nestle has spent an average of over £96,000 a year on its sterilised cream, and in 1972-73 its level of expenditure was 30 per cent. more than in 1968-69 on a product where consumption was tending to decline. Apart from selling condensed milk under its own brand name, Nestle also market the product under the Fussell's Blue Butterfly label.

7.12: The movement in brand-shares of the condensed milk and sterilised cream market from 1970 to 1973 is shown in Table 7.7, which suggests that Carnation evaporated milk may have lost some ground to Nestle's Ideal, but that the latter in turn has been offset by a smaller share enjoyed by Nestle's sterilised cream.

TABLE 7.1Condensed Milk: UK Production, 1968-73

	Thousand tons					
	Whole Condensed:		Sweetened Skim Condensed	Total Condensed	Bulk	Canned
Sweetened	Unsweetened					
1968	35.2	135.1	17.9	188.2	...	...
1969	34.2	150.1	19.6	203.9	38.0	165.9
1970	33.5	150.2	18.0	201.7	46.1	155.6
1971	25.8	150.0	17.9	193.7	40.3	153.4
1972	16.9	120.4	17.0	154.3	30.6	123.7
1973	18.6	126.3	16.8	161.7	31.9	129.8

TABLE 7.2Condensed Milk: UK Supply Position, 1968-69 and 1972-73

	Thousand tons			
	Production	Imports	Exports	Domestic Disappearance
Whole unsweetened				
1968-69	142.6	9.7	26.5*	125.0
1972-73	123.4	9.8	11.1	123.4
Whole sweetened				
1968-69	34.7	...	6.7*	29.0
1972-73	17.8	0.2	1.8	16.6
Skimmed sweetened				
1968-69	18.8	...	...	21.2
1972-73	16.9	...	...	17.1

* Including Other than whole.

TABLE 7.3

Great Britain: Annual consumption and spending per head, and average prices paid, for condensed milk, 1968-73

	1968	1969	1970	1971	1972	1973
Annual consumption per head (equivalent pints.)	9.53	9.00	10.59	9.62	9.64	9.07
Annual spending per head (pence)	35.46	34.92	41.61	42.13	49.92	48.36
Average prices paid (pence/equivalent pint)	3.72	3.88	3.93	4.38	5.18	5.33

TABLE 7.4

UK: Condensed Milk: Census Data on Enterprises and Sales,
and sales concentration ratios, 1963 and 1968

	1963	1968
<u>Condensed Milk Trade:</u>		
No. of enterprises	5	6
No. of establishments	14	10
Total sales and work done (£ Mns)	26.17	29.59
<u>Principal Products:</u>		
<u>Sweetened condensed milk:</u>		
No. of enterprises	...	6
Sales Quantity: 000 tons	60.85	46.05
Sales Value: £ Mns	7.32	4.92
<u>Unsweetened condensed milk:</u>		
No. of enterprises	...	8
Sales Quantity: 000 tons	127.15	169.80
Sales Value: £ Mns	14.16	18.99
<u>Condensed Milk:</u>		
Proportion of total sales value by 5 largest enterprises (%)	93.4	94.4
Sales by foreign-owned enterprises as percent. of total sales (%)	45	73

TABLE 7.5Condensed Milk: Enterprises and Sales Data, 1972 and 1973

	Full cream condensed	Sweetened skim condensed	Unsweetened skim concentrate
No. of enterprises:			
1972	9	...	6
1973	8	...	6
Sales Quantity (000 tons)			
1972	135.4	15.2	29.7
1973	142.5	15.8	48.6
Sales Value (£ Mns)			
1972	23.55	2.31	2.20
1973	25.74	2.54	3.89

TABLE 7.6

UK: Sterilised Cream and Condensed Milk: Expenditure on Press & TV
Advertising, 1968-73

	1968	1969	1970	1971	1972	1973
<u>Sterilised Cream:</u>						
Nestle's Cream	73.4	94.3	90.3	105.5	101.2	115.4
<u>Evaporated Milk:</u>						
Carnation	356.6	454.5	334.4	419.7	290.7	227.6
Nestle's Ideal	216.4	264.0	266.1	227.2	243.5	232.1
Cow & Gate	...	...	...	...	19.0	4.5
<u>Full-Cream Condensed</u>						
<u>Milk:</u>						
Nestle's	5.2	8.2	...	...	...	...

TABLE 7.7

UK: Brand shares for condensed and evaporated milk and sterilised cream

	Per cent.			
	1970	1971	1972	1973
Carnation	51	51	52	49
Nestle's Cream	23	22	21	21
Nestle Ideal	15	14	16	17
Libby	12	13	12	10
CWS Coop	8	7	6	7
Sainsbury	...	...	7	6

8: MILK POWDER

8.1: Milk powder is manufactured from whole milk, cream or skimmed milk, as well as from buttermilk and whey which are the residues of butter and cheese-making. Whole milk powder may be re-constituted into liquid milk, and apart from its use as a baby food, it has been used by manufacturers of ice-cream, confectionery, chocolate and other foods. These users have, however, switched increasingly to skimmed milk powder because of the relatively high costs of whole milk powder. Other uses for skimmed milk powder (along with buttermilk and whey powder) are for animal feed and, in recent years, as the base of "instant" milk powders.

8.2: From Table 8.1 it will be seen that UK production of whole milk powder in 1972-73 was at the same level as in 1968-69, whereas production of skimmed milk powder had risen by three-quarters. About 45 per cent. of whole milk powder was produced by the spray process in 1972-73, as compared with 80 per cent. of skimmed milk powder; the spray process tends to produce a better-quality powder, more suitable for human consumption because of its greater solubility.

8.3: The amount of whole milk powder absorbed by the UK domestic market was one-eighth higher in 1972-73 than in 1968-69, and as can be seen from Table 8.2, approaching three-fifths of the domestic consumption was represented by imports in both sets of years. Exports were also relatively important for whole milk powder, representing over two-fifths of UK production in 1968-69 and still nearly as much in 1972-73. Two-thirds of the UK imports of whole milk powder in 1972-73 came from the EEC countries (including Eire and Denmark), almost double the proportion they supplied in 1968-69. Exports to the EEC countries, on the other hand, accounted for only one-sixth of the UK total in 1972-73.

8.4: For skimmed milk and other powders, there has been little growth in domestic consumption between 1968-69 and 1972-73, despite a rise of two-thirds in domestic production. Exports of skimmed milk and other powders in 1972-73 were more than treble their 1968-69 level, representing nearly one-half of domestic production as compared with under one-quarter in 1968-69. Similarly, the share of the domestic market held by imports dropped from 38 per cent. in 1968-69 to 16 per cent. in 1972-73.

8.5: The principal suppliers of skimmed and other powders to the UK market in 1972-73 were Eire (73 per cent.) and the Netherlands (7 per cent.), whereas in 1968-69, New Zealand was responsible for 50 per cent. of UK imports, Eire for 20 per cent., and the Netherlands for

less than 5 per cent. Nearly two-fifths of UK exports of skimmed and other powders went to the Netherlands in 1972-73, and another one-fifth to the rest of the EEC countries.

Consumption Trends

8.6: The National Food Survey data on household consumption of milk powder products for the 1968-73 period are shown in Table 8.3. In 1972 and 1973, three categories of product are distinguished: National Dried Milk (used as a baby food), branded dried milk and the instant milk powders. Consumption of National Dried Milk in 1972-73 was only one-third of its 1968-69 level, and consumption of branded dried milks had also fallen by one-fifth. However, in 1972-73, consumption of instant milk powder was only slightly lower than branded dried milk, which indicates the success attained by these comparatively new products.

8.7: It will also be noted from Table 8.3 that the branded dried milks had increased in price by 65 per cent. between 1968-69 and 1972-73, and that the average prices paid for instant milk were only two-thirds of that for branded dried milks (in terms of equivalent pints).

8.8: The private household market accounts for only a fraction of the total output of whole and skimmed milk powder, but in 1972-73 its total value (excluding National Dried) was in the region of £21½ millions, of which the instant milk powders accounted for £8½ millions.

Concentration in Milk Powder Manufacture

8.9: The 1968 Census of Production gives a production sales value of nearly £18.7 millions for milk powder in 1968, an increase of 45 per cent. compared with 1963. The manufacture of milk powder was highly concentrated: the 5 enterprises with the largest sales accounted for nearly 85 per cent. of total production sales in 1968, although this represented a fall from nearer 89 per cent. in 1963. Foreign enterprises were also credited with 15 per cent. of the production sales in 1968.

8.10: More recent data are available for 1972 and 1973 which puts the number of enterprises (with larger establishments) producing whole milk powder in 1973 at 8 (one more than in 1972), and their sales value at £6 millions. For skimmed milk powder, there were altogether 21 enterprises in 1972, with a total sales value of over £36 millions. In 1973,

however, the skimmed milk powder sector is sub-divided, and there is shown to be 6 enterprises producing "instantised" milk powder with a total production sales value of over £22 millions, 7 enterprises producing filled milk powder with a production sales value of over £6 millions, and 17 enterprises producing other skimmed milk powder with a production sales value of just over £22 millions.

8.11: About two-fifths of the UK output of full-cream milk powder is produced by Unigate, but only a comparatively small proportion is marketed as such, most going into the manufacture of infant foods (see Chapter 3) or sold for private label marketing. Unigate also manufacture an instantised skimmed milk powder under the Milquik brand, but the leading position in the instant powder market is held by Cadbury's Marvel brand with a share of about 60 per cent. as against 35 per cent. sold under private label. Nestle is another producer of milk powder, but its share of the market is relatively small, and a number of brands which were marketed in the late 1960s (such as Stir Powdered Milk, Lyon's Instant Milk and Ovaltine Instant Milk) have either disappeared from the market or practically so.

8.12: Direct competition with the instant milk powders has developed in recent years from the non-dairy (or coffee) creamers. The leading brands in this field are Carnation's Coffeemate and Cadbury's Compliment, and as far as the latter is concerned, its market-share is currently said to be about 20 per cent. as compared with over 70 per cent. held by Coffeemate.

Advertising Expenditure

8.13: The levels of expenditure on press and TV advertising are shown in Table 8.6, from which it will be seen that Cadbury's Marvel was supported by an average of over £300,000 a year in the 1968-73 period. The competitive non-dairy creamer, Carnation's Coffeemate - was advertised to the extent of nearly £240,000 a year in the three years 1971-73, nearly three times as much as the average in the previous two years. Since its introduction to the market, Cadbury's Compliment spent £165,000 in 1973, about three-fifths of the amount spent on Carnation's Coffeemate and under one-half of that going on Cadbury's Marvel in the same year.

8.14: Taking the instant milk and non-dairy creamers together, the changes in the brand-shares from 1970 to 1973 are given in Table 8.7. Cadbury's Marvel, although its share has fallen from 78 per cent. in 1970 to 70 per cent. in 1973, still dominates the market, with the Nestle product dropping from 6 per cent. to only 2 per cent. during the same period.

TABLE 8.1

UK Milk Powder: Production, 1968-73

	Thousand Tons							
	Whole Milk Powder			Skimmed Milk Powder			Butter- milk & whey powder	Total
	Spray	Roller	Total	Spray	Roller	Total		
1968	...	...	24.1	...	...	94.6	12.4	131.1
1969	9.0	14.2	23.2	66.2	22.0	88.2	14.2	125.7
1970	7.7	13.3	21.0	71.5	20.6	92.1	12.3	125.4
1971	12.2	15.0	27.2	83.6	23.5	107.1	13.6	147.9
1972	10.3	14.7	25.0	131.1	35.2	166.3	14.5	205.8
1973	11.4	10.5	21.9	123.1	30.2	153.3	14.1	189.3

TABLE 8.2UK: Supply Position for Milk Powder, 1968-69 and 1972-73

	Production	Imports	Exports	Domestic Disappearance
Whole milk powder				
1968-69	23.7	18.6	9.6	31.3
1972-73	23.5	19.9	8.6	35.5
Skimmed milk powder*				
1968-69	104.7	38.4	25.5	100.9
1972-73	174.1	16.8	82.0	104.0

* Including butter-milk, whey and other powders

TABLE 8.3

Great Britain: Annual consumption and spending per head, and average prices paid, for milk powder products

	1968	1969	1970	1971	1972	1973
Annual consumption per head (equivalent pints)						
National Dried Milk	0.84	0.42	0.42	0.33	0.24	0.18
Branded dried milk	5.11	5.11	5.11	4.27	4.35	3.90
Instant milk	...	...	...	...	4.12	3.53
Annual spending per head (pence)						
National Dried Milk	1.70	0.96	1.04	1.04	1.04	0.52
Branded dried milk	18.45	18.40	20.28	19.76	24.44	24.44
Instant milk	...	...	...	...	16.12	14.56
Average prices paid (pence/equivalent pint)						
National Dried Milk	2.02	2.28	2.46	3.13	4.26	2.91
Branded dried milk	3.61	3.60	3.97	4.63	5.62	6.26
Instant milk	...	...	...	...	3.91	4.13

TABLE 8.4UK: Sales concentration data for milk powder, 1963 and 1968

	1963	1968
Total sales (£ Mns)	12.90	18.69
Proportion of sales of 5 enterprises with largest sales (%)	88.9	84.7
Proportion of sales by foreign enterprises (%)	14	15

TABLE 8.5

UK: Milk Powder: Enterprises and sales data, 1972 and 1973

	1972	1973
<u>Whole Milk Powder:</u>		
No. of enterprises	7	8
Sales Quantity (000 tons)	14.96	15.23
Sales Value (£ Mns)	5.55	6.00
<u>Skimmed Milk Powder</u>		
<u>Instantised:</u>		
No. of enterprises	)	( 6
Sales Quantity (000 tons)	)	( 80.46
Sales Value (£ Mns)	)	( 22.2
	) 21	(
<u>Filled:</u>		
No. of enterprises	)	( 7
Sales Quantity (000 tons)	) 201.36	(19.26
Sales Value (£ Mns)	) 36.2	(6.3
)	(
<u>Other:</u>		
No. of enterprises	)	( 17
Sales Quantity (000 tons)	)	( 81.67
Sales Value (£ Mns)	)	( 22.1

TABLE 8.6UK: Milk Powder and Non-Dairy Creamers: Expenditure on Press
and TV Advertising, 1970-73

	£ 000s					
	1968	1969	1970	1971	1972	1973
Cadbury's Marvel	282.3	357.0	275.2	257.8	321.6	353.5
Unigate Instant Miracle	4.1	3.8	...	...	...	...
Milquik Instant Milk	132.4	0.1	...	...	2.5	...
Stir Powdered Milk	97.7	44.1	...	...	...	...
Nestle's Instant Milk	68.3	194.9	...	...	...	...
<u>Non-Dairy Creamers:</u>						
Carnation Coffeemate	10.2	84.5	87.0	182.2	262.7	268.8
Cadbury's Compliment	-	-	-	-	88.3	165.0

TABLE 8.7UK: Brand-shares for Instant Milk Powders and Non-Dairy Creamers, 1970-73

	1970	1971	1972	1973
Cadbury's Marvel	78	77	73	70
Sainsbury's	7	7	7	7
Nestle's	6	5	5	2
Coffeemate	...	...	7	12

9: OTHER MILK PRODUCTS

9.1: There are a number of other milk-based products, some of which, like dairy desserts, are relatively recent developments. It is intended here to deal with two particular uses: namely, chocolate crumb and yoghurt, although milk-based ice cream is covered in Chapter 4, infant milk-based foods are dealt with under Infant Foods (see Chapter 3) and other uses are covered in the Canned, Frozen and Dehydrated Foods (see Chapter 9).

Chocolate Crumb

9.2: Chocolate crumb is a mixture of partially evaporated milk, cocoa and sugar used in the manufacture of chocolate, and as Table 9.1 shows, domestic production in 1972-73 was about 9 per cent. higher than in 1968-69. The proportion of domestic production going for export in 1972-73 was less than one-tenth, but imports were equivalent to three-tenths of the disappearance of chocolate crumb on the domestic market.

9.3: Since chocolate crumb is an intermediate product in the manufacture of chocolate, there is no retail market for chocolate crumb as such. Production of chocolate crumb is largely in the hands of Cadbury-Schweppes, the Nestle Company, both engaged in chocolate manufacturing, and Northern Foods Ltd.

Yoghurt

9.4: The market for yoghurt in the UK developed during the 1960s, with the introduction of fruit and flavoured yoghurt which helped to change its image and made it more acceptable as a convenience food and ready-to-eat dessert. In 1962, the total retail market for yoghurt has been estimated at little more than £1 millions: by 1968, it had risen to £10 millions, doubling to £20 millions by 1973. The National Food Survey data indicate that annual yoghurt consumption per head in 1973 was around 2.3 pints.

9.5: The 1968 Census of Production did not distinguish yoghurt manufacturers, but data for 1972 and 1973 are available which gives a total of 23 and 24 enterprises (with larger establishments) in the two respective years. The quantity of yoghurt produced by these enterprises increased by 13½ per cent. between 1972 and 1973 to nearly 14.8 million gallons, and in value by just under 13 per cent. to £16.7 millions.

9.6: The leading producer of yoghurt is Express Dairy Co., whose products are marketed under the Ski and Eden Vale brands, with a little under one-half of the UK output. The next most important producer is Unigate, which apart from its own St. Ivel brand, is also an important supplier of the private label market. The MMB for England & Wales also produce yoghurt, (under the Dairy Crest brand), as does the CWS, Elm Farm Dairy Foods, Northern Dairies (both under the Dale Farm brand and for private label) and Associated Dairies. A number of producers, including J. Lyons & Co. and T. Wall & Sons, which were considerable producers of yoghurt in the late 1960s are no longer important.

9.7: The most important recent changes in the yoghurt market has been the entry of Unilever early in 1973 through the marketing of the Dessert Farm range of yoghurts, imported from West Germany. The result has been that it has captured more than one-tenth of the branded yoghurt market in 1974, with the consequence as can be seen from Table 9.3 that Express Dairy's share has fallen from 44 per cent. in 1971 to 38 per cent. in 1974, with falls also for Marks & Spencer's St. Michael brand and Sainsbury's own label.

9.8: The overall amount spent on press and TV advertising of yoghurt has increased, as shown in Table 9.4, from an average of over £365,000 in 1968-69 to over £520,000 in 1972-73, the largest increase occurring for Unigate's St. Ivel range (previously Coronet) whose spending was nearly 4 times higher in 1972-73 than in 1968-69.

TABLE 9.1UK: Chocolate Crumb Supply Position, 1968-73

	Thousand tons			
	Domestic production	Imports	Exports	Domestic Disappearance
1968	82.7	34.4	...	...
1969	80.2	33.2	...	...
1970	69.6	29.2	9.0	86.1
1971	75.6	30.8	8.6	86.3
1972	85.6	34.6	7.4	96.9
1973	91.9	30.0	5.1	105.8

TABLE 9.2UK: Yoghurt: Enterprises and Sales Data, 1972 and 1973

	1972	1973
No. of enterprises	23	24
Sales: Quantity (Mn. gallons)	13.02	14.78
Value (£ Millions)	14.79	16.70

TABLE 9.3

Yoghurt: Brand Shares, 1971 and 1974

		1971	1974
Ski	Express Dairy	38	32
Eden Vale	Express Dairy	<u>6</u>	<u>6</u>
		44	38
St. Ivel	Unigate	16	18
St. Michael	Marks & Spencer	11	8
Chambourcy	Nestle	5	5
Dairy Crest	MMB	...	4
Cool Country	Van den Bergh	...	11
Sainsbury	J. Sainsbury	6	4
Coop	CWS	...	4
Other		<u>18</u>	<u>8</u>
		100	100

TABLE 9.4Yoghurt: Press and TV Advertising Expenditure, 1968, 1969, 1972 and 1973

	£ 000s			
	1968	1969	1972	1973
Total	385	348	447	596
Ski	175	145	250	276
Eden Vale	50	8	31	52
St. Ivel	52	43	145	213
Dairy Crest	12	...	19	39
Walls	71	13	...	...
Dale Farm	1	45	22	5

10: THE MAJOR MILK MANUFACTURING COMPANIES

10.1: In the preceding sections dealing with the position for individual manufactured milk products, reference has been made to a number of the leading producing companies. In this section, it is intended to describe in somewhat more detail the character, size and range of interests of these leading companies, while recognising that in many cases those interests stem far beyond manufactured milk products. The wide spread of these interests across the range of milk products, that is the almost complete absence of any high degree of specialisation among the firms explains why it is inappropriate to calculate detailed co-efficients of concentration, such as the Linda, Gini etc. co-efficients, for the manufactured milk trade, quite apart from the fact that only partial information is available for the individual companies.

10.2: Broadly speaking, the concerns which are responsible for the major part of the output of manufactured milk products in the UK can be classified under six headings:

- (a) public quoted companies with extensive interests in milk manufacturing, viz

Unigate Ltd.
Northern Foods Ltd.

- (b) unquoted companies with extensive interests in milk manufacturing, viz

Carnation Foods
Kraft Foods
Kavli

- (c) companies with extensive interests in milk manufacturing who are subsidiaries of other concerns, viz

Express Dairy
Horlicks

- (d) companies, quoted and unquoted, active in milk manufacturing but whose main activities lie elsewhere, viz

Cadbury-Schweppes
Nestle Company Ltd.
Libby, McNeill & Libby

- (e) Co-operative societies, and principally the Co-operative Wholesale Society Ltd.
- (f) The Milk Marketing Boards.

In addition, there are the quoted public companies with some manufactured milk interests but who are mainly processors of liquid milk (e.g. Clover Dairies, Cliffords Dairies, Associated Dairies), as well as a larger number of unquoted companies in the same position (e.g. A. Heald Ltd., H. J. Job Ltd., Hall & Sons Ltd. and the Border Dairy Company Ltd.). Finally, mention must be made of butter blenders, and packers of butter, cheese and other dairy products, such as Adams Foods Ltd., Dairy Produce Packers (a subsidiary of Rank Hovis MacDougall) and Lovell & Christmas.

- (a) Public quoted companies with extensive interests in milk manufacturing

Unigate Ltd.

10.3: Unigate Ltd. was formed in 1959 by the merger of Cow & Gate Ltd. and United Dairies Ltd., and in turn acquired Aplin & Barrett Ltd., manufacturers of the St. Ivel range of products, and Midland Counties Dairy Ltd. in the early 1960s. In 1954/55 the larger of the two founding companies was United Dairies Ltd. with assets of £21½ millions as compared with Cow & Gate Ltd.'s £8½ millions, but in 1955, Cow & Gate acquired Trufood Ltd. from Unilever Ltd. to extend its interest in baby foods.

10.4: The growth in Unigate Ltd.'s total turnover, net assets, gross income and employment from 1970 to 1973 has been as follows:

Year to end-March	1970	1971	1972	1973
Turnover (£ Millions)	310	340	399	409
Net Assets (£ Millions)	108	113	120	175
Gross income (£ Millions)	17	18	21	24
Employment (000s)	35	37	36	40

10.5: At the end of 1972, Unigate acquired Scot Bowyers (itself a merger of Scot Meat Products Ltd. and Bowyers Ltd.) which now forms its Meat Division, ranking as the second largest British manufacturer of meat products. Unigate's milk manufacturing activities are carried on by its Foods Division, while liquid milk processing and distribution (as well as sales by roundsmen of the Farmer's Wife range of

products) is the responsibility of the Milk Division. The only acquisition since 1967 significantly affecting Unigate's milk manufacturing activities was its purchase of Chichester Dairies in 1971, which increased its interests in fresh cream and yoghurt manufacture. On the other hand, it sold its ice cream interest, mainly held through Midland Counties Dairy Ltd., to J. Lyons & Co. Ltd. in 1972.

10.6: Some 7 per cent. of Unigate's total turnover in 1972/73 (and 10 per cent. of its pre-tax profits) came from its activities overseas, as compared with 82 per cent. from liquid milk, manufactured milk products and other foods (including distribution). Its usage of milk for manufacturing in 1972/73 amounted to 370 millions, which is equivalent to 28 per cent. of total UK supplies of manufacturing milk in that year. Its milk manufacturing activities are carried on at 40 plants, employing around 8,500, or one-fifth of its total labour-force.

10.7: In relation to the range of manufactured milk products, Unigate is most important, apart from infant foods, as a producer of full-cream milk powder (nearly two-fifths of UK output), butter and fresh cream (one-third or more), cheese (three-tenths) and yoghurt (one-fifth); although it also produces condensed milk, dairy desserts and milk puddings. Its market-shares tend to be somewhat less than its share of UK production, despite the fact that it handles imported as well as its own produce.

10.8: In order to secure supplies within the EEC, Unigate acquired the Boel Foods AS of Denmark, manufacturers of specialty cheeses, and concluded agreements with Sica Ouest Lait in France and ZNM in the Netherlands.

Northern Foods Ltd.

10.9: This company changed its name from Northern Dairies at the end of 1972 after extending its interests from liquid milk distribution and the manufacture of milk products into flour-milling (by acquiring Smiths Flour Mills Ltd.), flour confectionery production (by acquiring Park Cake Bakeries Ltd.) and brewing (by acquiring Hull Brewery Co. Ltd.) during the preceding year. The company operates mainly in the North-East, Midlands, Wales and in Northern Ireland where its ice cream plant produces more than three-quarters of the ice cream and lollies sold in Ulster.

10.10: In 1971/72, Northern Foods Ltd. had a total turnover of £77 millions, and in the following year as the result of its acquisitions it reached £117 millions, as compared with £41 millions

in 1968/69. Its labour-force in 1972/73 was nearly 9,300 as compared with under 5,000 in 1968/69. Sales of milk and milk products accounted for over three-fifths of turnover in 1972/73 as compared with under one-half of its profits. It operates three plants in England and another in Northern Ireland producing cream, yoghurt and desserts (under the Dale Farm brand), and butter, condensed milk, chocolate crumb and milk powder at two plants in England and another in Northern Ireland.

(b) Unquoted companies with extensive interests in milk manufacturing

Carnation Foods Ltd.

10.11: Carnation Foods Co. Ltd. is a subsidiary of the US Carnation Company, which has operated in the UK since 1935 when it opened a plant at Dumfries. Between 1969 and 1971, its turnover rose by nearly one-fifth to £8.5 millions and in the next year by over one-third to nearly £11.7 millions. Its net assets rose, on the other hand, by only two-fifths between 1969 and 1972, whereas net profits, after falling from £930,000 in 1969 to £630,000 in 1971 rose to £1,250,000 in 1972.

10.12: The company has diversified its activities in the United Kingdom both by marketing the non-dairy creamer Coffeemate and a range of dehydrated pet foods. As far as its milk manufacturing activities are concerned, its principal interests are in the manufacture of full-cream evaporated milk where it is estimated that its sales (at retail value) amount to over £12 millions.

Kraft Foods Ltd.

10.13: Kraft Foods Ltd. is a subsidiary of the US Kraftco Corporation, which was established in the UK in 1924. In 1968, it operated two plants in this country, manufacturing processed cheese and other dairy products, margarine and edible oils, but as far as its cheese business is concerned, most of the cheese used is imported in bulk rather than manufactured in the UK.

10.14: The turnover of Kraft Foods Ltd. in 1973 was £54 millions, nearly double its 1969 level, and its net profits at £3.8 millions were higher by nearly 140 per cent. Its total employment in 1973 was around 4,350.

Kavli Ltd.

10.15: This company, a subsidiary of O. Kavli A.S. of Norway, has a labour-force of around 200, and a turnover in excess of

£2½ millions, more than one-half higher than in 1968. It has one manufacturing plant at Gateshead, Co. Durham and manufactures the Primula brand of processed cheese spread.

- (c) Companies with extensive interests in milk manufacturing who are subsidiaries of other concerns.

Express Dairy Co. Ltd.

10.16: By the time of its acquisition by Grand Metropolitan Hotels Ltd. in 1969, the Express Dairy Co. Ltd. had developed from a company whose activities had been largely confined to the Greater London area up to the end of World War II into a major milk processing, distributing and manufacturing business. In 1969, Express Dairy had a turnover of £95 millions (as compared with Unigate's £310 millions) and a labour-force of 15,800 (as against Unigate's 41,800).

10.17: Since 1969, Express Dairy Co. has continued to increase its milk interests by acquiring East Kilbride Dairy Farmers Ltd. in 1971, and Hammetts Dairies Ltd. from Cavenham Foods Ltd., North Devon Dairies Ltd. and Sloan's Dairies Ltd. of Glasgow in 1972. The turnover of Express Dairy in 1972 was about £155 millions, and apart from 16 milk processing depots, it operated 17 creameries.

10.18: In terms of its production potential, Express is most important for yoghurt, selling under both the Ski and Eden Vale labels, and claiming over 45 per cent. of the quantity sold. It is also an important manufacturer of fresh cream, cheese, butter and dairy desserts. Like Unigate, it has embarked on a policy of acquisition among European dairy producers, taking a 75 per cent. stake in the French Fromageries Lutin S.A.

Horlicks Ltd.

10.19: Horlicks Malted Milk Co. Ltd. was formed in 1925 as a producer of the malted milk drink, and changed its name in 1937. It was acquired by the Beecham Group Ltd. early in 1969, when its turnover amounted to over £14½ millions and its labour-force to 3,000. Of this total, Horlicks Farms & Dairies Ltd., the milk processing and manufacturing subsidiary accounted for about £3 millions, which doubled to £6 millions by 1972. Besides being engaged in the wholesale and retailing of liquid milk from its Ilminster dairy, Horlicks Farms & Dairies Ltd. produces cheese and condensed milk.

- (d) Companies, quoted and unquoted, active in milk manufacturing but whose main activities lie elsewhere

Cadbury-Schweppes Ltd.

10.20: At the time of the merger in 1969, the Cadbury Group had a turnover of nearly £150 millions, capital employed of £119 millions and a labour-force of 34,700, as compared with Schweppes' turnover of under £95 millions, capital employed of £59 millions and 10,500 employment. By 1973, Cadbury-Schweppes' turnover had increased to over £438 millions, capital employed to £263 millions, and its labour-force stood at under 30,000.

10.21: The milk interests were wholly among the Cadbury activities, and apart from liquid milk used directly in the manufacture of chocolate, they are mostly concerned with the production of instant skim milk powder (Marvel), chocolate crumb and condensed milk. In 1968, it had 7 plants producing one or other of the principal products of the Milk and Milk Products trade, although none of them were sufficiently specialised to be classified to that trade.

Nestle Company Ltd.

10.22: The manufacture of condensed milk has a long association with the Nestle Company, since one of its original founding companies, Anglo-Swiss Condensed Milk Co., had five plants in Britain by 1905 when the merger with Soc. Henri Nestle took place. Another small condensed milk producer - Fussell & Co. - was acquired in 1914, but apart from that, Nestle's interests in milk manufacturing have expanded through internal growth.

10.23: The Nestle milk interests are still heavily concentrated on condensed milk (with one-third of the UK retail market), sterilised cream, and chocolate crumb used in the manufacture of chocolate. In 1968, it had four plants in England, one in Scotland and three in North Ireland classified to the Milk and Milk Products trade.

10.24: The total turnover of the Nestle Company in 1972 was £98.7 millions, with total net assets of over £56 millions, and a labour-force of nearly 13,400. Compared with 1969, its turnover had risen by one-quarter, net assets by one-fifth but employment had fallen by over one-twentieth.

Libby McNeill & Libby Ltd.

10.25: This firm, a subsidiary of the US company of the same name, established a condensed milk production plant in the UK in 1935 at about the same time as its American rival Carnation, opened its Dumfries factory. In 1968, it had one plant classified to the Milk & Milk Products trade, and apart from condensed milk, the main production-lines are creamed rice puddings. The bulk of the company's business in the UK comes, however, from the marketing of imported canned foods.

10.26: In 1972, the company's turnover amounted to nearly £20½ millions, more than two-fifths higher than in 1969, but its net assets were as low as £3½ millions and its labour-force less than 550.

(e) Co-operative Societies

10.27: In 1968, there were nearly 50 retail co-operative societies with establishments classified to Milk & Milk Products, and while the majority of these plants will have been engaged principally in the processing of liquid milk, some will have been significant manufacturers of milk products, and more particularly, butter and fresh cream. Even so, the market for their products will be local rather than regional or national.

10.28: The Co-operative Wholesale Society Ltd. had 12 establishments classified to Milk & Milk Products in 1968, and the Scottish Co-operative Wholesale Society Ltd. another 12 establishments. Before the two Societies merged their activities in mid-1973, the CWS sales of milk and milk products (at factory value) amounted to £48.4 millions in 1972, about 10 per cent. more than in 1968, although employment had fallen by nearly one-quarter to under 1,650 in 1972. In 1973, including six months of the former SCWS sales, total sales of Milk and milk products are shown in the CWS accounts as £72.5 millions as against £69 millions in 1972. It is clear, therefore, that the bulk of the CWS milk manufacturing capacity is centred in England & Wales.

10.29: The traditional milk products manufactured by the CWS have been butter, Cheddar and Cheshire cheese, condensed milk and milk powder, but more recently there has been an extension of the range to include yoghurt and cream desserts.

(f) Milk Marketing Boards

10.30: The five MMBs in the United Kingdom operate altogether some 49 processing dairies and creameries, and at 40 of them

the manufacture of milk products is significantly important. Of these 40 plants manufacturing milk, 19 are operated by the England & Wales MMB, 15 by the three MMBs covering Scotland and 6 by the Northern Ireland MMB.

10.31: The reasons for the entry of the MMBs into milk manufacturing, and the expansion of their activities, are stated to have ranged "from the Boards' obligations under the Milk Marketing Schemes to find a market for all milk of marketable quality and the opening up of suitable areas where milk supplies were held back by the absence of depot facilities, to the need of providing adequate manufacturing capacity ..." * The majority of the MMBs' creameries are relatively small, although the most recent addition opened at Alfreton in 1969 is a highly-automated plant manufacturing butter and spray skim powder.

(g) Other Companies

10.32: Finally, brief mention must be made of a number of other companies with a varying involvement in milk manufacturing and associated activities.

10.33: In the first place, there are only three quoted milk companies apart from Unigate: namely, Associated Dairies Ltd., Cliffords Dairies Ltd. and Clover Dairies Ltd. Associated Dairies Ltd. had a total turnover of £95 millions in 1972, nearly three times its 1968 level, but the major part of its growth has occurred through the development of its retail ASDA superstores rather than from its liquid milk, milk products and other food interests. Altogether it has four processing dairies and creameries, and the Settle Creamery Ltd. is a joint subsidiary (with Northern Foods Ltd.), and Eden Vale (North) Ltd. is another (with Grand Metropolitan Hotels Ltd.).

10.34: The larger of the other two quoted milk companies - Clover Dairies Ltd. - had a turnover of £17.2 millions in 1972, net assets of £3.8 millions and a labour-force of under 1,800. Its turnover has increased by over one-half compared with 1969, but its range of interests extend into soft drinks manufacturing, supermarkets and off-licences. Clifford's Dairies Ltd. is more specialised in milk, but its main importance is as a liquid milk processor. In 1972, its turnover at over £9½ millions was three-fifths higher than in 1969, and its net assets at £3 millions were one-third higher.

10.35: Some milk manufacturing activity, mainly in butter or fresh cream is also carried on by other unquoted companies whose main interests are in liquid milk processing. The most important of these companies in terms of their 1972 turnover were:

* Federation of UK Milk Marketing Boards: UK Dairy Facts and Figures, 1970, p.55.

H.A. Job Ltd.	£7.8 millions
A. Heald Ltd.	£5.4 millions
Kirby & West Ltd.	£3.2 millions
Bourne & Hilliers Ltd.	£2.1 millions
Hall & Sons Ltd.	£1.2 millions

10.36: Finally, mention must be made of the butter blenders and packers, and cheese packers, which are most important in the marketing of these manufactured milk products. One of the most important is Adams Foods Ltd., which was registered as a private company in 1940, went public in 1965, and changed its name from Adams Butter Ltd. (by which it had been known since 1959) to its present style in 1972. In 1971, two years after acquiring the provisions and canned goods importing business of R. & W. Davidson Ltd. it became a subsidiary of the Irish Dairy Board, later acquiring in 1973 Lloyd's Dairies Ltd. and Elkes Biscuits Ltd. Adams Foods Ltd.'s turnover in 1972/73 was nearly £34 millions as compared with under £22 millions in 1969/70, but it employed under 750 people in 1972/73. The principal activity of the company is the blending and distribution of butter, its major brands of butter (and cheese) being Kerrygold, Singing Hills, Silver Bounty and Adams although it also acts as agents for Lurpak, Danelea and Country Life butters.

10.37: Another similar concern is Dairy Produce Packers Ltd., a subsidiary of Rank Hovis MacDougall, which had 9 establishments classified to the Milk & Milk Products trade in the 1968 Census. Its total sales in 1968 were £19 millions, but by 1972, they were nearly three-quarters higher at £33 millions, so that there was little to choose between it and Adams Foods Ltd. in terms of their 1972 sales. Among its subsidiaries are Black Diamond Creameries Ltd. and Modern Butter Packers Ltd. which it acquired in 1973.

10.38: Another company with considerable interests in the marketing of dairy products is Lovell & Christmas Ltd., a subsidiary of Fitch Lovell Ltd., engaged in food manufacturing, importing and merchandising activities. The total sales of Lovell & Christmas Ltd. were as high as £50½ millions in 1968, increasing by nearly one-half to over £73½ millions in 1972.

11: SUMMARY & CONCLUSION

11.1: Milk product manufacturing in the UK has been undergoing substantial change in the period under review, related in part to the prospect and fact of the UK's entry into the EEC.

11.2: In the first place, the manufacture of milk products has been expanding, at a faster rate than for food processing and manufacturing as a whole. Notwithstanding the prior claims of the liquid milk market, the quantity of milk going into the manufacture of milk products was over one-third higher in 1972-73 than it was in 1968-69, whereas the index of production for food manufacturing shows a rise of less than one-tenth during the same period.

11.3: The increase in the industry's utilisation of milk from an average of 940 million gallons in 1968-69 to 1,290 million gallons in 1972-73 has been partly associated with the expanding output of fresh cream and the newer milk products, such as yoghurt and dairy desserts. In the main, however, it has come about through increased production of the traditional products, butter and cheese, where the milk used has risen from under 565 million gallons in 1968-69 to nearly 880 million gallons in 1972-73.

11.4: Overall imports of manufactured milk products constituted 62 per cent. of UK supplies in 1972-73 as compared with 74 per cent. in 1968-69. The fall in imports as a proportion of total supplies was most marked for butter (down from 89 per cent. to 78 per cent.), cheese (down from 59 per cent. to 44 per cent.), and sterilised cream (down from 37 per cent. to 32 per cent.); for milk powder, on the other hand, imports increased in relative importance from 23 per cent. to 30 per cent.

11.5: Changes in the level of UK consumption of manufactured milk products have consequently differed substantially from the changes in domestic production during this period as the following data show:

Changes between 1968-69 and 1972-73 in:

	<u>Milk utilisation</u> <u>in UK production</u>	<u>Consumption</u>
	%	%
Butter	+ 61	- 16
Cheese	+ 50	+ 11
Fresh cream	+ 21	+ 24
Sterilised cream	- 12	- 13
Condensed milk	- 5	- 10
Milk powder	+ 8	+ 5
Other products	+ 13	+ 10

11.6: The traditional policy of the UK was to obtain low-cost supplies of dairy products on the world market, particularly from New Zealand and Australia, and to maintain a higher price on milk going to the liquid market than on that for manufacturing. Up to 1971/72, the price obtained for liquid milk was at least twice as high as that going for manufacturing, but by 1973/74, it was less than one-half greater. The reason is that the entry into the EEC has meant that a guaranteed floor price for manufacturing milk has been introduced into the UK dairy economy for the first time, providing an incentive for much greater milk production. With at best a static market for liquid milk, the extra milk has gone into manufacturing uses, principally butter and cheese, reducing the need for imports. The import arrangements for the transitional period negotiated within the EEC provide for a rapid reduction in the relative importance of the UK's traditional suppliers, although butter imports from New Zealand have been treated as a special case.

11.7: The prices at which milk for manufacturing is sold are determined by negotiations between the Milk Marketing Boards, with a statutory monopoly of all milk sold either to the liquid market or for manufacturing, and the organisation representing the private and co-operative dairy interests. Between 1970/71 and 1971/72, the overall gross price realised on milk for manufacturing was increased by over 45 per cent., and two years later it was up by another 22 per cent. Compared with this three-year increase of nearly four-fifths in the gross realised price for all manufacturing milk, the milk supplied for butter and sterilised cream was more than doubled in price, while for whole milk powder it was increased by four-fifths, and for cheese, condensed milk and fresh cream the milk price was raised by about two-thirds. While the price of milk for butter was still the lowest of the range in 1973/74, it was less than 12 per cent. below the average realised price whereas in 1970/71, it was 16 per cent. lower.

11.8: In the domestic consumer market, prices of manufactured milk products have risen by substantial but varying amounts between 1968 and 1973. From the Household Food Survey data, the largest increase in prices paid during this period applied to branded whole milk powders and cheese (up by over 70 per cent.), followed by condensed milk (43 per cent.), fresh and sterilised cream (30 per cent.), with butter showing the smallest increase (25 per cent.).

11.9: In this connection, it must be noted, however, that butter was already subsidised in 1973 to the extent of £11.6 millions, and that in the previous year, prices paid for butter by domestic consumers was at least one-half higher than in 1968. During 1974, the

amount of the butter subsidy rose to £52.9 millions, and in November of that year amounted to £184.8 per ton, equivalent to 9 pence per lb. at retail. Similarly, the subsidy on cheese in 1974 amounted to £22 millions, and in November at £188 per ton was equivalent to 12 pence per lb. at retail.

11.10: The disparity between the increase in the retail prices paid for various manufactured milk products and in the prices charged to UK manufacturers by the Boards for the various products reflects other factors besides the subsidies, not least the continuing importance of imported supplies. For example, New Zealand butter in May 1974 was priced retail on average at 21.8 pence per lb. (about one-quarter higher than in mid-1970), as compared with 23.6 pence per lb. for home-produced butter. To that extent, the prices at which dairy products are available on world markets remains a factor in the negotiations over manufacturing milk prices between the MMBs and the domestic producers.

11.11: The confrontation of the MMBs and the domestic manufacturers is a factor of fundamental significance, therefore, in assessing the structure of the industry and its effect on competition in the market. The MMBs can negotiate prices for manufacturing milk to secure the best overall return for the dairy farmer from the position of a monopoly supplier, supported further by the knowledge of production costs and market demand gained from operating their own creameries. With a one-fifth share of all the milk going into manufacturing, the MMBs are important manufacturers of milk products in their own right.

11.12: The remaining part of milk manufacturing is, however, also highly concentrated. The largest private concern - Unigate Ltd. - absorbed 28 per cent. of all milk going into manufacturing in 1972/73, more than the five MMBs together. The next largest concern is the Express Dairy Co. Ltd., with others of major importance for specific products being the Cooperative Wholesale Society Ltd, Northern Foods Ltd., Kraft Foods Ltd., the Nestle Company, and Carnation Foods Ltd., the last three being subsidiaries of foreign companies.

11.13: The concentration of domestic production - in terms of the shares held by the five enterprises with the largest sales - is highest for condensed milk and milk powder, but also high for butter and cheese. There is little evidence of any significant change in the sales concentration-ratio for any of these products since 1968, when it was over 90 per cent. for condensed milk, 85 per cent. for milk powder, and just under 80 per cent. for butter and cheese.

11.14: The scale of imports reduces the degree of concentration in terms of shares of the retail market for both butter and cheese, and unbranded supplies, apart from private label products, are important for both these products. Generally, there has been a significant increase in the branding of both butter and cheese in recent years, with the packaging and selling costs involved becoming a more important element in the retail price. With greater product identification through branding has come larger expenditures on advertising and sales promotion. The amount spent on press and TV advertising for branded butters has risen, for example, from under £1 million to 1968-69 to over £1.7 millions in 1972-73, and on branded cheese from £700,000 to at least £1.7 millions during the same period.

11.15: The amounts spent on advertising and sales promotion in support of butter and cheese cover both home-produced and imported brands, but there is every reason to believe that the scale of expenditure is now such that it is a factor which makes entry into the market more difficult. Even Unilever Ltd. has found it impossible, despite large-scale advertising, to break into the processed cheese market which is dominated by Kraft Foods Ltd.

11.16: Among the other manufactured milk products which have been heavily advertised for some years, there are milk powders (in their new instantised form) and non-dairy creamers. In one case the same firm - Cadbury-Schweppes Ltd. - is producing both a non-dairy creamer and an instant milk powder bringing it into competition with Carnation Foods in the non-dairy creamer market.

11.17: There can be little doubt that where new milk-based products are being marketed, their launching will be accompanied by large-scale advertising and sales promotion. The experience of yoghurt is illuminating in that the product produced and sold initially by the Express Dairy Company, has developed from scratch in the early 1960's to a substantial new market for milk. There was a sudden rush of established dairy companies and other concerns into yoghurt manufacturing as the market potentialities became evident, but advertising and sales promotion along with the ability to market nationally reduced the number of producers until in 1971, three-fifths of the UK branded sales went to two firms, Express and Unigate. The substantial change since then has been the entry of Unilever Ltd. into the yoghurt business, again with the support of large-scale advertising.

11.18: The fact that the manufactured milk industry represents a series of markets for different products, some of which are substitutes for each other in particular uses, and that those markets are dominated by

different firms is one element which maintains a degree of competition in the domestic market, and the continuing importance of imported supplies is another. Furthermore, the existence of a monopoly supplier of milk in the shape of the MMBs must mean that countervailing power is a factor which, despite the fact that the manufacturers combine through their trade association to negotiate the prices of milk for manufacturing and have a common interest in that respect, operates as a check on the market power of the large individual milk manufacturing companies. What is less certain is whether the interests of domestic consumers and users are sufficiently safeguarded when a monopoly supplier of milk negotiates prices with an association of milk manufacturers, although the conclusion of the recent OECD report is that the system operates "without prejudice to the interests of the consumer, as he benefits from the free interplay of supply and demand on the market."

MILK MANUFACTURED PRODUCTS

	<u>Source</u>	<u>Publisher</u>	<u>Table Nos.</u>		
A.	UK Dairy Facts and Figures (Annual)	Federation of UK Milk	2.1 (2.4) 3.2	2.2 2.5 3.3	2.3 2.6
B.	UK Census of Production, 1968. Vol. 11 Milk and Milk Products	Dept. of Trade & Industry Business Statistics Office	3.1 7.4	4.6	5.6
C.	UK Census of Production, 1968. Vol. 158 Summary tables: Enterprise analyses	Dept. of Industry, Business Statistics Office	4.6 7.4	5.6 8.4	9.2
D.	Dairy Produce	Commonwealth Secretariat	4.1 5.2 6.2 8.1	4.2 5.3 7.1 8.2	5.1 6.1 7.1
E.	Meat & Dairy Produce Bulletin	Commonwealth Secretariat	4.1 5.2 6.2 8.1	4.2 5.3 7.1 8.2	5.1 6.1 7.2 9.1
F.	Household Food Consumption & Expenditure (Annual)		4.3 5.4 8.3	4.4 6.3	4.5 7.3
G.	Business Monitor		4.7 6.4	5.5 7.5	5.7 8.5
H.	IPC Marketing Manual		4.8 7.7	8.7	9.3
I.	Publication of Legion Information Services Ltd.)))		
J.	Analysis of Advertising Expenditure	Advertisers Annual/ MEAL	) ) )	4.9 7.6	5.8 8.6 6.5 9.4
K.	MEAL))		

CHAPTER 3

INFANT FOODS

1: GENERAL INTRODUCTION

1.1: The market for manufactured infant foods has developed in a remarkable fashion during the last thirty years: traditional baby feeding habits have been influenced by developments in pediatric thinking, assisted by the strong advertising activities of the manufacturers of baby foods. Before the war the general practice was to feed babies wholly on milk until they were six months old before broadening their diet. The general practice has gradually been changed, and today pre-processed cereals and strained foods are introduced at about 2½ months after birth, and while infant cereals may be consumed for 12 to 15 months longer, strained foods and similar products tend to be consumed until well after the child's second birthday.

1.2: There are three main types of infant foods: those based on milk powder, those which are cereal products, and the canned, bottled and packeted instant baby foods. It follows from the pattern of feeding that the three sectors of the infant foods market are related to different stages of the child's development. While the predominant factor determining the size of the whole market is the size of the infant population at any particular date (which, in turn, reflects changes in the birth-rate), the fact is that the length of time for which babies are consumers of the various kinds of foods can and does alter. Thus, just as weaning has commenced earlier so has the introduction of more solid and adult types of food.

1.3: Each of these three types of infant foods are to be found among the products of different Census of Production trades, namely Milk and Milk Products, Grain Milling and Fruit and Vegetable Products. But apart from homogenised baby foods in the latter trade, there are no Census statistics relating to the sales of the other types of product which are subsumed within larger groupings, so that the main sources used in this Chapter are market research reports and trade contacts.

1.4: It is probable that the market value of the types of infant foods covered here amounted to under £40 millions in 1973 and allowing for the National Dried Milk product sold at subsidised prices to nursing mothers through local authority health clinics, the proprietary market was probably around £37½ millions. However, without official

production statistics, it is difficult to determine the overall size of the market for infant foods, more particularly since its scope and coverage tends to vary according to the immediate purposes of the independent studies being carried on.

1.5: The National Food Survey does, however, provide data on household consumption of National Dried Milk (but not proprietary infant milk powders), infant cereal foods, and canned or bottled baby foods. These data are shown in the survey in terms of consumption per head of persons in the household, but in Table 1.1 have been converted into consumption per head of the infant population under 2 years old for the latter two kinds of infant foods.*

1.6: Related to the total infant population, Table 1.1 shows that annual consumption per head of infant cereal foods was 15 per cent. lower in 1972-73 than in 1968-69 and that consumption of canned or bottled foods had remained static. The probability is that the consumption figures for infant milk powder would, if available, show the same trend as cereal foods. With the fall in the infant population under 2 years old, total consumption of infant foods in volume terms was lower in 1972-73 than in 1968-69 and with the prospect of a continuing fall in the number of births each year, the outlook for the infant foods trade is contraction rather than expansion.

* The consumption per head (all persons in household) for National Dried Milk were included in Table 8.3 of the Chapter dealing with Manufactured Milk Products.

TABLE 1.1

Great Britain: Infant cereal foods and canned or bottled baby foods:
Annual consumption and spending per head, and average prices paid 1968-73

	1968	1969	1970	1971	1972	1973
Annual consumption per head (lbs) *						
Infant cereal foods	12.93	14.12	13.69	11.71	11.96	11.01
Canned or bottled baby foods	71.10	75.71	82.46	66.80	72.42	74.99
Annual spending per head (£)*						
Infant cereal foods	2.67	3.09	3.07	3.14	3.19	3.37
Canned or bottled baby foods	8.68	9.67	10.88	9.11	10.25	11.96
Average prices paid (pence/lb.)						
Infant cereal foods	20.63	21.88	22.45	26.79	26.70	30.57
Canned or bottled baby foods	12.21	12.77	13.20	13.64	14.15	15.95

Source: Household Food Consumption & Expenditure,
National Food Survey.

* Related to infant population under 2 years old.

2: MILK BASED INFANT FOODS

2.1: Dried milk, as an alternative to evaporated or condensed milk for feeding to infants, was introduced at the beginning of this century. The original manufacturer was Cow & Gate Ltd., which had been founded in 1888, and in the interwar years the other main supplier was Joseph Nathan & Co. Ltd., which exported roller-dried milk powder from New Zealand which was marketed in the UK as Glaxo. This dried milk product was sold through child welfare clinics at prices substantially lower than in chemists' shops, the difference in price in 1929 being as much as 90 per cent. In 1935, the Glaxo Group Ltd. was incorporated in the UK to acquire the Glaxo department of the Joseph Nathan business, and about this time the company introduced Ostermilk, originally selling exclusively through clinics and later through chemists at a price roughly one-half that of the Glaxo product. Ostermilk sales increased at the expense of Glaxo, and in 1940, the latter was withdrawn from the market.*

2.2: To ensure adequate infant nutrition despite war-time food shortages, the Government introduced National Dried Milk (NDM) in 1941. This was available only through clinics, but sold at a much lower price than the branded products of which limited quantities continued to be produced. After the war, and more particularly since 1956, NDM declined in popularity, although its subsidised price at the clinics was less than three-fifths that of the branded infant milk powders.

2.3: The post-war "baby boom" meant that the infant milk food market was an expanding one, and this attracted newcomers to the industry. In 1956, John Wyeth & Brother Ltd., introduced SMA, a dry milk powder similar to the other products, to the UK market, following it with a concentrated liquid product in 1963. In 1960, Farley's Infant Food Ltd., long-established makers of cereal-based baby foods, introduced milk-based foods.

2.4: Meanwhile, Cow & Gate Ltd., had acquired another producer of baby foods, Trufood Ltd., from Unilever in 1955, and then in 1959 had itself merged with United Dairies to form Unigate Ltd. The only other producer of milk-based infant foods of any significance at that time was the Nestle Company Ltd., who manufactured a modified powdered milk, Lactogen, on a comparatively small scale.

2.5: The supply of milk-based infant foods has been the subject of investigation by the Monopolies Commission, its report being published in 1967. The principal object of this investigation was to determine whether the distribution policies of the major companies, which largely restricted sales to chemists' shops, was against the public interest.

* Monopolies Commission: Report on the Supply of Infant Milk Foods, HMSO, 1967.

The findings of the Commission (with one member dissenting) were:

"We accept that the manufacturers have made a good case for limiting the number of retail outlets and for giving effect to this by choosing retail chemists as the primary outlet. In most cases this provides adequate distribution and has given rise to no complaint of inconvenience from the public. Nevertheless, we are concerned about the position in places where there is no retail chemist. By contrast with their deliberate policy of persuading chemists to stock their products, the manufacturers take no positive steps to arrange adequate distribution in such places, but merely wait until evidence of demand comes to light either through a complaint from a customer or through a request from a retailer. Even then it does not follow that a supply will be made available; it depends on an assessment either by the manufacturers or by wholesalers acting on their behalf of whether the place is sufficiently remote from an existing outlet to justify it. The criteria followed in making this assessment appear to vary and, especially in the remoter rural areas, a significant degree of inconvenience results..... We conclude therefore that the practice of restricting the supply of infant milk foods to persons who sell or intend to sell to the general public by retail by reference to the character of the business carried on by those persons operates and may be expected to operate against the public interest, in that inconvenience to the public results in places where there is no retail chemist."

Furthermore, the Commission recommended that:

"..... in places where there is no retail chemist, the manufacturers should supply, or should authorise wholesalers to supply, infant milk foods to any retailer wishing to stock them, except that they should not be obliged to supply if there are normal commercial grounds, such as poor credit worthiness or unsuitability of premises, for refusing to supply a particular retailer."

2.6: According to the Monopolies Commission, the total market for infant milk foods amounted in 1965 to 57 million lbs. in weight, valued at £8.4 millions. Of this total market, sales through normal retail channels amounted to 35 million lbs. (60 per cent), and in value to £5.5 millions (65 per cent). With NDM accounting for about 12 per cent. of the market value in 1965, this would suggest that the proprietary

brands' sales were divided in the ratio of 75:25 between normal retail outlets on the one hand, and clinics, hospitals etc., on the other.

2.7: The two principal producers - the Glaxo Group and Unigate Ltd. - accounted for 77 per cent. of the total infant milk foods market in 1965, and 87 per cent. of the sales through retail outlets. As far as the Glaxo Group was concerned, the Commission pointed out that about one-half of Glaxo's supplies of milk powder at that time were manufactured in Great Britain, the remainder being shipped in bulk from New Zealand and Australia.

2.8: Both Glaxo and Unigate at that time applied resale price maintenance to their infant milk foods, and neither company supplied any retail grocer direct. Of Glaxo's deliveries (by weight), nearly one-quarter went to local health authorities, one-fifth to wholesale chemists, and the remainder to retail chemists. For the Cow & Gate and Trufood products, about one-quarter went to local health authorities, three-tenths to wholesale chemists and most of the remainder to retail chemists.

2.9: Since 1965 and the acceptance of the Monopolies Commission's recommendations regarding their distribution policies by the two major producers, there have been a number of changes in the trade. More particularly, since 1969, there has been an overall fall of two-fifths in the market by volume, and NDM has increased its share of the declining market with the advantage of a price only one-quarter that of the proprietary brands. In 1968, Glaxo Group Ltd., acquired one of the three smaller milk food concerns, Farley's Infant Food Ltd., which at that time operated three plants at Kendal, Greenford and Plymouth. Moreover, from the beginning of 1975, both Unigate Ltd., and the Glaxo Group Ltd., have abandoned their previous distribution policies of selling only through chemists and began to sell milk-based foods direct to the high-volume multiple outlets, such as supermarkets and superstores, to offset a decline in the number of chemists' shops and meet the change in shopping habits.

2.10: In 1973, it is understood that Unigate Ltd., and the Glaxo Group Ltd., controlled some 84 per cent. of the total volume of production of infant milk foods but that their combined share in 1973 of the proprietary market was about 75 per cent. (of which Unigate Ltd., was 40 per cent.) as compared with 20 per cent. for John Wyeth & Brother Ltd., the remaining 5 per cent. being contributed by a few small producers.

2.11: The level of advertising expenditure is significant for the branded infant milk foods. At the time of the Monopolies Commission report, advertising and sales promotion represented 2 per cent. of Glaxo's

total costs, as compared with 3 per cent. for Cow & Gate/Trufood. The more recent levels of spending on press and TV advertising are shown in Table 2.1, from which it will be seen that in 1968-69 it averaged nearly £245,000, whereas in 1972-73, it was down to under £180,000. This reduction of advertising spending will have been geared to the decline in the overall size of the market, coupled with the fact that the products are increasingly costly to manufacture and the profit-margins very tight. It is, however, interesting to note that Unigate's (represented by Cow & Gate and Trufood) share of the total spending has dropped from about seven-tenths of the total spending covered by Table 2.1 in 1968-69 to one-third in 1972-73.

TABLE 2.1UK: Branded Infant Milk Foods: Press & TV Advertising Expenditure, 1968-73

	£000s					
	1968	1969	1970	1971	1972	1973
Cow & Gate	119.9	86.5	75.1	101.0	45.3	67.7
Ostermilk	48.8	35.2	43.3	99.3	96.7	107.2
SMA	47.8	15.6	29.8	18.6	17.0	13.7
Trufood	70.2	64.4	73.1	61.4	8.6	-

Source: Based on IPC Marketing Manual,
Legion Publishing Services Ltd.,
and MEAL data.

3: CEREAL-BASED INFANT FOODS

3.1: The cereal-based infant foods can be classified into two distinct groups: rusks and baby cereals. The rusks produced in Britain are different from those given to children on the Continent, and consequently there is only very limited competition from imports.

3.2: In the early 1960s it was estimated that about 11,000 tons of infant cereals were consumed each year, with a retail market value of £3-4 millions. From the National Food Survey, it would appear that consumption increased only slightly to 11,200 tons in 1968-69, falling to under 9,000 tons in 1972-73. In terms of current retail values, however, sales increased to over £5½ millions in 1968-69 and to £5½ millions in 1973.

3.3: The largest portion of the cereal-based infant foods market is represented by sales of rusks, possibly as much as three-fifths of the total retail value. The principal brand is Farley's Rusks, which since the take-over of Farley's Infant Food Ltd. in 1968 has been part of the Glaxo Group's product range. Another manufacturer of rusks is Wander Ltd., a subsidiary of Sandoz A.G., with its Ovaltine teething rusks.

3.4: The Glaxo Group also now occupy a predominant position in the baby cereals market through their acquisition of the Farley business, adding the latter's Farlene and Farley's Rice products to their existing Farex brand. The only other manufacturer of baby cereals of any significance is Reckitt & Colman Ltd.⁺ who began manufacturing groats in the 18th century and by the early 1960s were marketing a range of high protein and mixed cereal products. Other manufacturers of baby cereals at that time included Scott-Brand Foods Ltd. (part of the Cerebos Group),* as well as Unigate and Wander Ltd.

3.5: One of the principal retailers of the whole range of baby foods is the Boots Company Ltd., which sells its own label range of protein baby cereals. Of the proprietary branded market for cereals and rusks, 85-90 per cent. is currently attributed to the Glaxo Group products, with Colman Foods (Robinsons) accounting for at least four-fifths of the remainder. But the Glaxo Group's predominance is largely based on its sales of Farley's Rusks, and for the relatively small baby cereals market, Colman Foods' share is possibly larger than that of the Glaxo Group.

⁺ The Reckitt & Colman food activities have been carried on by Colman Foods Ltd. since early in 1974.

* Acquired by Ranks, Hovis McDougall in 1969.

3.6: The greatest volume of advertising spending is directed towards sales of Farley's Rusks: in 1972-73, press and TV spending averaged over £230,000, as compared with £125,000 in 1968-69. The levels of spending on advertising on baby cereal foods are much lower, since these products tend to be advertised in association with other baby foods produced by the same company.

4: CANNED, BOTTLED & DEHYDRATED BABY FOODS

4.1: Canned, bottled and dehydrated baby foods represent the newest but also the largest section of the infant foods market, accounting for about one-half of its total retail sales value in 1973. These products were originally developed in the USA, and were introduced much later to the UK market. However, once introduced, their relative importance increased dramatically, although total consumption of canned and bottled foods in 1972-73 was one-tenth lower than in 1968-69.

4.2: In 1937, the H. J. Heinz Company began to market baby foods imported from the USA, and though this operation was suspended during the war, Heinz started manufacturing canned strained infant foods in the UK in 1947, extending its range to include Junior Foods (of a more solid consistency) in 1957. By 1964, Heinz occupied a dominant position in a rapidly expanding market worth about £7 millions a year, of which its share was around 95 per cent. Its main competitors at that time were the Trufood (bottled) and Cow & Gate (canned) foods from Unigate Ltd., and the Robinson range of powdered foods from Colman Foods Ltd.

4.3: In the USA, Heinz was second to the Gerber Products Corporation, the latter holding 55 per cent. of the baby food market in the early 1960s. After carrying out test marketing from 1963 onwards, the Gerber range of products began to be launched nationally on the UK market. Initially the products were imported from the USA, but a licensing arrangement was then concluded with Brown and Polson Ltd., the UK subsidiary of Corn Products of America, to manufacture and market the Gerber baby foods in the UK. (Later the name of Brown and Polson Ltd., was to be changed to CPC (United Kingdom) Ltd.).

4.4: At first it appeared that Gerber was to have no greater success in establishing itself as a competitor with Heinz than Nestle, Libby's, Batchelor's and Scott's had previously done. Indeed, at that time, the new competition with Heinz was developing from the dried and flaked baby foods under the Robinsons brand developed by Colman Foods Ltd., a market worth nearly £1 million which it had to itself until 1968 when Farleys and Gerber began to market competitive lines.

4.5: In 1968-69, Heinz still controlled nearly 84 per cent. of the canned and bottled baby foods market (by value) as compared with about 10 per cent. held by Gerber, but the latter was not very much larger in value terms than Colman Foods turnover in the dehydrated baby foods.

4.6: The situation began to change when the Gerber products, after overcoming production problems, was relaunched in 1970. By that year, Gerber's market share had dropped to little more than 5 per cent. but in the following year it had increased to $8\frac{1}{2}$ per cent. rising further to 14 per cent. in 1972 and to 19 per cent. in 1973. Gerber's increasing share has been gained mainly at the expense of Heinz, whose market-share had fallen to 63 per cent. in 1973. The share of Unigate's Cow & Gate and Trufood lines was about 9 per cent. in the same year, so that over 90 per cent. of the market for canned and bottled infant foods was held by these three companies, as compared with over 98 per cent. in 1968/69.

4.7: Widening the coverage of the market to include the dehydrated instant baby foods tends to increase the apparent sales concentration-ratio. Over 90 per cent. of the market is still controlled by Heinz, Gerber and Unigate, with Colman Foods bringing the overall share of the four largest companies up to 95 per cent. in 1973. The remaining share of the retail market is predominantly in the hands of the Boots Company Ltd., through its own label products in this field.

4.8: The level of expenditure on press and TV advertising by the four largest concerns is shown in Table 4.1 from which it will be seen that in 1968-69 their combined spending amounted to nearly £870,000 a year, with Heinz alone accounting for nearly two-thirds. The massive advertising campaign of Gerber in re-launching their range can be seen from its spending of over £320,000 in 1969, and the increase in the amounts spent by Unigate from little more than £10,000 a year in 1968-69 to over £100,000 a year in 1972-73 indicates the spending required to maintain a position in this market.

4.9: In addition to this spending on advertising, there are other forms of promotional activity of the concerns competing in this market; gift-packs are distributed to maternity wards of hospitals, as well as special offers or premium gifts to secure customer support.

4.10: There is no doubt that prices have been fiercely competitive in this market. Between 1968 and 1971, the average prices paid for canned and bottled baby foods rose by little more than one-tenth, although by 1973 they were three-tenths higher than in 1968. But even this rise was substantially lower than the 1968-73 increase of nearly 50 per cent. in the average prices paid for infant cereal foods, or the 46 per cent. increase in the price index for all household food expenditure.

4.11: Prices have been increasing very fast since 1973, rising by as much as 40 per cent. in a 15 month period from the end of

1973. Some trade sources have put the proportion of the volume of canned and bottled baby foods being sold at cut-prices at 30-40 per cent. and there is a general complaint throughout the trade that margins are extremely tight with only low levels of profit being obtained. The upward movement in raw material costs could well limit the area of manoeuvre for competition in price, but against that there is evidence that foreign producers may be seeking to enter the UK market.

TABLE 4.1

UK: Canned, Bottled and Dehydrated Baby Foods:
Press and TV Advertising Expenditure 1968-73

	£000s					
	1968	1969	1970	1971	1972	1973
Heinz	539.1	586.5	660.2	337.6	309.7	693.7
Gerber	49.6	320.8	100.6	72.0	22.1	...
Unigate	8.4	12.0	17.8	56.3	49.2	166.5
Robinsons	106.5	112.5	89.4	48.2	55.6	64.5

Source: Based on IPC Marketing Manual,
 Legion Publishing Services Ltd.,
 and MEAL data.

5: THE PRINCIPAL INFANT FOODS CONCERNS

5.1: There are very few firms of any significance in the whole of the infant foods trade, and some of them, such as Unigate Ltd., the H.J. Heinz Company Ltd., and Wander Ltd., are dealt with under the industries in which their main interests lie and do not need to be covered again here. Thus, the concerns which remain to be considered are the Glaxo Holdings Ltd., CPC (UK) Ltd., Reckitt & Colman Ltd., and John Wyeth & Brothers Ltd.

Glaxo Holdings Ltd.

5.2: In 1972, Glaxo Holdings Ltd. was formed to acquire all the capital of the Glaxo Group Ltd., which itself was registered as a private company under the name of Glaxo Laboratories Ltd. in 1935 and went public in 1947. In 1967, Glaxo Group Ltd. had issued share capital of just over £21 millions which had increased to £34½ millions in 1973 and the Group, carried on through home and overseas subsidiaries, "conducts research, and develops, manufactures and sells pharmaceuticals (including antibiotics, vaccines, vitamins and veterinary products), foods, surgical instruments and hospital equipment, agricultural and garden chemicals."

5.3: Out of a total Group turnover in the year to 30th June 1973, of £219½ millions, net sales in the United Kingdom accounted for under £92½ millions, or little more than two-fifths, as compared with £53½ millions in the rest of Europe and nearly £34 millions in Asian countries.

5.4: The manufacture and supply of Glaxo's infant milk foods is an importance historical activity of the Group, but even with the acquisition of Farley's Infant Food Ltd. in 1968, infant foods comprise only a small proportion of total Group sales. The administration and sales of all foods in the United Kingdom has been centralised recently in a Glaxo-Farley Foods Division of Glaxo Laboratories Ltd.

CPC (United Kingdom) Ltd.

5.5: This company's interest in the infant foods market stems from the agreement concluded in the mid-1960s with the Gerber Products Corporation of the USA to manufacture and sell under licence the Gerber range of baby foods in the UK.

5.6: The history of this company is connected mainly with the starch industry in the UK. As long ago as 1840, Brown & Polson began to sell 'powder starch', and after incorporation in 1920, it

acquired another business, MacKean & Wotherspoon. The other main producer of starch was Corn Products Co. Ltd. which was formed in 1903 to take over an existing agency business for the products of its American parent of the same name. In 1935, however, Corn Products Co. Ltd. acquired Brown & Polson Ltd., which had diversified into the manufacture of glucose and modified starches (or dextrans), in which its interests developed by acquisition both before and after the war.

5.7: In 1950, the name of Corn Products Co. Ltd. was changed to Brown & Polson Ltd., remaining a wholly-owned subsidiary of CPC International Inc. of New Jersey. In 1959, Brown & Polson Ltd. acquired Dextrines Ltd. as well as full control of Glucose & By-products Ltd., and in 1964, Knorr Anglo-Swiss Ltd. and Frank Cooper Ltd.

5.8: In 1968, the turnover of Brown & Polson Ltd. amounted to £28.3 millions, but by 1973 it had increased to nearly £42.5 millions (the name of the company being changed to CPC (United Kingdom) Ltd. in 1971). Exports accounted for 6 per cent. of turnover in 1973 as compared with 8 per cent. in 1968. Employment declined slightly to 3,200 during this period. Net assets rose by about two-fifths between 1968 and 1973, but the return on capital was lower in 1973 than in 1968.

5.9: The US parent company, CPC International Inc. is one of the largest manufacturers of starch and glucose in the USA, and has subsidiaries in Belgium, France, West Germany, the Netherlands, Italy, Spain and Turkey.

Reckitt & Colman Ltd.

5.10: Reckitt & Colman Ltd. was originally registered as Reckitt & Colman Holdings Ltd., in 1953, and changed to its present name in 1969. It was formed to acquire the undertakings of J & J. Colman Ltd. and Reckitt & Sons Ltd., both of which were originally starch producers in the mid-19th century, the latter acquiring another important producer, Keen Robinson in 1903. Before World War I, Reckitt & Sons had diversified into the production of leather and metal polishes, although its boot polish business was transferred to Chiswick Products in 1929, in which it maintained a large financial interest.

5.11: After the merger of the two companies in 1953, which up to then had maintained separate identities despite pooling all their trading interests as long ago as 1938, the net assets of the holding company amounted to £37.8 millions, putting it into third place among the quoted UK food companies at that time, with a gross income of nearly £7.3 millions. By 1968, its net assets stood at £90.2 millions, and in the next five years increased by three-fifths to £144.5 millions. Of its total

turnover of over £255 millions in 1973, little more than one-quarter came from sales in the UK and Ireland, and of that £66½ million, food and wine contributed 42 per cent., household products, 21 per cent., toiletries and pharmaceuticals, 28 per cent., the remainder consisting of industrial and other products.

5.12: The food activities of the company have been grouped under Colman Foods since the beginning of 1974, and include:

- Colman's mustards and sauce mixes, and OK sauces
- Robinson's soft drinks and baby foods
- Gale's honey and preserves
- Jif lemon
- Colman's Make-a-Meal
- Moussac and Veuve du Vernay Sparkling wines
- Burdon's sheries
- Tom Caxton beer kits
- Wincarnis tonic wine

Its fruit and vegetable canning activities were discontinued in 1972, but it also owns, jointly with Ranks Hovis McDougall Ltd., all the capital of Holderness Foods Products Ltd. formed in 1962 to take over the manufacture and sale of starch-reduced foods.

John Wyeth & Brother Ltd.

5.13: This company is a subsidiary of the American Home Products Corporation of Delaware, USA, and supplies and manufactures ethical pharmaceutical preparations and fine chemicals as well as SMA milk-based infant foods. Its total turnover in 1973 was over £12½ millions, of which nearly three-tenths represented direct exports, as compared with £7½ millions in 1968. Its net assets have risen during the same period from £3 millions to £10½ millions, although its pre-tax trading profits more than halved between 1968 and 1972, recovering to £1¼ millions in 1973 as compared with £1½ millions in 1968.

6: SUMMARY & CONCLUSION

6.1: The infant foods industry consists of products which are consumed by babies at different stages of their development, and there are comparatively few substitution possibilities between the milk-based, cereal-based and canned, bottled and dehydrated infant foods although all compete with home-made preparations. At the same time, the principal concerns in the industry do not confine their activities to one or other of its sectors, although no one company has a predominant market-position in all of them. Thus, the market-leader for canned and bottled infant foods is the Heinz Company just as the Glaxo Group dominate the cereal foods market, whereas for the milk-based foods there is little to choose between Unigate Ltd., and the Glaxo Group.

6.2: The market for infant foods has grown with the increase in the annual number of births throughout the 1960s, but with the continuing fall in the birth-rate the industry is facing the possibilities of contracting demand. This could lead to an intensification of price competition for a shrinking market, but there is a general complaint that margins in the production and marketing of baby foods have been so tight that there is very little scope in this direction. With each sector of the trade already highly-concentrated in the hands of large companies with extensive interests in, and sometimes extending beyond, the food industries, there is little scope either for growth by acquisition except by direct purchase of each other's business in the particular sectors.

6.3: The canned and bottled infant foods market is dominated by foreign-owned companies with Heinz and CPC (Gerber) together controlling about 70 per cent. of the retail market. Treating the three sectors as one market for the moment, at a rough approximation, the largest concern is H. J. Heinz with a share of the retail market amounting to about one-third, followed by the Glaxo Group with a share of one-fifth and Unigate Ltd., with more than one-seventh. Thus, these three concerns are together responsible for 70 per cent. of the total market, with the inclusion of CPC (Gerber) and Colman Foods (Robinsons) increasing the market-share held by the five largest concerns to well over 90 per cent.

6.4: For a branded market worth under £40 millions in 1973, expenditure on press and TV advertising alone at over £1.4 millions is substantial, representing over $3\frac{3}{4}$ per cent. of retail sales. On the other hand, these expenditures already averaged over £1.3 millions in 1968-69, so that there has been a significant reduction in real terms on this form of promotion.

CHAPTER 4

ICE-CREAM

1: INTRODUCTION

1.1: There are three basic ingredients used in the manufacture of ice-cream; namely, milk, fats and sugar, which are blended with water to produce an ice-cream mix. Further processing whips and freezes the mix, the final texture being determined primarily by air content. The general rule is that the lower the proportion of air, the "harder" is the final product.

1.2: Ice-cream production may be categorised under three headings; namely, hard ice-cream, soft ice-cream and water ice. Hard ice-cream is the traditional product of the industry and accounts for the bulk of production. It is generally sold in wrapped blocks, tubs or bars, or in bulk cans for dispensing by metal scoop or server. Soft ice-cream, on the other hand, is largely a post-war development: an ice-cream mix is produced in either liquid or powder form which receives final processing in special freezers at the point of sale to the consumer, being dispensed under pressure from a tap on the machine. This form of ice-cream led to substantial increases in selling from mobile vans. Water ices, though technically not an ice-cream, are closely associated with products of the ice-cream industry, particularly ice lollies or in combination with hard ice-cream.

1.3: Hard ice-creams sold and labelled as "dairy ice-cream" contain fats such as butter, butter oil or cream as distinct from other ice-creams which contain other fats, commonly hardened palm kernel oil. Such labelling is a requirement of the Food and Drugs Act 1955, and about 25 per cent. of hard ice-cream sales is of dairy ice-cream.

1.4: There are five classes of trade in ice-cream products and these are listed below:-

- | | | |
|-------|----------------------|--|
| (i) | <u>Confectionery</u> | (tubs, brickettes, chocolate coated bars) |
| (ii) | <u>Dessert</u> | (mainly blocks for home consumption) |
| (iii) | <u>Catering</u> | (supplied in bulk, either in cans or as individual portions) |

- (iv) Entertaining (special tubs and cups for sale in
cinemas or theatres)
- (v) Mix (for the production of soft ice-cream)

These classes of trade, together with the outlets through which ice-cream passes for final consumption will be examined in later sections of this report.

1.5: Ice-cream is one of the principal products of the Census of Production Milk and Milk Products industry (under Minimum List Heading 215 of the 1968 Standard Industrial Classification). From this source, data on the ice-cream industry is only available for larger establishments (employing 25 or more persons) in terms of their volume and value of sales. Further information on sales of the ice-cream industry since 1968 are contained in the Department of Industry's quarterly publication, Business Monitor, (PQ 215) for the Milk and Milk Products industry. While data on ice-cream production is concealed within general data for the Milk and Milk Products industry as a whole, production statistics are published by the Ministry of Agriculture, Fisheries and Food (MAFF), as well as by the producers themselves.

1.6: The ice-cream industry was the subject of study by the National Board for Prices and Incomes (PIB) in 1970*, which closely examined the two market leaders and their operational difficulties and has provided much of the factual information for this study.

1.7: Prior to the last war the industry was comprised of many small producers, which as entities ranged from the firm to that of small, retail shops and catering establishments producing in response to local demand. Now, against a background of merger and take-over activity in the late 1950s and during the 1960s the UK ice-cream industry is characterised by the dominance of two firms; namely, T. Wall & Sons (Ice Cream) Ltd., (owned by Unilever Ltd.) and Lyons Maid Ltd., (controlled by J. Lyons and Co. Ltd.).

1.8: The ice-cream market has always suffered from two disadvantages, largely outside the manufacturers control; namely, extreme price sensitivity and dependence upon the weather. An example of the former was the imposition of Purchase Tax on ice-cream (for the first time) during 1962 at a rate of 15 per cent. on wholesale prices which brought about a dramatic decline in demand. However, with the introduction of Value Added Tax in 1973 ice-cream products were zero-rated and, not surprisingly with the removal of Purchase Tax and the favourable change in absolute and relative prices, ice-cream sales received a significant

* National Board for Prices and Incomes. Report No. 160. Costs, prices and profitability in the ice-cream manufacturing industry. Cmnd. 4548 HMSO 1970

boost. Changes in both prices and weather can interact to produce extreme situations; for example, the removal of Purchase Tax on ice-cream coincided with a relatively hot summer in 1973 to produce £115 m. worth of sales (at retail prices), as against £95 m. in 1972. (After the March 1974 Budget, however, the tax base of the VAT was extended to cover ice-cream (amongst other items) at a rate of 10 per cent., later reduced to 8 per cent. as from July 1974).

1.9: The vagaries of the weather, together with ice-cream consumption being highest during the summer months, has resulted in a notable seasonal pattern of demand, which in turn has affected the level of costs and profitability. Nevertheless, since the late 1960s a trend has been emerging towards the seasonality of sales becoming less marked. This development is explained by a change in consumption habits influenced directly by the major manufacturers in having ice-cream accepted more generally as a food item rather than as a luxury confection, to be consumed all year round.

1.10: It is the dessert (or take-home) sector of the ice-cream industry which has contributed most to this trend. Dessert ice-cream is being successfully marketed as a dessert in competition with other convenience desserts such as tinned puddings, fruit pies, fruit salads, mousses, whips and yoghurts, with emphasis on the convenience and take-home factors.

1.11: The impetus for sustained growth of ice-cream sales would appear to be fairly closely associated with a continuing rise in the level of home-freezer ownership, and the potential offered for sales through freezer-food centres for the domestic consumption of bulk purchases.

1.12: The PIB Report identified a strong level of competition as existing within the industry and in particular between the almost identical products of the major manufacturers. As a result of this competition between products the industry is dependent upon a high level of product innovation, and new lines in this industry appear to replace old at a faster rate than in any other industry. This feature of wider and constantly changing product lines has had its impact upon costs and profitability, particularly in an industry where the bulk of sales are of low unit values. The maintenance of such a policy is stated by the PIB to have led to a "reduction in output of ice-cream portions per man hour in both Wall's and Lyons Maid", contributing to cost increases during a period when labour rates and material prices were also rising.

1.13: Marketing of ice-cream is aimed at selected groups of consumers, in particular children of different ages and sexes where much promotional activity is concentrated. Market research within the ice-cream industry indicates children to be highly price conscious, especially when comparing ice-creams with the competitive products of the chocolate and sugar confectionery industry. Thus, new methods of giving ice-cream an adult image are being developed, especially in the dessert and take-home trades.

2: PRODUCTION AND STRUCTURE OF ICE CREAM INDUSTRY

2.1: The production of ice-cream and water ices (by larger establishments) has fluctuated greatly during the last fifteen years, although overall there has been an upward trend. So much is clear from Table 2.1 which besides giving the annual production figures for the 1963-74 period also shows the 5 year moving average total production. It will also be seen from Table 2.1 that ice-cream production has increased its share of total production at the expense of water ices. In 1962-65, ice-cream represented about three-quarters of total production (by volume), but its share progressively increased to nearly nine-tenths in 1972-74.

2.2: Within the ice-cream sector itself, production of all three categories shown in Table 2.1 was significantly higher in 1972-74 than in 1963-65, but ice-cream for bulk sale has increased its share of total production from under 24 per cent. to over $28\frac{1}{2}$ per cent. during this period, mainly at the expense of non-chocolate coated ice-cream. It may also be noted that dairy ice-cream after increasing its proportion of total ice-cream production from 21 per cent. in 1963-65 to $24\frac{1}{2}$ per cent. in 1969-71 fell back to under 18 per cent. in 1972-74.

2.3: The Census of Production data for sales of ice-cream by larger establishments in 1963 and 1968 are shown in Table 2.2. According to this source, the total production of ice-cream (including ice lollies) rose from 35 million gallons in 1963 to over $42\frac{1}{2}$ million gallons in 1968, and the value (ex-factory) of that production rose from £12 millions to over £19 $\frac{1}{4}$ millions.

2.4: It is interesting to note the differences in the unit values of the different types of product. Dairy ice-cream sold in bulk had a unit value of 25 pence per gallon in 1963 as compared with 37 pence per gallon for prepacked dairy ice-cream for retail sale, but the margin between the two narrowed to 8 pence per gallon by 1968 because of the larger proportionate increase in the unit value of bulk dairy ice-cream. On the other hand, there was very little difference in the unit values of other (non-chocolate) ice-cream sold in bulk or prepacked for retail in either year, although there was an increase of 24 per cent. for the latter as compared with 13 per cent. for the former during this period. Moreover, among the ice-cream prepacked for retail sale, the largest increase in unit value of 47 per cent. occurred for chocolate-covered ice-cream.

2.5: The numbers of enterprises responsible for the stated production of the different kinds of ice-cream in 1968 are also shown in Table 2.2; comparable data for 1963 are not available. The largest number of enterprises is 17, which applies to ice-cream (other than dairy and choc ices) sold in bulk or prepacked for retail and for ice lollies. The most heavily specialised product is choc ices, where the number of enterprises in 1968 was only 11.

2.6: The proportion of the total sales (by larger establishments) controlled by the five enterprises with the largest sales in 1963 and 1968 fell slightly from 93.1 per cent. to 91.2 per cent, as shown in Table 2.3. Indeed, the 1968 ratio of 91.2 per cent. represented the combined share of fewer than five enterprises in 1963.

2.7: Production data, in terms of volume and value, are available for the 1972-74 period from the Business Monitor (PQ 215) for Milk and Milk products, and these are shown in Table 2.4. The product classification differs, however, from that used in the 1968 Census: ice-cream is divided between bulk, home-packs and all other (including water ices), and there is another separate product-category described as stick confections.

2.8: The first point to be noted from Table 2.4 is the large increase that occurred in the average unit value of the various types of product between 1968 and 1972. In 1972, the average unit value of bulk ice-cream was 82 pence per gallon as compared with 37 pence per gallon in 1968, a rise of 120 per cent. For all other types of ice-cream together, the increase in the average unit value was even greater at over 160 per cent. from 43 pence per gallon in 1968 to over 112 pence per gallon in 1972. In the next two years, the average unit value of bulk ice-cream increased by a further 17 per cent. as compared with 24 per cent. for all other types combined.

2.9: The number of enterprises (with larger establishments) covered by the production data shown in Table 2.4 has also varied from year-to-year, and it is not possible to determine how the numbers have changed since 1968, or whether there were altogether more or fewer enterprises with large establishments producing ice-cream in 1974 than in 1968. But lack of precision concerning the total number of enterprises is much less significant in this industry than it would be in most, since there is no doubt about the dominant position held by the two largest ice-cream manufacturers.

TABLE 2.1

UK: Production of Ice Cream and Water Ices, 1963-74

Million gallons

	<u>Ice Cream</u>				Total Water Ices	Total	5-year moving average
	Total Ice Cream	For bulk sale	For retail sale				
			Chocolate coated	Other			
1963	28.7	6.6	3.2	18.9	7.5	36.2	41.2
4	30.9	7.6	3.1	20.2	8.0	38.9	39.3
5	28.6	6.9	3.3	18.4	6.8	43.6	39.3
6	32.0	7.5	3.2	21.3	7.2	46.2	39.8
7	34.9	8.0	3.3	23.6	7.0	41.9	41.4
8	36.6	8.3	3.6	24.8	7.0	43.6	42.8
9	39.7	9.1	3.6	26.9	6.5	46.2	44.3
1970	40.6	10.1	4.1	26.4	6.0	46.6	44.9
1	39.9	10.3	3.7	25.9	5.7	45.6	44.8
2	38.0	10.5	4.1	23.4	4.8	42.8	45.0
3	45.5	13.1	4.6	27.8	5.6	51.1	46.5
4	40.2	11.8	4.0	24.4	4.8	45.0	46.2

Source: Ministry of Agriculture,
Fisheries & Food.

TABLE 2.2UK: Production of Ice Cream and Ice Lollies, 1963 and 1968

	<u>Sold in Bulk</u>		<u>Prepacked for Retail Sale</u>			Ice Lollies	Total
	Dairy	Other	Choc ices	Dairy	Other		
<u>Quantity (Mn. gals)</u>							
1963	1.58	3.82	2.52	4.63	14.50	8.03	35.08
1968	1.82	3.79	3.08	5.06	19.11	9.79	42.65
<u>Value (£Mns)</u>							
1963	0.40	1.13	1.18	1.72	4.25	3.38	12.06
1968	0.80	1.30	2.13	2.64	6.89	5.52	19.28
<u>Average Unit-Value (£ per gallon)</u>							
1963	0.25	0.30	0.47	0.37	0.29	0.42	0.34
1968	0.44	0.34	0.69	0.52	0.36	0.56	0.45
<u>No. of Enterprises</u>							
1968	12	17	11	13	17	17	...

Source: Census of Production.

TABLE 2.3UK: Sales Concentration-Ratio for Ice Cream, 1963 and 1968

	1963	1968
Total sales (£ Millions)	12.06	19.28
Proportion of total sales by 5 enterprises with largest sales	93.1	91.2

Source: Census of Production.

TABLE 2.4

UK: Production of Ice Cream and Other Stick Confections, 1972-74

	Bulk	<u>Ice Cream:</u> Home packs	All other (incl. water ices)	Other Stick Confections	Total
<u>Quantity (Mn. gallons)</u>					
1972	7.71	12.59	18.63	3.47	42.40
1973	12.18	17.73	23.50	4.28	57.69
1974 provl.	12.25	16.38	20.65	4.35	53.63
<u>Value (£ Millions)</u>					
1972	6.29	11.13	23.99	5.79	47.20
1973	10.79	16.59	34.36	7.83	69.57
1974	11.75	17.29	34.20	9.35	72.59
<u>Average Unit Value (£ per gallon)</u>					
1972	0.82	0.88	1.29	1.67	1.11
1973	0.89	0.94	1.46	1.83	1.21
1974	0.96	1.06	1.66	2.15	1.35
<u>No. of Enterprises</u>					
1972	22	19	18	10	...
1973	17	15	18	11	...
1974	27	19	24	11	...

Source: Business Monitor, PQ 215.

3: DEVELOPMENT AND TRENDS IN THE ICE-CREAM INDUSTRY

3.1: Ice-cream became popular in the UK during the 1920s when the industry was comprised of many small manufacturers producing on a purely local basis, including caterers and ice-cream parlours making their own ice-cream. It was during the 1920s that T. Wall and Sons Ltd., J. Lyons and Co. Ltd., and Eldorado Ice Cream Co. Ltd. entered the industry and became firmly established. A popular method of selling to the public at this time was through the box-tricycle first introduced by Wall's in 1922, with its invitation to "stop-me-and-buy-one". By 1939 Wall's had a fleet of 10,000 such tricycles, whilst Eldorado also sold by this method. However, small retailers, and in particular confectioners, tobacconists, newsagents' shops, were the most important outlets. Later, the introduction to the UK of machines for the manufacture of soft ice-cream in the 1950s produced a rapid expansion of sales from mobile vans.

3.2: Wall's was acquired by Lever Brothers during the 1920s and became a subsidiary of Unilever Ltd. when it was formed in 1929. With the end of the Second World War and the termination of post-war controls there was a certain amount of buying and selling of small businesses together with a number of failures. Since the 1950s the industry has undergone large scale rationalisation through take-over and merger activity.

3.3: During the 1950s three significant events occurred. Firstly, in 1955 Unilever formed T. Wall & Sons (Ice Cream) Ltd., to manage the ice-cream side of its business. Next, Union International Ltd., acquired Eldorado, and lastly Neilsons (Holdings) Ltd., was formed with backing from Associated British Foods Ltd. Neilsons (Holdings) Ltd. had two subsidiary companies producing ice-cream; namely, Neilsons Ice Cream and Frozen Foods Ltd. and Meddocream Ltd.

3.4: J. Lyons & Co. Ltd. were particularly active in undertaking mergers during the 1960s. In 1962 they acquired Neilsons, and in January 1963 merged its own and Neilsons ice-cream business with Eldorado, at that time reputed to be the fourth largest in the British trade. Also during 1963, J. Lyons & Co. Ltd. formed a new subsidiary - Lyons Maid Ltd. - a wholly owned subsidiary of Glacier Foods Ltd., to manage the combined Lyons-Neilsons-Eldorado business. Early in 1970, 44 per cent. of Glacier Foods Ltd. was owned by J. Lyons & Co. Ltd., 39 per cent. by Union International, 15 per cent. by the Nestle Co. Ltd., and 2 per cent. by W.D. Mark & Sons Ltd. Since then, J. Lyons & Co. Ltd. have acquired the holdings of Union International and of W.D. Mark & Sons, giving them effectively 85 per cent. of Lyons Maid Ltd.

3.5: In 1964, the British American Tobacco Co. Ltd. acquired the ice-cream mobile van business, Tonibell Manufacturing Co. Ltd. and its subsidiaries, and then in 1969 this was sold to Lyons Maid Ltd. A further acquisition by Lyons Maid during the 1960s was of Bertorelli's Ice Cream Ltd., a company formed by a family of restaurateurs in London, which specialised in the production of high-quality ice-cream and water ices, and continues to do so as a division of Lyons Maid Ltd.

3.6 T. Wall & Sons (Ice Cream) Ltd. pursued a less acquisitive policy than Lyons during the 1960s without prejudicing its share of the market. In 1963 the Wall's mobile van business was merged with that of Forte Holdings Ltd.'s, "Mr. Whippy", forming Wall's Whippy Ltd., controlling at that time about 1,800 vans. In 1966, Unilever acquired Forte's interest in Walls-Whippy Ltd. and proceeded to change the business into a franchise operation.

3.7: The Midland Counties Dairy Ltd., which had a small ice-cream business was purchased by Unigate Ltd. in 1963. Midland Counties itself went on to buy the ice-cream interests in England and Wales of the Northern Dairy Ltd. (later Northern Foods Ltd) in 1967. (Northern Foods Ltd. is credited with 70-80 per cent. of the market in Northern Ireland). Eventually, in 1972 Lyons Maid Ltd. purchased the Midland Dairies ice-cream interests from Unigate for a reported £3m.

3.8: Another take-over was that of Tudor Dairies (Henley) Ltd., which also had an ice-cream business, by the Ross Group in 1956: the latter was subsequently taken over by the Imperial Tobacco Co. Ltd. in 1969 (now the Imperial Group Ltd.).

3.9: The present structure of the UK ice-cream industry has evolved into one dominated by Wall's & Lyons Maid, and their brands and spheres of main activity are outlined in Table 3.1. The locational pattern of productive capacity is one of concentration in a few large establishments: Wall's manufacture at two plants, Acton and Gloucester, whilst Lyons operate at three factories, Greenford (supposedly the second largest in the world), Barking and Liverpool. Nevertheless, at the other end of the productive market there remain a proliferation of very small manufacturers serving essentially local markets. According to the PIB Report, these numbered around 2,000 in 1970. Precise data on this segment of the market is not available and it is most unlikely that many of them fulfil the criteria laid down by the Department of Trade and Industry for classification as "larger establishments" for inclusion in the Census of Production. It is not possible to say to what extent the number of small local producers has changed since 1970 but given the local nature of production the number actually making ice-cream at any one time is likely to fluctuate considerably.

3.10: In addition to the firms concerned with ice-cream manufacture there are two firms closely allied to the industry in the spheres of refrigeration and distribution. As part of their exclusive supply contract arrangements with sales outlets the major producers install and maintain refrigeration for the storage and display of their ice-creams. Such installation and maintenance is handled for both Wall's and Lyons by Total Refrigeration Ltd., a wholly owned subsidiary of Total (Investments) Ltd., itself jointly owned by Wall's and Lyons. Total Refrigeration Ltd. also acts on its own account in buying refrigerators for sale to third parties.

3.11: Another wholly owned subsidiary of Total (Investments) Ltd. is Embisco Ltd., which makes cones, wafers and biscuits for its shareholders and for sale to third parties, in a rented part of Wall's Gloucester factory. At this same factory, reputed to be the largest ice-cream factory in the world, Wall's produces a considerable volume of mousse for another Unilever subsidiary, Birds Eye Food Ltd. During the winter months Wall's makes available to Birds Eye spare cold storage facilities as well as undertaking the de-boning of meat.

3.12: A combined distribution system is operated for Lyons Maid and Findus (UK) Ltd. by Alpine Refrigerated Deliveries Ltd., the latter being owned 51 per cent. by Glacier Foods Ltd. and 49 per cent. by Findus (UK) Ltd. However, until 1974, Findus (UK) Ltd. was owned equally by J. Lyons & Co. Ltd. and the Nestle Co. Ltd. The 1974 annual report of Lyons indicated their intention to sell their 50 per cent. interest in Findus to Nestle, although the distribution of ice-cream (and other frozen foods) would continue through their jointly-owned Alpine Refrigerated Deliveries Ltd.

TABLE 3.1UK: Structure of the Ice-Cream Industry, 1973

Company	Brand	Main Activity
<u>T. Wall & Sons (Ice Cream) Ltd.</u> (Unilever)	Walls Mr. Whippy	Desserts Mobile Vans
<u>Lyons Maid Ltd.</u> (J. Lyons & Co. Ltd./Nestle)	Lyons Maid Neilson Tonibell Eldorado Bertorelli's Mister Softee Midland Counties	Confectionery Confectionery/Desserts Mobile Vans Confectionery/Desserts High Quality Range Mobile Vans Desserts
<u>Ross Group</u> (Imperial Group)	Ross Tudor Dairies	Desserts

Source: Retail Business, No. 197: July 1974

4: CONSUMPTION, PRICES, COSTS AND PROFITS

4.1: The National Food Survey contains information on the consumption of ice-cream and mousses, but only that purchased for eating as part of a meal. The 1973 National Food Survey makes the point that the total production of ice-cream (excluding water ices) in 1973 for the United Kingdom was equivalent to 2.49 ounces per head a week, as compared with only 1.41 ounces served as part of household meals, so that it must be borne in mind that the data shown in Table 4.1 relate to under three-fifths of total ice-cream consumption.

4.2: Even so, the substantial increase in the level of consumption of ice-cream during meals between 1968 and 1973 is noteworthy in itself, representing a rise of 90 per cent. Even during the 1968-72 period when prices rose by 25 per cent., annual consumption increased by over 3 per cent. a year, and in 1973 when prices fell by 7 per cent. consumption per head rose by 44 per cent.

4.3: Another source for household expenditure on ice-cream is the Family Expenditure Survey, from which the data shown in Table 4.2 are derived. Ignoring the possible differences arising from the fact that the National Food Survey data relate to Great Britain whereas the Family Expenditure covers the whole of the United Kingdom, as well as the inclusion of mousses along with ice-cream in the former, a comparison of the trends in annual spending per head suggests that there has been a markedly greater increase in spending on ice-cream consumed as part of the household meal than that consumed elsewhere.

4.4: It is worth noting that the PIB found that between 1966 and 1969, prices of ice-cream rose by about the same proportion as the general food index despite increases in purchase tax on ice-cream. This was based on a weighted index of the retail prices of the 17 best-selling lines of Wall's and Lyons Maid. By June 1970, as the result of three successive increases in retail prices (and no change in purchase tax) during the preceding seven months, ice-cream prices rose (by the same index) by $19\frac{1}{2}$ per cent. over the average for 1969, whereas the general food price index increased by only 8 per cent.

4.5: Although the volume of ice-cream sales are sensitive to price-changes, weather is also an important factor, and it has not proved possible to distinguish between these two effects. The PIB took the view that any decline in sales volume which occurred when ice-cream prices are increased is unlikely to be more than a temporary change unless over a period the price of ice-cream rose at a faster rate than those of competing products. Thus, the PIB considered that the effects of the

price rises, which were the subject of the reference, would produce an increase in the total value of retail sales of £4 millions in a full year, after allowing for a loss in sales volume as a result of the price increases. This was equivalent to about 5 per cent. of consumer spending on ice-cream in 1970, which then stood at £82 millions. Of the £4 millions increase in sales revenue, £2 millions would accrue to the manufacturers, £1 million to retailers and about £500,000 would be absorbed by purchase tax.

4.6: The PIB report also provided a breakdown of the industry's costs based upon Wall's and Lyons Maid's operations as shown in Table 4.3. The edible ingredients accounted for 20 per cent. of total costs and packaging for another 10 per cent. Production expenses (including labour costs and overheads) contributed another 20 per cent., but cold storage and distribution (again including labour costs) represent a larger component at 22 per cent. Selling, marketing and advertising costs (including labour) contributed as much as 17 per cent. of total costs. Combined wages and salaries (included by function) together came to 30 per cent. of total costs.

4.7: The widening and more sophisticated range of lines produced by the two companies has undoubtedly involved them in additional costs, and this fact was justified by both of them on the grounds that they were necessary to compete effectively with chocolate and sugar confectionery and dessert products as well as with each other.

4.8: The level of profits achieved by manufacturers was not considered unreasonable by the PIB in the conditions existing at that time:

"In the light of the average returns by British manufacturing industries generally and of food manufacturing in particular (as calculated by the Monopolies Commission over a number of years), their targets seem reasonable, especially in view of the special problems of this industry we do not find that the companies have been or are making excessive returns; nor do we think that there are any important cost savings that they have failed to achieve, with the arguable exception of this year's wage increases. We therefore conclude that their need for the additional revenue sought by the recent price increases is established."

4.9: The plain fact is that variations in the weather and the seasonal pattern of consumer demand for ice-cream products affects the level of profits achieved by manufacturers year to year. This is primarily a reflection of the high proportion of fixed costs in the form of manufacturing, cold storage and distribution facilities which cannot readily be adjusted to meet sudden changes in demand. The programming of such facilities is carried out well in advance to meet demands foreseen during the summer and it would be uneconomic to provide these facilities on a scale which could meet the demands during exceptionally good weather. Thus, there is a constraint; namely, an upper limit of resources which during periods of good weather prevents companies from obtaining the full benefits of an increase in demand. On the other hand, below-average summers can result in surplus capacity and under-recovery of overheads. This leads to the generalisation that there is a tendency for profits to be depressed in bad weather years and to be limited in good weather years.

4.10: Clearly, unit costs in the ice-cream industry could be reduced if there were less seasonal variation in demand, and in particular if there were a higher consumption of ice-cream in the winter. The latter is currently a paramount marketing objective of the ice-cream companies.

TABLE 4.1

Ice cream (including mousses): Annual consumption and spending per head and average prices paid, 1968-73.

	1968	1969	1970	1971	1972	1973
Annual consumption per head (lbs)	2.43	2.53	2.75	2.80	3.20	4.62
Annual expenditure per head (pence)	30.7	34.4	40.6	43.2	50.4	67.6
Average prices paid (pence/lb)	12.63	13.58	14.74	15.40	15.77	14.62

Source: National Food Survey.

TABLE 4.2

Ice cream: Household spending and spending per head on ice-cream, 1968-73.

	1968	1969	1970	1971	1972	1973
Annual expenditure per household (£)	2.34	2.73	2.70	3.12	3.12	3.64
Annual expenditure per head (£)	0.79	0.92	0.92	1.08	1.07	1.29

Source: Family Expenditure Survey.

TABLE 4.3

Ice-Cream: Cost Structure of Wall's and Lyons (1970)

	per cent.
Edible Ingredients	20
Packaging materials	10
Production (labour & overheads)	20
Cold storage and Distribution	22
Selling, marketing and advertising	17
Refrigeration in retail premises	5
Other	6
	<u>100</u>

Source: National Board for Prices and Incomes,
Report No. 160.

5: MARKETING AND DISTRIBUTION

5.1: During recent years a prime objective in the marketing of ice-cream has been to alter seasonal consumption patterns by boosting winter sales. This has been and is being achieved through the dessert sector of the ice-cream market, which is in direct competition with other convenience desserts. This sector has experienced particularly rapid growth in sales: from £5 m. (at retail selling prices) in 1964, sales rose to £35 m. in 1973 - an increase of 600 per cent. The relative shares of the different sectors of the ice-cream market in 1970 and 1973 is given in Table 5.1 which shows that the dessert sector increased its share from 21.8 per cent. in 1970 to 30.4 per cent. by 1973. In mid-1974 it was estimated that one-third of Wall's annual ice-cream sales were in the dessert sector.

5.2: The total value of the UK ice-cream market at retail sales prices, as estimated by Walls, is indicated for various years in Table 5.2. The valuation of the total market in 1970 at £82 m. was accepted by the Prices and Incomes Board in its Report on the industry, and of this, 75 per cent. is jointly attributed to Wall's and Lyons. Information on market shares has been extracted from various sources which broadly indicate that up to 1970-71 Wall's had the larger proportion of the market (based upon brand shares) but since that date the position has been reversed. The take-over of Eldorado Ice Cream Ltd. by Lyons in 1963 raised the latter's market share to 34 per cent. compared to that estimated for Wall's at 36 per cent. The only other company with a significant share of the market at that time was Midland Counties with 8-9 per cent. Of the ice-cream markets in 1966 and 1968/69 Wall's and Lyons were jointly credited with 70 per cent., with their individual shares virtually equal. By 1971/72 the relative market shares attributable to Wall's and Lyons were believed to be 45 per cent. and 37 per cent., respectively. The latest information on market shares relates to 1973 and gives the major producers 84 per cent. of the total market of £115 m. (r.s.p.) with Wall's accounting for 41 per cent., and Lyons 43 per cent.

5.3: That Lyons have achieved a greater market share than Wall's since 1970/71 appears to be related to Lyons take-over of Midland Counties (including the ice-cream interests of Northern Dairy) in 1972. This raised Lyons market share by 4 per cent. nationally whilst in the Midlands region the increase was as much as 10 per cent.

5.4: Information to hand would therefore indicate that since 1963 the proportion of the ice-cream market not attributable to either Wall's or Lyons has varied from 30 per cent. at that time to 16 per cent. in 1973. This segment of the market is comprised in the main

by the small manufacturers which according to the 1970 PIB Report numbered around 2,000. By virtue of the fact that most of these undertakings employ less than 25 persons no official statistics on their activities are available, but it would appear that in 1973 their share of the total retail market was worth nearly £18½ millions. A survey of sixteen small businesses carried out for the PIB Report indicated that their sales were directed more towards catering establishments, cash-and-carry wholesalers and supplying mobile van operators with prepared mixes and bulk ice-cream, rather than to supplying smaller retail shops. The survey also indicated that competition between local makers within the same areas was particularly keen, as it was also with the national producers. Furthermore, the small firms set their prices to match Wall's and Lyons and generally followed them in the timing of price increases.

Distribution Channels

5.5: An aspect of marketing which is peculiar to both Wall's and Lyons (and some of the larger of smaller makers) is the exclusive supply contract. These contracts require the customer to undertake not to stock or sell at the premises specified in the contract, without written consent, any ice-cream products, as defined in the contract, other than those obtained from the manufacturer. A refrigerated cabinet is provided by the supplier, if necessary. Such contracts are initially for a period of five years, and as such confer a certain degree of protection upon the supplier, yet thereafter contracts are renewable annually. In these contracts, the specification of particular premises enables multiples to sell different brands at different branches, a fact which the manufacturer's claim enhances competition.

5.6: Marketing of ice-cream through mobile vans is in most cases based on exclusive contracts and the franchise system. The contract specifies the franchise area covered, and contains requirements relating to the use of the manufacturer's trade names and the proper maintenance of vans and freezer equipment. Again, contracts are for an initial period of five years, renewable thereafter on an annual basis.

5.7: The dessert sector of the ice-cream industry has already been identified as the growth market being primarily orientated towards take-home sales. The original campaigns in this sector were based upon the slogans utilised by either Wall's or Lyons of "eat some, keep some" or "buy now, eat later", with the ice-cream being sold in large re-usable containers. Broadly, the development of the take-home ice-cream market has kept pace with the growth in the ownership of home-freezers capable of storing ice-cream in bulk, as well as the success of promoting ice-cream as a dessert. With home-freezer ownership having expanded from 4.0 per cent. of households in 1971 to 10.5 per cent. in 1973, sales

through home-freezer centres of large dessert packs are expected to be of particular importance in the future. For example, it has recently been estimated that sales through supermarkets and home-freezer centres increased by 400 per cent. between 1971 and 1973, compared to 30 per cent. growth in the market as a whole. In addition, Bejam Ltd. and Dalgety Ltd. recently made good progress with sales of ice-cream and Bejam reported that in 1972/73, 10 per cent. of all their sales related to ice-cream.

5.8: Sales through retail shops remain the largest single distribution outlet for ice-cream, accounting for over 55 per cent. of the 1973 market, compared with under one-half in 1970. Caterers and restaurants account for the next largest share of about one-fifth, followed by mobile vans with one-sixth. The remainder is mainly sales at cinemas, which is a declining part of the total market.

5.9: The advent of soft ice-cream gave new impetus to the industry with sales increasing steadily through the 1950's and early 1960's when ice-cream was predominantly an impulse buy. By 1969, soft ice-cream is reputed to have accounted for 25.3 per cent. of total sales. Van sales are susceptible to the weather and have attracted adverse publicity through accidents caused to children who run across roads to buy ice-creams. As an outlet, it is having to face competition from take-home ice-cream being stored in home freezers and as a result volume remains static and market share is declining.

5.10: Sales of ice-cream through caterers/restaurants, primarily for consumption with a meal, is an outlet which is by no means static. Between 1962 and 1967 sales increased by 30 per cent., as against an increase of 23 per cent. for the total ice-cream market. In 1968, the caterer's share of the market was estimated to be 11 per cent., and having risen to 20 per cent., by 1972.

The Form and Degree of Competition

5.11: The Prices and Incomes Board (PIB) in its report on the industry described ice-cream distribution, "as complex and expensive." Both Wall's and Lyons operate a national distribution system for ice-cream and in 1970 Wall's operated 48 depots and Lyons 68 depots, in this respect. Any economies that may be made through the concentration of production in relatively few units are lost to the costs of distribution which for efficiency in such a network require a high level of sales per outlet and large deliveries per visit. Deliveries are made in specially refrigerated vans to some 150,000 retail outlets, many of which are very small with varying requirements according to location and type of trade.

5.12: Notwithstanding certain qualifications, the Prices and Incomes Board in its 1970 report on the ice-cream industry concluded that "Wall's and Lyons Maid . . . have no serious competitors within the industry at the present time," and that "there is a degree of competition between the two leading companies sufficient to allow the consumer a good measure of protection." The qualifications attaching to these conclusions related, in particular, to aspects of collusion - that there was a possibility of collaboration on prices between Wall's and Lyons. Consideration of collusion was based on four points; first, the closeness of each company's notification of price rises; second, the virtually identical terms offered to small retailers; third, the general matching of each others products and the prices paid for the comparable products; and lastly, their joint ownership of Total (Investments) Ltd. Despite these points, the Board accepted assurances from Wall's and Lyons that there was no collaboration of this kind and that as they both have many large customers in common it was inevitable that an exchange of information on future price rises should occur.

5.13: That competition existed within the industry was accepted on three points. First, even though the five year exclusive supply contracts represent an element of protection, at the end of such time Wall's and Lyons compete to maintain existing, and attract new, retailers for after five years there would be a "fair proportion of retailers free to change." Secondly, competition was represented by the promotion of recipes, texture and flavour of ice-creams through advertising and merchandising. Lastly, that there are so many confectioners, tobacconists and newsagents and other retailers selling ice-cream that consumers are well within reach of a choice of brands.

5.14: Until the middle to late 1960's, ice-cream was primarily an impulse buy for immediate consumption. Trade in such items which form the confectionery side of the business consists of ice-lollies, ice-cream cornets and chocolate coated bars or choc ices. The promotion of sales in this sector has, and will continue to be, aimed at children. Much gimmickery exists in the promotion of such novelty lines making use not only of shape, colour and flavour but also in relating ice-cream products to the characters and events of a fantasy world. Such chance purchases carry low profit margins and with the emergence of the take-home trade, promotional activity has been shifted toward a more adult market.

5.15: Advertising of ice-cream products takes place primarily between April and October. In 1965, for instance, 70 per cent. of press advertising was undertaken during April, May and June, whilst 60 per cent. of TV advertising occurred in May, June and July. The trend in advertising expenditure for selected years between 1965 and 1973 is

given in Table 5.3 which shows that Wall's and Lyons have together consistently accounted for at least 95.0 per cent. of total expenditure.

Nevertheless, there has been a significant change in the shares of the total expended by Wall's and Lyons. In 1965 Wall's accounted for 58.5 per cent. of the total as compared with, Lyons 38.1 per cent. By 1968 both the major companies were spending more or less the same proportion of that year's total expenditure whilst Wall's remained ahead in absolute terms. Since 1968, however, Lyons has accounted for both a greater share and absolute level of advertising expenditure than Walls; the relative positions by 1973 giving Lyons 49.7 per cent. of the total and Walls 45.2 per cent.

5.16: Not shown in Table 5.3 is the division of advertising expenditure on ice-cream between the press and on television. Historically, TV advertising (including those advertisements made for showing in cinemas) has far outweighed that in the press, by as much as a factor of ten in certain years. In 1973, however, Wall's spent more than one-half of its total advertising expenditure in the press.

5.17: Perhaps the most salient feature to be noted from Table 5.3 is that total expenditure incurred on advertising in 1973 at £933,000 was lower than the 1962 total of £950,000, as well as being one-eighth lower than in 1968. Given the increase in advertising rates that have occurred in both periods, this represents a considerable fall in the real value of advertising expenditure. Indeed, when related to the size of the market (as shown in Table 5.2), the rates of advertising expenditure dropped from 1.7 per cent. in 1962 to 1.6 per cent. in 1968, but to as low as 0.8 per cent. in 1973.

TABLE 5.1

Relative Shares of Sectors of the Ice-Cream Market

	At retail sales prices			
	1970		1973	
	£m	%	£m	%
Confectionery	39.4	47.8	64	55.7
Dessert	18.0	21.8	35	30.4
Catering	9.3	11.3	16	13.9
Entertainment	8.9	10.8	*	*
Mix	6.8	8.3	*	*
	<hr/>	<hr/>	<hr/>	<hr/>
	82.4	100.0	115	100.0

Sources: 1970 National Board for Prices and Incomes
Report No. 160

1973 Retail Business, No. 197 July 1974
(based on estimates of T. Wall &
Sons (Ice Cream) Ltd.)

* Not separately distinguished.

TABLE 5.2Value of UK Ice-Cream Market, at Retail Selling Prices

	Value £ Mn
1962	55
1965	60
1968	68
9	73
1970	82
1	89
2	95
3	115

Source: "Retail Business" No. 197 July 1974
Economist Intelligence Unit and Trade
Estimates (i.e. Wall's)

TABLE 5.3

Ice-Cream Expenditure on Press and TV Advertising

Company	£000				
	1965	1968	1969	1972	1973
Lyons	281	503	479	458	464
Walls	431	513	458	448	422
Others	25	54	49	66	47
	<u>737</u>	<u>1,070</u>	<u>986</u>	<u>972</u>	<u>933</u>
Lyons & Walls as % of Total	96.6	95.0	95.0	97.2	95.0

Source: IPC Marketing Survey of UK (based upon MEAL digests)

6: COMPANY PROFILES

J. Lyons & Co. Ltd.

6.1: The formation of Lyons Maid Ltd., in 1963 by J. Lyons & Co. Ltd., as a subsidiary of Glacier Foods Ltd. was documented in section 3 of this chapter. Besides being involved in the manufacture and distribution of ice-cream J. Lyons & Co. Ltd. are active in other food industries; namely, cakes and biscuits, grocery products, meat products, flour and bread, and soft drinks. In addition, they have a developing interest in hotels and catering as well as property and other miscellaneous non-food related activities.

6.2: The ice-cream and frozen food interests of J. Lyons & Co. Ltd. are detailed in the company's latest annual report and accounts (1974) as reproduced below. These are all companies in which J. Lyons & Co. Ltd. have a direct or indirect interest, with the proportion of share capital owned shown:

Glacier Foods Ltd.)	
Lyons Maid Ltd.)	
Bertorelli's Ice Cream Ltd.	)	84.56%
Midland Counties Ice Cream Ltd.)	
Mister Softee Ltd.)	
Tonibell Manufacturing Co. Ltd.)	
Alpine Refrigerated Deliveries Ltd.	)	67.60%
Baskin Robbins Ice-Cream Company (USA)	)	82.70%
Clarkham Produce Ltd. (Kenya))	

In addition, there are two associated companies: first, Total (Investments) Ltd. in which Lyons have a 42.28 per cent. interest, and second, Findus Ltd. in which Lyons' stake was 49.94 per cent. up to 1974 when that interest was sold to Nestle Co. Ltd.

6.3: The ice-cream interests in the USA represented by Baskin-Robbins Ice-Cream Company, followed the purchase of almost 83 per cent. of the equity in that company from United Brands. Since then, J. Lyons & Co. Ltd. have been negotiating for the balance of 17 per cent. of the publicly owned shares. According to the 1974 report and accounts of J. Lyons & Co. Ltd., Baskin-Robbins has a reputation for high-quality ice-creams which are sold in over 1,300 stores in all major US cities, with plans to enter the Japanese market during 1974.

6.4: In the year to end-March 1974, the total turnover of the company and its subsidiaries amounted to £448 millions, an increase of £189 millions compared with the previous year. Of this increase in turnover, however, over three-quarters was attributable to overseas activities (mostly in Europe and the USA), but in the UK, turnover rose by 22 per cent. between 1972 and 1973 to £243 millions. Food sales contributed about seven-tenths of UK sales in 1973, the next most important component of nearly one-fifth being hotels and catering, with the remainder coming from non-food sales and property interests.

6.5: No financial statistics relating to the ice-cream activities of the company are available, but for the group activities as a whole, the salient figures are as follows:

J. Lyons & Co. Ltd.

	£ Millions					
Year to end-March	1969	1970	1971	1972	1973	1974
Turnover	129	155	168	189	259	448
Trading Profit	7.0	8.3	9.8	11.2	14.3	20.7
Net assets	91.6	106.2	131.6	134.0	249.3	307.4
Profit before tax	4.8	5.6	6.1	7.1	10.2	9.6

T. Wall & Sons Ltd.

6.6: The main activities of T. Wall & Son Ltd., a subsidiary of Unilever Ltd., are the manufacture and sale of ice-cream and prepared meats, but no separate financial statistics are available for the ice-cream side of the business. For the company as a whole, the 1968-73 data are as follows:

T. Wall & Sons Ltd.

	£ Millions					
	1968	1969	1970	1971	1972	1973
Turnover	54.6	59.0	60.3	67.0	71.6	89.1
Gross Income	...	2.5	2.7	2.9	2.1	...
Net assets	22.8	26.7	30.6	29.1	29.9	31.3
Net Profit	...	0.2	0.2	0.3	- 0.6	...

7: CONCLUSION

7.1: The evolutionary pattern which has led to high concentration within the ice-cream industry was one of internal expansion of the leading firms up to about the mid-1950's, followed by conscious acquisitive policies later. The former of these two stages of development was identified initially by Evely & Little * for the ice-cream industry during the period 1935-51 and from their studies it was concluded that acquisition played no significant part in the growth of T. Wall & Sons Ltd. and J. Lyons & Company. The emergence of these two firms as leaders in a many firm industry was attributed to extensive advertising designed particularly to increase off-season sales.

7.2: In 1951, three firms were responsible for 77 per cent. of gross output (but only 65 per cent. of employment) of the ice-cream trade. Acquisitive policies ensued particularly during the 1960's, thus counteracting any tendency for concentration to decline as the result of the entry of new competitors; namely, those manufacturing for the new market in soft ice-cream during the 1960's which threatened to erode the leaders' shares. The reaction of Wall's and Lyons was to take-over this competition. (viz. Mr. Whippy and Tonibell), and others which did not fit that pattern, with the result that high concentration was maintained. By 1970, according to Walshe, Wall's and Lyons together accounted for 80 per cent. of large firm ice-cream output, + whereas the five firm concentration ratio for larger establishments in 1968 was 91.2 per cent.

7.3: What has happened to the level of concentration since 1970 and how it is likely to change in the future must be speculative, but the demise of Midland Counties and Northern Dairies as independent ice-cream manufacturers in 1972, suggests that the share of total output and sales controlled by Wall's and Lyons has increased since 1970.

7.4: The barriers to entry for any new competition into the ice-cream industry have been identified by Walshe as being capital costs, hygiene regulations, service facilities and refrigeration supplies. With formidable barriers to new entrants and the absence of serious competitors to Wall's and Lyons, concentration is unlikely to decrease. On the basis of past behaviour a reversion to internal expansion of the leading firms might be anticipated, manifesting itself in more intense competition not only between the differentiated products of Wall's and Lyons but between them and the sugar and chocolate confectionery and other convenience dessert products. Indeed, whilst impulse sales of ice-cream for immediate consumption will remain significant, the

* R. Evely and I.M.D. Little: Concentration in British Industry (Cambridge University Press, 1960), p. 125.

+ G. Walshe: Recent Trends in Monopoly in Great Britain, NIESR Occasional Papers XXVII (Cambridge University Press, 1974), p.20.

future growth potential for the ice-cream industry has been identified here as the dessert and take-home sectors, influenced by changing consumption habits as much as by the increasing ownership of home-freezers. Thus, this may provide the stimulus to further take-over activity by the leading ice-cream manufacturers producing lateral integration into convenience desserts. To the extent that production and especially distribution in the two industries are similar and may make take-overs favourable, the likelihood of such developments may be limited by the firms owned by Unilever and J. Lyons & Co. Ltd. which already operate in the convenience desserts industry.

7.5: Whilst it remains impossible to quantify, the level of concentration is most likely to be affected by the emergence of counter-vailing power in the form of "own-label" ice-cream products sold through the larger multiple retailers and freezer-food centres. Where own-label ice-cream and that of the national brands appear in the same outlet, there is the definite possibility of price competition and a shift in market share. If there is a significant trend away from purchasing the Wall's or Lyons ice-cream offered in one outlet to purchases of "own-label" ice-cream not manufactured by Wall's or Lyons at another source, then this will bear directly upon the level of concentration.

7.6: As an attempt to reduce the seasonal impact of ice-cream sales within localised markets, many smaller manufacturers supply freezer-food centres. Furthermore, within certain regions of the UK many of these smaller manufacturers have significant sales and come into direct competition with the national brands. In such cases, it may be of greater relevance to determine a regional index of concentration, particularly bearing in mind that many of these smaller firms (employing less than 25 persons) will not be included in the denominator of the Census of Production-based index. The existence, as noted by Walshe, of some 2,000 small manufacturers serving isolated markets and whose levels of production probably fluctuate quite widely each year must be a factor in assessing the effects of mergers on the structure of the trade.

7.7: The report by the Prices and Income Board noted that there was a need amongst the smaller manufacturers for the replacement of capital equipment to produce ice-cream. Under the present regime of price controls and the industry bearing VAT there may be little scope for such replacement to take place. Utilisation of old and worn out equipment is likely to result in inefficiencies and costlier production, further reducing profitability and making capital replacement even more remote. Such a situation is likely to lead to the closure of businesses: indeed, instances of factories stopping production during 1974 have already been reported.

CHAPTER 5GRAIN MILLING1: GENERAL INTRODUCTION

1.1: The principal grains milled in the United Kingdom are wheat, maize, oats, rice and rye, being either milled into flour or meal or processed into cereal breakfast foods, but the Grain Milling industry of the Census of Production also covers peas, beans and lentils. *

1.2: In the main, imports are only important in the case of the grains. Imported wheat in 1972-73 accounted for nearly three-fifths of that used for flour-milling as compared with over two-thirds in 1968-69, whereas imports of wheat meal and flour were negligible compared with domestic production. In part, this is attributable to the 10 per cent. duty on imported wheat flour that existed up to 1968, as well as some technical problems involved in the transportation of flour. Thus, exports of wheat meal and flour, although twice as large as imports, were also of negligible importance.

1.3: The UK Census of Production distinguishes three sub-divisions of the Grain Milling industry: wheat products, other cereal products, and cereal breakfast foods. In terms of sales and employment, the largest sector is wheat products, and within it, flour-milling, and the next largest, cereal breakfast foods. These two sub-divisions are relatively homogeneous and distinct from each other, in that the overlap of activities between companies engaged in the two sectors is comparatively small. On the other hand, there is a considerable overlap of company activities between the wheat and other cereal products sub-trades, as well as a lower degree of coverage of other cereals products output by firms classified to Grain Milling.

1.4: The principal interest as far as industry structure, concentration and competition are concerned lies in the flour-milling and cereal breakfast foods trades, and for this reason, attention will be directed mainly towards them. It is relevant to mention in this connection that the supply of ready-to-eat breakfast cereals foods was the subject of a reference to the Monopolies Commission on which it reported in February 1973, and that the supply of flour and bread is currently under investigation by the Monopolies Commission following a reference to it in October 1973.

* The malting of barley and wheat is excluded from the Grain Milling industry and is classified to the Brewing and Malting industry.

1.5: The arrangement of this study of Grain Milling is that section 2 deals with the structure of the whole industry and the relative importance of its sub-divisions, section 3 deals with the flour-milling industry, section 4 with the cereal breakfast foods trade, section 5 covers briefly the remaining other cereal products field, and section 6 contains information on the major concerns in both sectors of the industry.

2: THE INDUSTRY AND ITS SUB-DIVISIONS

2.1: The grain milling industry corresponds to the Department of Industry's 1968 Standard Industrial Classification minimum list heading 211, which states:

"... the Grain Milling Industry relates to establishments engaged wholly or mainly in milling wheat (including the production of self-raising flour and patent flour at milling establishments); milling, flaking, or rolling barley, oats, maize, rye, rice, etc., the production of wheat and other grain offal, splitting or grinding peas, beans, lentils, soya beans, sago, tapioca, or manufacturing ready-to-eat breakfast cereals such as cornflakes, puffed or shredded wheat."

2.2: This definition of the Census trade differs from the previous 1958 classification, in that sales of self-raising flour (made from flour of the establishments' own milling) were then classified to the Starch and Miscellaneous Foods Industry. However, the Census data for 1963 and 1968 as presented below have incorporated the reclassified 1963 figures. Although the definition of the trade has not been changed since 1968, the method of reporting has altered, which affects direct comparison of the Census data for 1970 and later years with those for 1968 and earlier.

Trends in Grain Milling Industry

2.3: In 1968, the Census Grain Milling comprised 352 establishments owned by 248 enterprises, as shown in Table 2.1. Compared with only five years earlier, the number of establishments had fallen by one-third from 529, and the number of enterprises still more by two-fifths from 405 in 1963. A large proportion of these establishments were small mills and plants employing less than 25 persons: about 69 per cent. in 1963 and 59 per cent. in 1968. But in terms of employment, these small establishments accounted for only 7 per cent. of the industry's labour-force in 1968 as compared with 11 per cent. in 1963.

2.4: In terms of both establishments and enterprises the Grain Milling industry was smaller in 1968 than in 1963. It was also smaller in terms of employment, since the industry's labour force fell from 29,400 to 23,600 in the 1963-68 period, or by one-fifth. At current prices, gross output and net output rose by 17 per cent. and 26 per cent. respectively, although these increases were much lower than the 51 per cent. and 46 per cent. achieved by the whole Food Processing Sector.*

* See Part 1, Tables 2.3 and 2.4.

2.5: The changes in the Census data for the Grain Milling Industry for 1970-73 are also shown in Table 2.1. The number of establishments classified to the industry was 356 in 1970, but by 1972 they had fallen to 335, a decrease of 6 per cent. But the number of enterprises owning these establishments fell during the same period by nearly 15 per cent. from 297 in 1970 to 255 in 1973. Thus, the decline in the number of enterprises and establishments comprising the Census trade has continued since 1970.

2.6: The same is true of the industry's labour-force. In 1972, employment was just under 20,000 (and the provisional 1973 figures show a further fall), one-quarter lower than in 1970. What is more, both gross output and net output (at current prices) were lower in 1972 than in 1970, by 20 per cent. in the case of gross output and 9 per cent. for net output. The provisional figures for 1973 show increases of more than one-fifth in both gross and net output at current prices, but the index of production for the Grain Milling industry in 1973 was only 5 per cent. higher than in 1972.

2.7: The division of the industry's establishments and employment in 1963 and 1968, and again in 1970 and 1972, is shown in Table 2.2. The relative importance of the small establishments (i.e. those employing less than 25 persons) declined by both indicators between 1963 and 1968, but increased by both indicators between 1970 and 1972. But it will also be seen from Table 2.2 that the number of larger establishments fell from 116 in 1970 to 94 in 1972, or by nearly one-fifth, and their employment by nearer three-tenths from over 24,000 to under 17,500 during the same period.

Size-distribution of Enterprises

2.8: The size-distribution of enterprises (by employment), and their establishments, employment and net output in 1963 and 1968 is shown in Table 2.3. This covers enterprises employing more than 25 persons, and shows that while the largest enterprises employing more than 1,000 persons represented the same proportion of all enterprises in the two years (although one fewer in actual numbers) and only increased their share of employment and net output very slightly, they accounted for over 70 per cent. of employment and over 75 per cent. of net output. Unfortunately, no size-distribution of enterprises is available for later years.

The Industry's Sub-divisions

2.9: The 1968 Census of Production provides a breakdown of the Trade's activities carried on in larger establishments for 1963 and

1968 between these sub-divisions: wheat products, other cereal products and cereal breakfast foods packeted for retail sale. For the three sub-divisions combined, as will be seen from Table 2.4, the sales of the principal products represented 80 per cent. of the total sales and work done, this index of specialisation in 1968 being 76 per cent. for wheat products, and 84 per cent. for other cereal products and breakfast foods.

2.10: By far the largest sub-division is wheat products, accounting for 70 per cent. of employment and only a slightly smaller share of net output in 1968. The smallest is other cereal products, with only 4 per cent. of employment in 1968 (as compared with 9 per cent. in 1963). In between comes breakfast foods, with an employment share up from $18\frac{1}{2}$ per cent. in 1963 to $25\frac{1}{2}$ per cent. in 1968, although its share of net output has remained static at 28 per cent. It is also evident from Table 2.4 that the most heavily specialised sub-trade is breakfast foods, with only 7 enterprises in 1968 as compared with 44 producing wheat products.

2.11: More detail on the relative importance of the principal products of the Grain Milling industry, as well as the proportion of total sales of these products produced by the Industry as distinct from establishments classified to other trades is shown in Table 2.5. It will be seen, for example, that 97 per cent. of the sales of wheat products and 94 per cent. of the cereal breakfast foods comes from establishments classified to the Grain Milling trade, but a much lower proportion of the other cereal products, particularly barley and maize. What is more, it is evident that white flour for breadmaking accounted for 45 per cent. of the industry's total sales in 1968, other wheat flours for 17 per cent. and breakfast foods for another 17 per cent. Thus, virtually four-fifths of Grain Milling's total sales were comprised of these three categories of products in 1968, much the same as in 1963.

2.12: Since the characteristic products of the three sub-divisions are not substitutes for each other, it is more meaningful to consider their structure and concentration individually rather than for the trade as a whole.

TABLE 2.1

UK: Grain Milling: Enterprises, Establishments,
Output and Employment, 1963-73

	1963	1968	1970	1971	1972	1973 ^P
No. of enterprises	405	248	297	289	255	...
No. of establishments	529	352	356	363	335	...
Gross output (£ Mns)	310.5	363.3	439.3	390.5	401.3	488.2
Net output (£ Mns)	75.6	95.5	130.0	102.4	103.3	128.2
Employment	29.4	23.6	26.4	22.1	19.9	19.5

Source: Census of Production.

TABLE 2.2

UK: Grain Milling: Small and Larger Establishments,
Numbers and Employment, 1963-72.

	Small Establishments				Larger Establishments			
	1963	1968	1970	1972	1963	1968	1970	1972
Establishments No.	363	208	240	271	166	144	116	94
%	69	59	67	72	31	41	33	28
Employment (Thousands)	3.14	1.64	2.35	2.45	26.26	22.01	24.03	17.42
%	11	7	9	12	89	93	91	88

Source: Census of Production.

TABLE 2.3

UK: Grain Milling: Size-Distribution of Larger Enterprises, 1963 and 1968.

Enterprises' Employment	(Percentages)							
	Enterprises		Establishments		Employment		Net Output	
	1963	1968	1963	1968	1963	1968	1963	1968
25-49	30	35	17	17	3	4	3	2
50-99	33	29	17	17	7	6	5	5
100-199	16	14	13	9	7	5	5	4
200-999	12	12	10	12	13	14	12	12
1,000-1,999	9	9	43	16	70	16	75	14
2,000 and over				30		55		62
	100	100	100	100	100	100	100	100
Total (Base for percentages)	81	65	200	174	26.6 Thousands	21.8	68.4 £ Millions	88.0

Source: Census of Production.

TABLE 2.4

UK: Sub-divisions of Grain Milling Trade:
Enterprises, Output and Employment, 1963 and 1968.

	Larger establishments			
	Wheat products	Other cereal products	Cereal breakfast foods	All
No. of enterprises:				
1963	50	24	5	78
1968	44	11	7	61
No. of establishments:				
1963	139	38	6	183
1968	125	15	9	149
Gross Output (£ Mns)				
1963	214.4	24.8	39.4	278.6
1968	263.9	17.0	50.9	331.8
Net Output (£ Mns)				
1963	44.5	4.1	19.2	67.8
1968	60.0	2.6	24.6	87.2
Employment (000s)				
1963	19.1	2.4	4.9	26.4
1968	15.2	0.9	5.5	21.6
Sales of characteristic products (£ Mns)				
1963	150.4	13.8	29.5	...
1968	175.5	12.4	40.8	...
Index of specialisation *				
1963	76	76	77	80
1968	76	84	84	80

* For sub-divisions, the index is the ratio of sales of characteristics to total sales of goods produced and work done, and for the industry as a whole, the ratio of sales of its principal products to total sales of goods produced and work done.

TABLE 2.5

UK: Sales of Principal Products of Grain Milling Trade, 1963 and 1968.

	Larger establishments					
	1963			1968		
	Total	Within trade	%	Total	Within trade	%
	£ Millions			£ Millions		
Wheat products						
White flour for breadbaking	97.0)			110.4	106.3	96
Other flours	36.8)	126.6	94	41.6)	41.6	98
Semolina	0.8)			1.0)		
Other products	25.8	24.6	95	28.4	27.7	98
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	160.4	151.2	94	181.4	175.6	97
Oat products	2.0	1.4	70	1.7	1.4	82
Barley products	5.5	3.1	56	6.9	3.4	49
Maize products	14.7	9.2	63	12.7	6.7	53
Whole rice	4.4	4.2	95	5.4	...	...
Soya meal	1.5)			1.8)		
Rye, peas and beans, meal and flour	0.3)	2.2	71	0.1)	3.2	100
Split lentils and peas	1.3)			1.3)		
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	29.7	20.1	68	29.9	...	...
Cereal breakfast foods, packeted for retail sale	32.1	31.5	98	43.2	40.8	94
Total	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	222.4	203.0	91	254.9	236.8	93

3: FLOUR MILLING

3.1: About 84 per cent. of the total value of sales of wheat products in 1968 consisted of flour, with white flour for bread-making alone accounting for 60 per cent. In that year, there were 49 enterprises producing white flour for breadmaking, 44 producing other white flour, and 41 high-extraction flours (including wheatmeal). The later Censuses have not produced any comparable data, but according to the quarterly statistics published in the Business Monitor series, there were only 25 enterprises producing white flour for breadmaking in 1974, 26 producing brown and wholemeal flours for breadmaking, 20 producing either prepacked and bulk household flour or self-raising flour, 17 producing biscuit-making flour and 9 cake flour.

3.2: These data indicate, notwithstanding the different method of collecting the statistics, a considerable drop in the number of enterprises engaged in the various forms of flour-milling between 1968 and 1974. The total quantity of flour produced has, in fact, remained more or less static in recent years: in 1968-69, it averaged 3.66 million tons, in 1970-71, 3.73 million tons, and in 1972-73, 3.67 million tons. Flour disposals, on the other hand, have also not changed significantly throughout this period, but as Table 3.1 also shows, supplies of flour per head of population were 3 per cent. lower in 1972-73 than in 1968-69.

Flour Consumption

3.3: Flour is used in the production of many different manufactured products, as well as in the kitchen. Towards the end of the 1960s, over 70 per cent. went into the manufacture of bread, with the remainder being divided more or less equally between cakes and biscuits on the one hand and household consumption on the other. It will be seen from Table 3.3, however, that household consumption of bread in Great Britain has fallen from over 122 lbs. per head in 1968-69 to 110 lbs. per head in 1972-73, or by as much as 10 per cent., with some movement away from white bread towards brown, wholemeal and speciality breads. A similar fall has occurred in consumption per head of buns, scones and teacakes, but for cakes and pastries consumption has fallen by nearly one-fifth. Household consumption of flour, on the other hand, rose by 7 per cent. between 1968-69 and 1970-71, but in 1972-73 had fallen back to the 1968-69 level.

3.4: The decline in bread consumption since 1968 is a continuation of the trend which had already resulted in a one-fifth fall in per capita consumption during the previous decade, and with

such a large proportion of flour going into bread-making, the changes in the structure of the flour-milling industry have been closely associated with changes in the technology of bread production and the structure of that trade. Moreover, the flour-milling industry has suffered for a long time from surplus capacity, brought about both by the decline in the demand for flour between the wars, and again during the 1950s (when output fell by 15 per cent.) on the one hand, and the economies of scale in flour-milling on the other.

Developments between the wars

3.5: Flour-milling capacity in the UK began to increase at a faster rate than consumption as long ago as 1908, and in 1921 the industry's capacity exceeded requirements by as much as 25 per cent., with the result that there was extreme competition throughout the 1920s. At that time, 90 per cent. of the flour production came from some 300 mills, with 350 mills sharing the remaining 10 per cent., and within the industry there was "a bitter struggle between the individualism of the small firms and the programme of control which the large millers felt necessary for the preservation of the industry." *

3.6: In 1929, the Millers' Mutual Association was formed by the private millers, which introduced a production quota scheme, recommended selling prices, with a subsidiary company undertaking the purchase and closure of redundant mills. At the same time, two large private concerns - Ranks and Spillers - pursued a policy of acquisition which made Ranks the largest millers in the UK by 1933, with Spillers and the Cooperative Wholesale Society the next two largest producers. By 1935, these three concerns accounted for 34 per cent. of the employment and 39 per cent. of the net output of the whole Grain Milling industry as then defined. At the outbreak of war in 1939, as the result of further acquisitions and building of new mills, these same three concerns were estimated to control as much as two-thirds of UK flour production; divided as follows: Ranks, 30 per cent., Spillers, 20 per cent., and the CWS, 17 per cent., although trade sources claimed that this over-stated their importance. †

War and post-war developments

3.7: The major concerns suffered serious losses of capacity as the result of enemy action during the war, since their mills were concentrated at the ports in the first line of air attack. Indeed, the

* A.F. Lucas: *Industrial Reconstruction and the Control of Competition* (London, Longmans, 1937), p. 138.

+ H.V. Edwards: 'Flour Milling' in *Further Studies in Industrial Organisation*, ed. by M.P. Fogarty (London, Methuen, 1948), p.46.

process of replacing destroyed capacity after the war was slow, and it was not until 1954 that Ranks were able to claim that the company had regained its full capacity although Spillers' output was already greater than prewar in 1951. Indeed, in 1951 the three largest concerns' share of employment in Grain Milling was 31 per cent. and of net output 33 per cent., both lower than in 1935. For the milled wheat sub-trade, their share was higher than for Grain Milling as a whole: namely, 41 per cent. of employment and 46 per cent. of net output.

3.8: Towards the end of 1953, an event occurred which was to have tremendous consequences for the future structure of both the flour-milling and the bread-making trades. Before the outbreak of war, Allied Bakeries Ltd., had established itself as one of the largest bakery businesses in the UK and continued to grow in strength during and after the war. On the decontrol of the grain trade in 1953, a dispute arose between Allied Bakeries and Ranks and Spillers, when the millers refused to grant Allied special discounts on its flour purchases from them. Allied countered "by buying flour from Canada, and later Australia, and blending it with English flour. With other firms also buying the low priced imported flours, the domestic millers found it necessary to close mills and put others on short-time working. Though eventually conceding a special discount to Allied Bakeries, both Spillers and Ranks decided to assure themselves of their flour outlets in the future by expanding their hitherto main baking interests." *

3.9: The immediate result was intense competition between Ranks, Spillers and Allied Bakeries to acquire bakeries of all sizes and conditions, with Ranks forming British Bakeries Ltd., and Spillers forming United Bakeries Ltd., in 1955 to consolidate their acquisitions. By 1957, it was suggested that Ranks controlled about 40 bakeries as compared with 20 owned by Spillers, although in both cases these bakeries were accounting for what the companies described as a significant share of their flour output. †

3.10: In 1955, Allied Bakeries Ltd., acquired the Aerated Bread Company, multiple bakers and operators of the ABC tea shops, and by 1960, Allied controlled 80 bread and cake bakeries. As significant as its growing share of the bakery trade, despite the efforts of Ranks and Spillers, was its decision about this time to integrate backwards into flour-milling and compete with Ranks and Spillers on their own ground. In 1961 and 1962, Allied acquired 29 flour-milling concerns, mostly small but including the Vit-be Flour Mills Ltd., and by 1967, Allied stated that it operated 39 milling plants in the United Kingdom as well as 76 bakeries.

* P. Maunder: The Bread Industry in the United Kingdom (University of Nottingham and University of Technology, Loughborough), p.22.

† J. Bellamy: The British Markets for Flour and Wheatfeed (University of Hull, 1957), p.13.

3.11: Meanwhile, amalgamations among private milling concerns had been continuing. In 1957, Hovis Ltd., producers of a speciality bread flour which prewar had about 8 per cent. of UK production, merged with McDougalls Trust Ltd., producers of self-raising flour for domestic use. In 1960, Hovis-McDougall acquired E. Marriage & Son., but in 1962 it was itself merged with Ranks Ltd., to form Ranks Hovis McDougall Ltd., (RHM).

Concentration in the 1960s

3.12: By 1963, therefore, the flour-milling industry was already highly-concentrated. The Census data on sales concentration show that the share of total product sales held by the five enterprises with the largest sales was over 79 per cent. in 1963 in the case of white flour for breadmaking and over 71½ per cent. for other flour. Five years later, the sales concentration ratio for white flour for breadmaking had increased slightly to just under 81 per cent., while that for other flour had dropped to just over 67 per cent.

3.13: Early in 1968, the National Board for Prices and Incomes (PIB) stated that:

"The industry comprises five large groups, Associated British Foods, the Cooperative Wholesale Society, the Scottish Cooperative Wholesale Society, Ranks Hovis McDougall and Spillers. Together they account for over two-thirds of the flour milling output of this country and own the majority of plant bakeries. None of these groups has a dominating position. The remaining third of the UK market is supplied by independent millers." *

The link between flour-milling and bread-making was also underlined in another PIB report published in mid-1970, which stated that the four enterprises which dominated the bread industry "all belong to groups which also have flour-milling and other interests ... (and) are now virtually self-sufficient as regards flour supplies." + The same source went on to give the following market shares by volume of bread sales in 1969: British Bakeries (RHM) 25 per cent., Allied Bakeries (Associated British Foods) 24 per cent., United Bakeries (Spillers) 12 per cent., and the CWS 7 per cent. Thus, four out of the five enterprises with over two-thirds share of flour milling were also responsible for over two-thirds of bread sales.

* National Board for Prices and Incomes: Report No. 53 Flour Prices, Cmnd. 3522 (London, HMSO, 1965), para. 5.

+ National Board for Prices and Incomes: Report No. 151, Bread Prices and Pay in the Baking Industry, Cmnd. 4428 (London, HMSO, 1970), paras. 7 and 8.

Changes since 1968

3.14: Since 1968 there have been further moves towards higher concentration in flour milling affecting both the private and the cooperative sector. In 1968, the CWS operated five grain mills with a total employment of 860 and an output valued at £13.2 millions, while the Scottish Cooperative Wholesale Society Ltd., (SCWS) had another three mills employing about 300 and an output valued at £2.9 millions. In 1970, however, the CWS had closed one mill and the SCWS all three; the CWS employment was 785 and its output was valued at £12.5 millions. At the beginning of 1971, however, the flour and bread interests of the CWS were merged with those of J. Lyons & Co. Ltd., in J.W. French Ltd., in which each had a 50 per cent. interest. Previously J.W. French Ltd., had been the principal supplier of flour to Lyons, and in 1969, Lyons had acquired a controlling interest. The combined group comprised 7 flour mills, 4 compound mills and 24 bakeries.

3.15: At the beginning of 1972, however, the milling and bread-baking interests of the CWS - Lyons merger were acquired by Spillers and vested in a new company, Spillers-French Holdings Ltd., with Spillers holding 75.1 per cent. of the equity and J.W. French Ltd., the remainder. This increased Spillers' flour mills from 13 to 20 and gave it a 28 per cent. share of the UK flour trade. Subsequently three mills were closed down, but the effect of the merger was to put Spillers into first place among the millers, ousting RHM which in its 1970 Annual Report had claimed that "our mills make and sell more flour than any other milling group in Europe."

3.16: In 1972, Associated British Foods Ltd., the parent company of Allied Mills Ltd., into which the Allied Bakeries' milling interests had been grouped, acquired Cranfield Bros. Ltd., a long-established milling company in Ipswich which had earlier developed a group of bakeries. In 1973, Allied Mills were operating 21 flour mills, having closed down 10 since 1963.

3.17: The result of these changes among the largest millers is that three concerns - Spillers-French, RHM and Allied Mills - now control 55 flour mills whereas the total larger establishments producing all types of grain milling products only numbered 94 in 1972. Thus, without any doubt, there has been an increase in the degree of concentration in flour-milling, with these three largest concerns accounting for 70-75 per cent. of the industry's sales since 1972.

The Retail Market for Flour

3.18: So far attention has been confined to the division of the whole flour-milling trade, but a particular part of that trade consists of the production of flour for household use. The level of spending per head and the prices paid for such flour during the 1968-73 period are shown in Table 3.2 from which it will be seen that prices paid rose by nearly one-third between 1968 and 1973 and spending per head to the same extent. The total household market for flour increased from £30 millions to £40 millions during the same period.

3.19: Data on brand shares suggest that the RHM products - the McDougalls MacD range and Be-Ro - accounted for one-half of the retail flour market as compared with around one-third claimed by Spillers Homepride flour but that the Spillers-French share would be nearer two-fifths if Coop flour is included.

3.20: The levels of press and TV advertising expenditure in support of the main brands are shown in Table 3.3. Overall spending in 1972-73 was only 6 per cent. higher than in 1968-69, and the relative importance of spending on the three principal brands was also very little different. Compared with Spillers' 43 per cent. of total spending in 1972-73, the RHM share on the McDougall and Be-Ro products was 46 per cent., whereas their respective shares in 1968-69 was 40 per cent. and 48 per cent.

Flour Prices

3.21: One of the earliest references to the National Board for Prices and Incomes after its establishment in late 1964 concerned the prices of bread and flour. * According to the Board's report published in September 1965, the breakdown of the flour millers' average selling price in 1964 was as follows:

	Per cent. of selling price
Wheat and other raw material costs	88.9
Less: sales of wheatfeed	<u>20.3</u>
Net raw material costs	68.6
Production wages	4.2
Other wages and salaries	3.9
Other costs	12.9
Profit	10.4
	<u>100.0</u>

* National Board for Prices and Incomes, Report No. 3: Prices of Bread and Flour, Cmnd. 2760 (London, HMSO, 1965), para.

Compared with an average profit margin of 10.4 per cent., the range of those of the major millers was 9 to 11½ per cent., while the independent millers' margins were slightly smaller at that time. The PIB also stated that the return on assets employed (at balance sheet values) of the major companies in 1964 was 17½ per cent.

3.22: At that level, the 17½ per cent. return on capital employed of the major milling companies was relatively high compared with the 14½ per cent. return for food manufacturing concerns generally, and the forward intervention of the millers into baking as a reaction to Associated British Foods Ltd. (ABF) acquisition of flour-milling businesses has been explained in terms of that fact. Thus, it has been stated:

"The millers' motive was to secure their flour markets and the relatively high return to capital employed in flour-milling The struggle between the millers and ABF was evidently about the share of a joint profit which they could lay claim to. The millers' object was to defend their high returns to capital employed and ABF's object was to appropriate part of those returns." *

Raw Material Prices

3.23: With wheat representing such a large element in the total production costs for flour, changes in the prices of imported and home-produced wheat must be a primary influence in determining the wholesale price of flour. It will be seen from Table 3.4 that between 1963 and 1968 home-produced flour prices rose by about one-fifth, whereas the wholesale price of imported wheat increased by under 16 per cent. and home-produced wheat by 20 per cent. On the other hand, while the average prices paid for flour by consumers (according to the National Food Survey) rose by under 7½ per cent. between 1963 and 1968, the price of the large white loaf, wrapped and sliced, increased by over 35 per cent. during the same period.

3.24: Between 1968 and 1972, the rise in the wholesale home-produced flour price was about 14½ per cent. (about the same annual rate as the previous five years), as compared with increases of 21½ per cent. and 17¼ per cent. respectively in the imported and home-produced wheat prices. The average prices paid by consumers for flour rose during this period by 20 per cent. (more than the wholesale flour price), while that of a large, wrapped and sliced white loaf increased by nearly 29 per cent. (nearly twice the increase in the wholesale flour price).

* P.E. Hart, M.A. Utton and G. Walshe: Mergers and Concentration in British Industry, NIESR Occasional Papers, XXVI (Cambridge University Press, 1973), p.50.

3.25: The escalation in world wheat prices forced up the wholesale price of imported wheat by 77 per cent. in 1973 and 38 per cent. in 1974 so that in 1974, it was nearly 145 per cent. higher than in 1972. The rise in the wholesale price of home-produced wheat, although smaller in both years, was still as much as 116 per cent. as between 1972 and 1974. Commenting on the increased wheat costs, the 1974 annual report of Spillers Ltd. stated:

"The increased costs stemmed from a world shortage of wheat during the crop year and there were only three external sources from which we could buy, namely Canada, USA and EEC. The price increases in Canada and the USA were such that during the second half of the year the EEC imposed an export levy on sales of wheat outside the Community to conserve supplies for domestic consumption. The price of homegrown wheat, being of similar quality, relates closely to that of the EEC and, if Britain had not been a member of the Community, the cost of these wheats would, without doubt, have been considerably higher."

3.26: The increases in the wholesale price of home-produced flour lagged behind the rise in imported and home-grown wheat price. As can be seen from Table 3.4, the increase in 1973 was under 20 per cent., and while this was followed by an increase of nearly 80 per cent. in 1974, the overall rise was 113 per cent. as between 1972 and 1974.

3.27: Average prices paid by consumers for flour rose, according to the National Food Survey data, by 10 per cent. between 1972 and 1973, while the increase in the bread price was even lower at 6 per cent. Comparable data are not yet available for 1974, but in the middle of 1974, flour-prices were 54 per cent. higher than a year earlier, whereas bread prices were only up by 28 per cent. However, a subsidy for bread had been introduced by the Government in March 1974 (at a cost originally estimated at £21 millions a year), whereas the subsidy on household flour was not introduced until September 1974. Subsequent increases in the bread subsidy before the end of 1974 kept the retail price at 14 pence for a white, wrapped and sliced $1\frac{3}{4}$ lb. loaf, some 3 pence lower than it would have been without the subsidy, while a 3 lb. packet of self-raising flour also enjoyed a subsidy of 3 pence with a retail price reduced to $19\frac{1}{2}$ pence as compared with an average of over $20\frac{1}{2}$ pence in mid-1974.

3.28: While Government intervention, first through price control and supervision and later supplemented by subsidies has kept down the price of bread to consumers, there has also been competition in bread prices at the retail level. In a report issued in July 1970, the PIB noted that:

"The average wholesale discount given to retailers is tending to increase. This is partly the result of competition between bakeries but partly due to the growth of larger multiple retailers and supermarkets. It is the fact that the big retailers not only possess considerable bargaining power but that by placing large regular orders can often - though not always - enable bakeries to make savings in costs which offset the higher discounts, and there is a case for bakeries in future to relate discounts to all their customers more closely to the size of individual orders and hence to the costs involved in distribution. There is also another consideration of some importance. It is not self-evident that the growth of the big retailers is at present helping to keep down the price of bread. They do not appear to use the higher discounts they are able to obtain to pass the benefits on to customers on any large scale by selling bread at less than the recommended retail price." *

3.29: On the face of it, the comparative increases in the prices of raw materials on the one hand, and the selling price for home-produced flour and retail prices for both flour and bread would suggest that the margins of the flour-millers, possibly even in the absence of Government intervention, may have narrowed significantly since 1964. It is relevant in this connection to note that the Secretary of State for Prices and Consumer Protection stated in the House of Commons in May 1975:

"During the latter part of 1974 competition among plant bakers for a greater share of the relatively static bread market led to a sharp increase in the general level of discounts given to the larger wholesalers and retailers. To the extent that the higher discounts were not financed out of productivity savings, the bakers were entitled under the provisions of the Price Code to look for recoupment by way of increased prices. Under the Government's policy this would have entailed a higher rate of subsidy.

* National Board for Prices and Incomes, Report No. 151, op. cit., para. 67.

Since there was evidence that the increased discounts were not in all cases being passed on at the retail level, subsidy money would in effect have contributed to an enlargement of retailers margins instead of benefiting the consumer as intended by Parliament."

To remedy this state of affairs, the Secretary of State imposed regulation of the discounts on bread sales by the bakery trade, although it was claimed that "competition remains effective and most retailers are continuing to sell bread at keenly competitive prices."

TABLE 3.1

UK Production and Supplies of Flour, and Household Consumption per head (GB) of Bread, Flour and Flour Confectionery, 1968-73.

	1968	1969	1970	1971	1972	1973
<u>United Kingdom:</u>						
Flour produced (Mn tons)	3.63	3.69	3.70	3.73	3.63	3.71
Flour disposals (Mn tons)	3.73	3.79	3.78	3.80	3.69	3.72
Flour supplies per head of population (lbs).	145.4	146.5	146.0	143.5	141.8	141.6
<u>Great Britain:</u>						
Household consumption per head (lbs):						
White bread	103.9	102.9	103.6	96.0	93.1	89.6
Brown bread	8.4	7.7	7.8	8.3	7.8	7.2
Wholewheat & wholemeal bread	1.3	1.8	1.6	1.6	1.5	1.8
Other Bread	9.5	8.9	9.5	9.0	9.5	10.0
Total bread	123.1	121.3	122.5	114.9	111.9	108.6
Buns, scones, teacakes	4.4	4.1	3.9	4.6	4.2	3.5
Flour	17.3	17.3	18.3	18.8	17.6	17.1
Cakes and pastries	15.1	14.8	14.4	13.0	12.4	12.2

Sources: Ministry of Agriculture,
Fisheries & Food and
National Food Survey.

TABLE 3.2

GB: Household spending per head and average prices paid for flour, and estimated household market (at retail prices), 1968-73.

	Total spending per head	Prices paid pence/lb.	Total household market £ Mns.
	£		
1968	0.56	3.26	30
1969	0.57	3.30	31
1970	0.62	3.36	33
1971	0.70	3.71	38
1972	0.69	3.92	38
1973	0.74	4.31	40

Sources: National Food Survey and
Development Analysts
Ltd.'s estimates.

TABLE 3.3

Flour: Expenditure on Press & TV Advertising, 1968-73.

	1968	1969	1970	1971	1972	1973
Total Advertising Expenditure	861	1272	922	1342	1128	1100
McDougalls (RHM)	311	437	330	433	407	371
Homepride (Spillers)	411	437	421	292	502	465
Be-Ro (RHM)	162	108	80	147	141	107
Flour Advisory Bureau	172	206	83	472	76	126

Sources: IPC Marketing Manual
and MEAL

TABLE 3.4

Wholesale price indices for imported and home-grown wheat and home-produced flour, average prices paid for flour and retail prices of self-raising flour and white bread, 1963-74.

	<u>Wholesale Price Indices</u>			Average prices paid for flour	Retail Price: +	
	Imported Wheat	Home-grown Wheat	Home-produced flour		Self-raising flour*	Loaf, white bread [†]
1963	85.6	77.2	81.0	91.1	...	...
1968	99.1	92.7	98.6	97.0	9.6	8.0
1969	97.3	97.3	99.3	98.2	9.7	8.3
1970	100.0	100.0	100.0	100.0	9.7	9.0
1971	104.5	97.4	105.5	110.4	11.1	9.5
1972	120.4	108.7	112.8	116.7	11.4	9.9
1973	213.4	185.2	134.2	128.3	13.3	10.8
1974	294.7	235.3	240.2	...	20.5	13.8

* 3lb. bag

[†] 1 $\frac{3}{4}$ lb. wrapped and sliced.

++ In June of stated year.

Sources: Ministry of Agriculture, Fisheries & Food, National Food Survey

4: CEREAL BREAKFAST FOODS

4.1: It will be recalled that the sub-division of the Grain Milling industry comprising cereal breakfast foods packeted for retail sale had an employment of 5,500 in 1968, nearly one-eighth higher than in 1963, and the sales of its principal products came to nearly £41 millions in 1968, nearly two-fifths more than in 1963. By extending the coverage to include production by establishments classified to other industries, the 1968 sales of cereal breakfast foods were increased to £43.2 millions, more than one-third higher than in 1963.

4.2: In Table 4.1 is shown the composition of these sales of principal products by all establishments in 1963, 1968 and 1974, as between those manufactured from wheat or maize and other types. It will be seen that in quantity-terms, the 1963-74 increase in total sales was nearly 48 per cent., but that sales of wheat-based products rose by over 60 per cent., other products by 55 per cent., and maize products by 30 per cent. Similarly, out of the overall increase in sales-value of £57 millions between 1963 and 1974, 33 per cent. consisted of wheat-based products as compared with 22 per cent. from maize-based products and as much as 45 per cent. from other products.

4.3: It will also be seen from Table 4.1 that the number of enterprises producing wheat-based breakfast cereals fell from 8 in 1968 to 6 in 1974, while those producing the other (including mixed) breakfast cereals increased from 10 to 14. The number of enterprises producing maize-based breakfast cereals are not given in the official statistics.

4.4: The cereal breakfast foods trade comprises two distinct types of products: those which require cooking, such as oats for porridge, and the larger and growing range of ready-to-eat (RTE) breakfast cereals, including mueslis which have been increasing in popularity. On that basis, the RTE cereals constitute about three-fifths of the total market by weight.

4.5: Ready-to-eat breakfast cereals were introduced to the UK market towards the end of the 19th century from North America, but it was not until the interwar years that production of RTE cereals commenced in the UK. The first company to start manufacturing in the UK was Quaker Oats Ltd., a subsidiary of the US company of the same name, in 1920, followed by another US company, the Shredded Wheat Co. Ltd. (now Nabisco Ltd.) in 1925, but while Kellogg's products were introduced to the UK market in 1922, it was not until 1938 that the Kellogg Co. of Great Britain Ltd. (another subsidiary of a US company) commenced manufacture in the UK. In 1932, Weetabix Ltd. was formed, originally under the name of the British and African Cereal Co. Ltd. *

* This company was included by error in Table 3.19 of Part 1 of this Study as a foreign-owned company.

4.6: Just before the outbreak of World War II, the UK annual consumption of RTE breakfast cereals amounted to 29 ounces per head, and by 1949, it had more than doubled to 62 ounces per head. For a period consumption per head then declined, but a rapid expansion occurred from 1955 onwards until in 1971 it was two-fifths higher than in 1949. *

4.7: According to the Monopolies Commission report, the company shares of the RTE breakfast cereals market (by weight) have developed as shown in Table 4.2. In 1950, Kellogg already claimed over one-half the total market, and by 1963, its share had risen to nearly 59 per cent., falling slightly to under 58 per cent. by 1968 and declining only to 55 per cent. in 1971. Second place was held by Nabisco in 1950 with nearly 17 per cent. of the market, but this fell to 15 per cent. in 1963 and under $11\frac{1}{2}$ per cent. in 1968, recovering to over 12 per cent. in 1971. The share held by Weetabix rose, on the other hand, from under $14\frac{1}{2}$ per cent. in 1950 to 17 per cent. in 1963 and over 20 per cent. in 1968, and in 1971 stood at over 22 per cent. The company which has fared less well is Quaker Oats, since its share has fallen progressively from nearly $10\frac{1}{2}$ per cent. in 1950 to $4\frac{1}{2}$ per cent. in 1971, at which level it was only slightly greater than the share claimed by own brands.

4.8: The own brands share of the total market has increased from little more than 0.5 per cent. in 1966 to over 3 per cent. in 1970 and 1971, and represents very largely the cornflakes produced by Viota Ltd., a subsidiary of Robertson Foods Ltd. This has come about because Viota Ltd. acquired a factory from General Mills Ltd. in 1963 which included a cornflakes plant, which contributed towards General Mills market share of 5 per cent. (out of the 7.2 per cent. shown against "Others") in 1950.

4.9: From Table 4.2, it will also be seen that the concerns with the largest individual shares accounted for 97.7 per cent. of the total RTE breakfast cereals market by weight in 1963 and 95.5 per cent. in 1968. Moreover, the three foreign-owned named companies were responsible for 80.7 per cent. in 1963 and 75.2 per cent. in 1968.

4.10: These market-shares can be compared with the Census sales concentration data for the same two years. As can be seen from Table 4.3 the shares of sales (by value) of all cereal breakfast foods held by the 5 largest enterprises were 97.7 per cent. in 1963 and 93.5 per cent. in 1968. Similarly, the shares of foreign-owned enterprises were 74 per cent. in 1963 and 73 per cent. in 1968.

* Monopolies Commission: Report on the Supply of Ready Cooked Breakfast Cereal Foods (London, HMSO, 1973), para. 15.

Market Competition

4.11: In its report on RTE breakfast cereals, the Monopolies Commission drew attention to the character of competition in the market. In the first place, it emphasised that since the war, "the market has been characterised by highly differentiated products, with limited competition between producers in the supply of like varieties" which have been sold throughout "with the help of substantial expenditure on various forms of advertising and promotion." *

4.12: Some indication of the levels of press and TV advertising expenditure on the main brands can be obtained from Table 4.4. This shows that total spending on RTE breakfast cereals averaged over £5 $\frac{3}{4}$ millions in 1972-73 as compared with little more than £4 millions in 1968-69, with Kellogg's share being about 47 per cent. of the total in 1972-73 as against 55 per cent. in 1968-69.

4.13: According to the Monopolies Commission, Kellogg's expenditure on advertising and sales promotion (including coupons, "free" gifts, and "special offers") averaged 14 per cent. of sales between 1960 and 1965 and 12 per cent. between 1966 and 1971, while data from Weetabix, Nabisco and Quaker Oats for the latter period "show average ratios appreciably in excess of Kellogg in the case of two of these companies and an average ratio similar to that of Kellogg in the case of the third." +

4.14: The companies maintained in their evidence to the Monopolies Commission that:

"While appeal and quality of product are regarded as essential prerequisites for success, advertising and promotion always have been, and still are, regarded as necessary means of securing and retaining sufficient public acceptance of the brand products to ensure profitable and, if possible, growing volume of production." Ø

Furthermore, Kelloggs argued that "the need to incur heavy advertising and promotion costs and the need to acquire production and marketing expertise were not effective barriers to entry to the industry. ☒

* Monopolies Commission, op. cit., para. 31.

+ Idem, para. 22.

Ø Idem, para. 57.

☒ Idem, para. 81.

4.15: While the Monopolies Commission were "not prepared to say that at present levels and in present circumstances" the level of expenditure on advertising and promotion by Kelloggs "is excessive", they took the view "that advertising and promotion have helped to create and tend to maintain the kind of market in which it is possible for manufacturers to have substantial freedom to determine their prices as they wish." *

4.16: The contention of the manufacturers was that price competition could not be regarded as a marketing weapon for breakfast cereals because of the degree of product differentiation that existed, which meant only a limited degree of price-sensitivity since each branded product offered to the consumer "a different bargain comprised of product type, product base, taste and presentation as well as price." + Thus, in their view, "the limited nature of price competition and its relative unimportance" resulted not from the structure of the industry but from the nature of its products. Ø

4.17: The Monopolies Commission took a contrary view, arguing in the following terms:

"With so few manufacturers competing, the pricing tactics of any one of them would be bound to affect the market shares of the others. Where price reductions cannot be expected to expand the total market, it is all the more likely that any gain achieved by some reduction will be at the expense of competitors."
 "Any significant reduction (or failure to follow a general increase) in prices would therefore be seen by a manufacturer as likely to be matched by his competitors, since they would not be able to risk the consequences of having their own prices too far out of line. Thus the manufacturers would see the result of price competition as a lower general level of prices with no competitive advantage to any of them." "We consider that fear of price competition, and the recognition that it is dangerous to embark on, arise from the fact that supply to so large a proportion of the market is concentrated in so small a number of manufacturers. We believe that this fear is a major factor leading manufacturers to find ways of competing otherwise than in price." ■

* Monopolies Commission, op. cit., paras. 91 and 88.

+ Idem, para. 59.

Ø Idem, para. 74.

■ Idem, para. 79.

4.18: In short, the Commission's conclusion was that the reluctance to compete in price stemmed directly from the structure of the industry, and furthermore that Kellogg's admitted position as the market leader meant that Kellogg "determines the level of prices and does so as a result of its having so substantial a share of the market." On the other hand, its influence over prices was not found to be operating "against the public interest" although "it may be expected to operate against the public interest." *

4.19: Similarly, although Kellogg's profits were judged to have been excessive in the past - net profits averaging 25 per cent. of sales in the early 1960s - their fall to under 13½ per cent. in 1971 enabled the Commission to state that "we are not prepared to conclude that Kellogg's profits are excessive at present." Nevertheless, it recommended that its profit-rates should be kept under review and that Kellogg "should be required to seek Government approval before making any increase in the prices of its breakfast cereals." That was the only alternative open to the Commission since in its view it could "see no practical means of changing the structure of the industry or the nature of competition in the industry in such a way as to ensure the maintenance of price restraint on Kellogg." †

4.20: The Office of Fair Trading has exercised surveillance over Kellogg's costs, prices and profit-rates, in accordance with the Commission's recommendation, since the Office was established in November 1973. The indications are that Kellogg's share of the RTE breakfast cereal market has continued to decline since 1971, whereas the market itself has continued to expand with sales in 1973 being 6 per cent. more in volume and 13 per cent. in value. Trade sources put Kellogg's share at around 52 per cent. in 1973, as compared with Weetabix maintaining its 1971 share of 22 per cent., Nabisco dropping back to 11 per cent. The main change otherwise has been in the growth of own brands which claimed at least 6 per cent. of the market in 1973.

Cereals requiring preparation

4.21: Attention has been concentrated so far mainly on the RTE market, which not only represents the major part of all breakfast cereals but also the faster growing sector. Even so, while the production of breakfast cereals requiring preparation has fallen by about one-eighth between 1968 and 1973, in value terms it has risen by nearly one-quarter to £8½ millions in 1973, or about one-eighth of the total retail market value.

* Monopolies Commission, op. cit., paras. 85 and 101.

† Idem, para. 102.

4.22: The only maker of RTE cereals which is also an important producer of the rest of the breakfast cereals market is Quaker Oats Ltd. Ranking more or less equal with Quaker Oats Ltd., however, is the flour-milling concern of RHM, through its subsidiary, A & R Scott Ltd., makers of Scott's Porage Oats. Both these concerns have lost ground in recent years to J. Lyons & Co. Ltd. whose Ready-Brek product held at least one-quarter of this market in 1973, as compared with the 20-25 per cent. share each of Quaker and Scotts. Own label products are also more important in this market than for the RTE cereals, and have increased their share to nearly one-fifth in 1973.

4.23: The level of spending on press and TV advertising for other breakfast cereals indicates the cost of this shift in brand shares. In 1972-73, the average spending came to £580,000, four-fifths higher than in 1968-69, with Lyons accounting for 40 per cent. of the total in 1972-73 as compared with 30 per cent. in 1968-69. While the total advertising spending on other breakfast cereals is only one-tenth of that for RTE cereals, it still represents as much as 7 per cent. of the retail market value as compared with just under 10 per cent. for the RTE sector.

Market Shares for Breakfast Cereals

4.24: As a rough approximation, it would appear that treating the breakfast cereals market as a whole, the four largest concerns - Kellogg's, Weetabix, Nabisco, and Quaker - accounted for about four-fifths of total sales (at retail value) in 1973 as compared with over 85 per cent. in 1971. Moreover, while Kellogg and Weetabix occupy first and second place in both years with well over one-half of the total market between them, Quaker Oats may have narrowly ousted Nabisco for the third place since 1971. There is a large gap between the $6\frac{1}{2}$ -7 per cent. share of these two companies and the other important producers, namely J. Lyons and RHM, whose shares were around 3 per cent. in 1973.

4.25: Compared with the $93\frac{1}{2}$ per cent. of production sales claimed by the 5 largest enterprises of the total breakfast cereals sub-trade in 1968, the share of the retail market represented by the largest 5 concerns in 1973 would be around 82 per cent. on this basis. The big difference in the market since 1968 has been the emergence of own brands whose share in 1973 was about 8 per cent. To the extent that these own label products are produced by one or other of the leading manufacturers of branded cereals, the concentration-ratio in terms of production would be increased above 82 per cent. But it is doubtful whether the extent of that production for the own-label market is sufficiently large to close the gap compared with 1968, so that there is reason to suppose that sales concentration in this trade has decreased since 1968.

TABLE 4.1

UK: Principal Products of Cereal Breakfast Foods sub-trade, 1963, 1968
and 1974

	No. of enterprises	Sales of principal products	
		Quantity Th. tons	Value £ millions
Wheat			
1963	...	53.2	11.23
1968	8	72.1	16.03
1974	6	85.6	30.04
Maize			
1963	...	57.7	12.67
1968	...	68.0	14.92
1974	...	74.8	25.47
Other (including mixed)			
1963	...	51.6	8.21
1968	10	65.8	12.26
1974	14	79.9	33.64
All			
1963	...	162.5	32.11
1968	...	205.9	43.21
1974	...	240.3	89.15

Source: Census of Production and
Business Monitor, PQ.211.

TABLE 4.2

UK: RTE Breakfast Cereals: Market shares by weight

	Per cent.						
	1950	1955	1963	1968	1969	1970	1971
Kellogg	51.2	53.8	58.7	57.6	58.5	56.9	55.1
Weetabix	14.4	15.3	17.0	20.3	19.9	20.5	22.2
Nabisco	16.8	18.0	15.0	11.3	10.5	11.9	12.2
Quaker Oats	10.4	9.6	7.0	6.3	6.0	5.7	4.5
Own brands	-	-	-	1.8	2.5	3.1	3.7
Others	<u>7.2</u>	<u>3.3</u>	<u>2.3</u>	<u>2.7</u>	<u>2.6</u>	<u>1.9</u>	<u>2.3</u>
	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Monopolies Commission.

TABLE 4.3

UK: Sales concentration-ratios and share of foreign-owned enterprises
for cereal breakfast foods, 1963 and 1968

	1963	1968
Total sales (£ Millions)	32.11	43.22
Share of total sales held by 5 largest enterprises (%)	97.7	93.5
Share of total sales held by foreign-owned enterprises (%)	74	73

Source: Census of Production.

TABLE 4.4

Ready-to-Eat Breakfast Cereals: Expenditure on Press & TV Advertising,
1968-73.

	£000s					
	1968	1969	1970	1971	1972	1973
Kellogg:						
Cornflakes	1,123	1,228	1,186	1,177	1,263	1,150
Rice Krispies	426	436	475	721	754	605
Frosties	135	138	103	153	124	158
Special K	161	190	113	256	256	303
Other	420	281	265	120	376	400
	<u>2,265</u>	<u>2,273</u>			<u>2,773</u>	<u>2,616</u>
Weetabix	1,078	1,208	1,247	1,569	1,956	1,593
Quaker	347	260	234	254	431	416
Nabisco	-	-	-	100	181	138
Shredded Wheat	<u>201</u>	<u>169</u>	<u>283</u>	<u>470</u>	<u>477</u>	<u>496</u>
All Ready-to-Eat	4,097	4,158	4,019	5,074	6,134	5,388

Source: IPC Marketing Manuals,
MEAL

TABLE 4.5

Breakfast Cereals requiring preparation: Expenditure on Press &
TV Advertising, 1968-73.

	£000s.					
	1968	1969	1970	1971	1972	1973
Quaker	158	107	88	40	198	70
Scott's (RHM)	122	35	55	116	208	195
Lyons	<u>98</u>	<u>97</u>	<u>191</u>	<u>163</u>	<u>232</u>	<u>231</u>
Total Other Breakfast Cereals	380	246	340	327	647	516

Source: IPC Marketing Manuals
MEAL

5: OTHER CEREAL PRODUCTS

5.1: As already indicated in Table 2.4, the other cereal products sub-division of the Grain Milling trade comprised only 15 larger establishments in 1968 owned by 11 enterprises, but these establishments in turn accounted for little more than one-half of the output of barley and maize products although they were responsible for the bulk of the other cereal products.

5.2: In Table 5.1 are presented the number of enterprises with larger establishments classified either to Grain Milling or to other industries in 1968 and 1974, and their sales of the main other cereal products. The products with the largest number of producers in 1974 are barley meal, crushed and ground oats, and maize meal and flour etc., and for all three groups, the number of producers has fallen since 1968. In the case of barley meal and maize meal and flour, the volume of production has also fallen, but for crushed and ground oats it rose between 1968 and 1974 by nearly one-half.

5.3: Production has nearly trebled for rolled oats, oat flakes and oat flour in the 1968-74 period, but the number of enterprises has remained almost the same, whereas the output of barley flour and pearled barley etc. has risen and the number of producers increased. Production of whole rice and rice products has remained static, and there were only 5 producers in 1968 with no information available for 1974.

5.4: Some of the firms engaged in the manufacture of other cereal products are subsidiaries of large concerns. For example, two of the principal rice producers are Dornay Foods Ltd., (a subsidiary of the American company, Mars Inc.), and Whitworth Bros. Ltd. (a subsidiary of Whitworth Holdings Ltd.), while the Angus Milling Co. Ltd. (oat millers) and North of Scotland Milling Co. Ltd. (barley millers) are subsidiaries of Australian Estates Co. Ltd. Similarly, Glenville Ltd. (maize and rice millers) are a subsidiary of Tunnel Refineries Ltd., producers of starch derivatives and glucose.

TABLE 5.1

UK: Other Principal Products of Grain Milling Trade:
Enterprises and Sales, 1968 and 1974.

	Enterprises		Sales: 000 tons		Sales: £ Mns	
	1968	1974	1968	1974	1968	1974
Rolled oats, oat flakes and oat flour	13	12	12.1	33.5	0.56	4.09
Crushed and ground oats, other oat products and by-products	79	59	38.9	57.8	0.85	2.74
Barley meal	93	75	73.6	40.5	2.03	2.85
Barley flour and pearled, blocked, flaked, puffed and pot barley	18	23	17.7	24.0	0.97	1.88
Other barley products and by-products	50	41	115.0	65.4	3.90	4.88
Maize meal and flour and other products and by- products	66	53	196.0	116.8	5.57	9.11
Rice, whole (husked or cleaned) and rice products	5	...	60.3	60.8	5.38	14.05

Source: Census of Production and
 Business Monitor, PQ.211.

6: THE MAJOR CONCERNS IN FLOUR MILLING AND BREAKFAST CEREALS

6.1: Reference has been made in the previous sections of this Chapter to the major milling and breakfast cereal concerns, but it is convenient to consider them in more detail at this point.

The Major Milling Companies

6.2: The major milling concerns are Spillers Ltd., Ranks Hovis McDougall Ltd., and Associated British Foods Ltd., although in all these cases, flour-milling comprises only part of their range of operations.

Spillers Ltd.

6.3: Registered in 1887 as Spiller & Co. Cardiff Ltd., it started as a flour merchant business in 1830 and by the 1850s was operating four flour mills. Other flour milling concerns were acquired before the turn of the century, and it diversified through acquisition into the manufacture of ship and dog biscuits in 1891. Towards the end of World War I it changed its name to Spillers Milling & Associated Industries Ltd. and acquired more milling concerns in different parts of the country in the early 1920s, of which the most important was William Vernon & Sons of London and Hull, and in 1928 acquired in co-operation with Ranks Ltd. a group of milling concerns in Yorkshire and Durham.

6.4: During the 1930s Spillers continued to grow by acquisition, although its capacity was continually being rationalised with new mills being built at the ports. Two of its port mills at London and Hull were destroyed during the war, but Spillers claimed in 1945 that its output of flour had been consistently maintained at above the previous level.

6.5: Besides rebuilding its London and Hull mills, which recommenced operations in 1953, Spillers acquired a controlling interest in A.H. Allen & Co. and Charles Brown Ltd., with a combined 2 per cent. share of UK flour output. By 1954, Spillers' net assets amounted to £19.1 millions, and its gross income* to £4.4 millions, and its interest comprised mainly flour-milling, animal feedingstuffs and pet foods.

* Gross income is the sum of gross trading profit (before deduction of directors' fees etc. and depreciation and other provisions), income from trade investments, securities etc., and other income.

6.6: By 1968, the net assets of Spillers Ltd. had increased to £90 millions, and as will be seen from the following table, in the course of the next five years, net assets rose by over four-fifths to £164 millions as compared with a rise in turnover from £170 millions to £409 millions, an increase of 140 per cent. Profits (before tax and loan interest) amounted to £11.9 millions in 1968, and after falling heavily in the next two years, recovered to £13.3 millions in 1973. According to the Company accounts, the return on funds employed (i.e. the ratio of profit, before changing loan interest and taxation, to the mean funds employed during the year, fell from 13.8 per cent. in 1968 to as low as 7 per cent. in 1970, but did not recover their earlier level thereafter rising only to 9.7 per cent. in 1973.

Spillers Ltd.	£ Millions					
Years beginning 1st February	1968	1969	1970	1971	1972	1973
Total turnover	170	193	211	228	312	409
Net assets	90	102	113	136	141	164
Gross income [†]	15.1	11.3	9.8	13.5	16.8	18.5
Return on funds employed (%)	13.8	9.1	7.0	8.6	9.1	9.7

6.7: It must be emphasised that these financial data refer to the whole of Spiller Ltd.'s activities, both at home and overseas, and not simply to its flour-milling interests. Its overseas activities are comparatively small, less than 5 per cent. of its turnover coming from exports and sales of overseas trading subsidiaries combined in 1973. On the other hand, sales of human foods represented less than two-thirds of its total turnover (and 55 per cent. of its pre-tax profits) in 1973, and a substantial part of the human food sales will have come from its baking, pie and sausage, egg and poultry, meat, spices and soya products business.

6.8: Its flour-milling activities are now centralised in Spillers-French Milling Ltd. This company was established after the merger with J.W. French Ltd. as Spiller-French Holdings Ltd. in 1972 which brought together the flour-milling, bread-baking, and feed milling businesses of the Cooperative Wholesale Society Ltd., J. Lyons & Co. Ltd., and Spillers. On its formation, Spiller-French Milling were operating 20 flour mills with a 28 per cent. share of UK flour production;

[†] After deduction of directors' fees etc. For 1972 and 1973, adjustment for this factor to secure consistency with the definition of gross income used for the 1954 data (see para. 6.4) would bring gross income to £17.0 and £18.7 millions respectively.

subsequently, three mills were closed down. The baking interests represented by the merger were also rationalised by Spiller-French Baking Ltd., the number of bakeries being reduced to 53 by the end of 1973 and to 42 a year later, with an accompanying reduction in the number of depots to 68 and 45 by end-1973 and 1974 respectively.

6.9: Whereas Spillers-French Baking Ltd. made what was described as a "serious loss" in 1972, followed in 1974 by a trading loss of £6.9 millions, Spillers-French Milling Ltd. "showed a satisfactory increase in volume and profit" in 1973 followed in 1974 by volume being maintained and profits again increased to a record level.

6.10: Apart from the acquisition of J.W. French Ltd., the main acquisitions of Spillers Ltd. since 1968 has been directed either to strengthening its position in its established activities (for example, it acquired the Stamina range of pet foods from RHM in 1972), or diversifying into new fields. In 1969, it acquired the Meade-Lonsdale Group Ltd., which operate cold stores, import, slaughter and wholesale fresh or frozen meat, as well as retail outlets. Four years later, it acquired Mario and Franco Restaurants Ltd., to which was added in 1974, a 60 per cent. interest in Maxims Catering Enterprises Ltd., a firm of restaurateurs in Bristol.

6.11: The whole of the Spillers Ltd.'s interests are now wide-ranging, and are grouped as shown in Table 6.1.

Ranks Hovis McDougall Ltd.

6.12: Joseph Rank Ltd. was formed as a private company in 1899 when it owned three flour mills, having started business fourteen years earlier. Two new mills were added in 1904, and others on Merseyside in 1912, and shortly after the end of World War I, it acquired the Riverside Milling Company, John Ure & Sons of Glasgow, and Buchanan's Flour Mills Ltd. Its next major acquisition, apart from the group of Yorkshire and Durham mills in 1928 in which its partner was Spillers, was Associated London Flour Millers Ltd. in 1932. In the following year, it became a public company as Ranks Ltd., and with an output of 7 million sacks it could claim to be the largest millers in the UK. Five years later, its output was up to 9 million sacks, equivalent to one-fifth of UK production, brought about both by acquisition, rationalisation and the building of new capacity.

6.13: Shortly before the outbreak of World War II, Ranks Ltd. acquired John Greenwood Millers Ltd. giving it about 30 per cent. of UK flour milling capacity. Ranks suffered more than Spillers from

damaged and destroyed mills during the war, but between 1949 and 1955, five mills were either rebuilt or opened to restore its pre-war capacity in 27 flour and provender mills. In 1955 Ranks Ltd. net assets at £38.0 millions were twice as great as those of Spillers Ltd., although its gross income (as defined in the footnote to para. 6.4) at £6.4 millions was less than one-half larger.

6.14: During the 1950s, Ranks Ltd. integrated forward into bakeries, forming British Bakeries Ltd. in 1955 and going on to acquire Inglis and Co. Ltd. and Hales Bread Bakery Ltd. in 1958, as well as Thomas Bell & Sons Ltd., manufacturers of flour, baking powder and cake-mixes in 1957 and Energen Foods Co. Ltd., the dietary bread and biscuit producers, in 1958.

6.15: In 1962, Ranks Ltd. acquired Hovis-McDougall Ltd., itself formed by merger in 1957. Hovis Ltd. manufactured a speciality flour and assumed national importance in 1920 when it acquired Marriage, Neave & Co. Ltd. of Battersea. Further acquisitions during the inter-war years gave Hovis Ltd. a 7-8 per cent. share in UK flour output in 1939. Its Manchester mill was destroyed in 1940 and production was not restored until 1955. McDougall Ltd. was a long-established and leading producer of household flour. The magnitude and significance of this merger was such that the name of the amalgamated concern became known as Ranks Hovis McDougall Ltd. (RHM).

6.16: RHM process of growth by acquisition continued in the 'sixties: apart from the merger, it acquired 72 businesses in 1962, including the Christopher Hill Group of animal feed manufacturers, and another 78 firms in 1964. By 1968, its net assets amounted to over £155 millions, about four times as great as in 1955, as well as nearly three-quarters more than Spillers' net assets.

6.17: The growth in RHM's turnover since 1968 is shown in the following table, increasing by seven-tenths up to 1973. Its net assets rose by three-quarters during the same period, and its gross income by three-fifths. The return on funds employed followed the same pattern as Spillers: namely, a fall from 13 per cent. in 1968 to 8.6 per cent. in 1972, followed by a recovery to 12 per cent. in 1973:

Ranks Hovis McDougall Ltd.		£ Millions				
Year to August	1968	1969	1970	1971	1972	1973
Turnover	300	359	379	407	441	510
Net assets	155.4	224.2	230.6	239.8	247.4	272.7
Gross income	20.3	19.5	19.9	22.1	28.4	32.8
Return on funds employed (%)	13.0	8.7	8.6	9.2	11.5	12.0

6.18: In its growth during this period, a major element has been the acquisition of Cerebos Ltd. in 1968. This company, besides marketing Cerebos and Saxa salt, had interests through subsidiaries in the manufacture of soup, spreads and sauces (Brand & Co. Ltd.), suet (Hugon & Co.), and porridge oats (A & R Scott Ltd.).

6.19: The interests of RHM are now distributed between flour-milling, bread-baking, the production of animal feedingstuffs and processing of basic cereal seeds, and the manufacture and distribution of a wide range of foodstuffs, including biscuits, breakfast cereals, dietary foods, soups, canned snacks, salt and butter blending and cheese packing. About nine-tenths of its turnover derives from its sales in the United Kingdom, and while company data are not available for different parts of RHM's activities, it is believed that about 45 per cent. of its 1973 profits came from milling and baking, 35 per cent. from food and groceries and 15 per cent. from the agricultural side of the business.

6.20: The UK activities of RHM are grouped into five divisions, details of which are shown in Table 6.2.

6.21: In addition, it has a number of wholly-owned or associated companies in Canada (2), USA (2), Argentina (1), Australia (2), New Zealand (2), the Far East (4), South Africa (1) as well as 9 companies in EEC member-countries, namely:

France:	Cerebos Alimentaire SA Salines Cerebos SA Soc Francaise de Panification et de Patisserie
Netherlands:	RHM Internation NV Smarius BV
Denmark:	Bahucke-UG A/S

Belgium:	Anglo-Belgian Produce Co. (ABC) SA
Ireland:	RHM Foods (Ireland) Ltd. Ranks (Ireland) Ltd.

Associated British Foods Ltd.

6.22: Associated British Foods Ltd. (ABF) is a close company (as defined in the Corporation Tax Acts) and is controlled by Wittington Investments Ltd., a company controlled by Mr. W. Garfield Weston, his family, trusts and companies associated with them. The original company was Food Investments Ltd. formed by Mr. W. Garfield Weston in November 1935, changing its name a month later to Allied Bakeries Ltd. Initially formed to gain control of seven bakery businesses, it grew further by acquisition in the next two years enabling it to claim in 1937 to be "the largest of its kind in the country, with 2,786 employees, 17 modern bakeries, 86 shops and 494 bread delivery routes." By the outbreak of war, it had enlarged its interest to 28 bakeries and 217 shops, and had formed Weston Foods Ltd. in 1938 to control Allied Bakeries' biscuit manufacturing interests.

6.23: After the war, Weston Foods Ltd. acquired Burton's Gold Medal Biscuits Ltd. in 1948 and the Caledonian Oat Cake Baking Co. Ltd. in 1953, followed by a large but not controlling interest in Meredith & Drew Ltd. in 1954 which it later sold to United Biscuits Ltd. in 1967. Meanwhile, Allied Bakeries Ltd. acquired ten bakeries between 1953 and 1956, including Barrett & Pomeroy (Bakers) Ltd., London and Provincial Bakeries Ltd. and the Aerated Bread Company Ltd. (which owned 165 ABC tea shops in London and the suburbs). Other acquisitions were R. Marcantino Ltd., manufacturers of ice cream and lollies, in 1954, and Peter Keevil & George Walker Ltd., wholesale grocers, in 1958.

6.24: In 1955, Allied Bakeries Ltd.'s net assets amounted to £15.5 millions and its gross income came to over £6.3 million, the latter being close to that of Ranks Ltd. and two-fifths larger than that of Spillers Ltd. In 1960, its name was changed to Associated British Foods Ltd., and with it began the policy of integrating backwards into flour milling. Its first acquisition was Vit-Be Flour Mills Ltd. and in the next few years it acquired other flour milling concerns, until in 1967 it operated 39 mills, 76 bakeries, 9 biscuit factories and 46 food and grocery manufacturing plants. In 1968, the flour mills were grouped together in a subsidiary, Allied Mills Ltd.

6.25: By 1968, ABF's total net assets stood at £140 millions, and in the next five years they rose by three-fifths to over £225 millions. As the following table shows, ABF's sales rose from £503 millions to £861 millions during the same period, an increase of seven-tenths. The return on funds employed also increased from 17.6 per cent. in 1968 to an average of 20.6 per cent. in 1971-73.

Associated British Foods Ltd.

£ Millions

Years beginning 31st March	1968	1969	1970	1971	1972	1973
Sales	503	524	585	612	728	861
Net assets	140.1	146.2	155.1	157.3	200.4	225.5
Gross income	24.7	26.9	29.0	32.3	41.3	46.9
Return on funds employed (%)	17.6	18.4	18.7	20.5	20.6	20.8

6.26: These data relate to the whole of ABF's activities which during this period had developed strongly into food retailing and wholesaling, tea blending and coffee making, and the manufacture of biscuits and preserves as well as bakeries and flour-milling. As far as flour milling is concerned, Allied Mills Holdings Ltd. is believed to have accounted for about $7\frac{1}{2}$ per cent. of ABF's total sales in 1973 (as compared with 8 per cent. in 1968) as compared with 6 per cent. of net assets (against 9 per cent. in 1968).

6.27: The main acquisition during the 1968-73 period in the flour-milling sector was Cranfield Bros. Ltd. of Ipswich in 1972, other important additions to ABF's interest being the full acquisition of Fine Fare Ltd. in 1968 and Allied Farm Foods Ltd. in 1969. In 1973, however, as much as one-third of ABF's total sales were made overseas and of its UK sales, 46 per cent. were attributed to its manufacturing activities and the remainder to its retail and wholesale business. On the other hand, its overseas activities contributed 46 per cent. of trading profits in 1973 (compared with 37 per cent. in 1972), with UK manufacturing responsible for over 60 per cent. of the remainder (as against over 70 per cent. in 1972).

6.28: The UK activities of ABF are shown in Table 6.3 under seven groups as listed in the company accounts, in addition to which there are other companies, principally service and supplying concerns but also including Ryvita Ltd., manufacturers of crispbreads.

Other Milling Concerns

6.29: Apart from the major flour milling concerns, there are a number of flour mills owned by other companies of substantial importance in food processing or other industries. These include:

<u>Parent Company</u>	<u>Milling interests</u>	<u>Activities</u>
Northern Foods Ltd.	Smith's Flour Mills Ltd.	Wheat flour and other products
Pauls & Whites Ltd.	Robert Hutchinson Ltd.	Wheat flour
Carr's Milling Industries Ltd.	Carr's Flour Mills Ltd.	Flour and animal feedingstuffs
United Biscuits Ltd.	Jas. Bowman & Sons Ltd.	Flour and feed millers
Booker McConnell Ltd.	Allinson Ltd.	High-extract flour
Whitworth Holdings Ltd.	Whitworth Bros. Ltd.	Wheat and flour millers

Breakfast Cereal Manufacturers

6.30: The principal manufacturers of breakfast cereals are the Kellogg Company of Great Britain Ltd., Weetabix Ltd., Nabisco Ltd., Quaker Oats Ltd. and Robertsons Foods Ltd., the latter through Viota Food Ltd.

Kellogg Company of GB Ltd.

6.31: Kellogg's breakfast cereals were introduced to the British market by agents in 1922, and Kellogg opened a London office two years later. This company is a subsidiary of the US Kellogg Company, and by 1969, its total sales amounted to £29 millions increasing to over £35 millions in 1972. Its total net assets in 1969 were just over £8.5 millions but by 1972 had increased to £11.6 millions. According to the Monopolies Commission, its operating profit to total net domestic sales fell from 19.2 per cent. in 1968 to 14.1 per cent. in 1971, and on RTE breakfast cereals, from 19.6 per cent. in 1968 to 13.4 per cent. in 1971. In the latter year, its return on capital employed for RTE breakfast cereals (on a revaluation of assets basis) was 27.3 per cent. as compared with 37.3 per cent. in 1968.

Weetabix Ltd.

6.32: Weetabix Ltd. was formed, originally under the name of the British and African Cereal Co. Ltd., in 1932. In 1973, its turnover amounted to £16½ millions (of which over one-fifth was exported), almost exactly double its 1969 turnover when exports were comparatively negligible. Employing 1,400 persons in 1973 (about three-fifths of Kellogg's labour-force), its net assets were over £7¼ millions in that year representing an increase of two-thirds compared with 1969. Pre-tax net profits nearly doubled between 1969 and 1973, so that its return on capital has increased by about one-sixth during this period to around 30 per cent. in 1973.

Nabisco Ltd.

6.33: Nabisco Ltd., formerly the Shredded Wheat Co. Ltd. formed in 1908 to handle imports to the UK market, commenced manufacture in the UK in 1925. It is a subsidiary of the US Nabisco Inc. of New York. By 1969, its turnover amounted to £11.8 millions, and by 1972 it had increased by nearly three-tenths to over £15 millions. During the 1969-73 period, its labour-force has fallen by one-seventh to around 2,000 but its net assets have risen by the same proportion to £5½ millions in 1972. Pretax net profits have risen by over four-fifths to £500,000 in 1973, giving a return on net assets of 9¼ per cent. as against 5¾ per cent. in 1969. Nabisco Ltd., apart from breakfast cereals, has interests in biscuits and crispbread manufacturing.

Quaker Oats Ltd.

6.34: A subsidiary of the US Quaker Oats Co. of Chicago, this company was formed in 1899, and started manufacturing in the UK in 1920. Its turnover in 1968/1969 amounted to £12 millions, increasing to nearly £21½ millions in 1972/73, although its labour-force remained more or less static at around 1,200. The net assets stood at £3.1 millions in 1968/69, but rose by about 90 per cent. by 1972/73, partly on the result of its diversification into toy manufacturing (through acquiring Louis Marx & Co. Ltd.) in 1972. Pre-tax net profits, however, increased by only two-fifths during the same period, with the result that its return on capital employed has declined.

Robertson Foods Ltd.

6.35: This company's interest in the breakfast cereals trade largely stems from its acquisition of Viota Foods Ltd., which had acquired a factory from General Mills in 1963 that included a corn-flakes plant. Although Viota Foods Ltd., selling breakfast cereals to the own-label

market at home but exporting under the Robertson brand-name, is an important producer of breakfast cereals, and cake-mixes, the main part of the Robertson Foods' turnover comes from its traditional preserves manufacturing activities and canned foods. Consequently the general description of Robertson Foods Ltd. will be reserved for the later chapter on frozen, canned and dehydrated foods.

Other Breakfast Cereal Manufacturers and Suppliers

6.36: The Monopolies Commission report listed eight other "manufacturers and suppliers, including importers" of RTE breakfast cereals, namely:

The AA Supply Co. Ltd.
 A.C. Fincken & Co. Ltd.
 General Foods Ltd.
 General Mills (UK-Europe) Ltd.
 Granose Foods Ltd.
 Mapleton's Foods Ltd. (acquired by Cadbury-Schweppes
 Ltd. in 1973)
 W. Prewett Ltd.
 RHM Foods Ltd.

In addition, there are manufacturers of other types of breakfast cereal foods not included above, of which the most important is J. Lyons & Co. Ltd.

TABLE 6.1: Spillers Ltd.'s Interests

Main company	Wholly owned subsidiaries	Activities
Spillers-French Holdings Ltd. (75.1 per cent. owned by Spillers Ltd.)	Spillers-French Milling Ltd. Spillers-French Baking Ltd. Bilsland Bros. Ltd. Norie Ltd. Matthes Holdings Ltd. Spillers Farm Feeds Ltd. A & W Evans Ltd. Pilgrim Feeds Ltd. Seemeal Ltd. Henry Hosegood & Son Ltd. Spillers Grain & Feed Ltd. and 14 firms of	Flour milling Bread and confectionery Bread and confectionery Pie and sausage mfrs. Bread Feed millers Feed millers Feed millers Protein concentrate mfrs. Grain merchants Grain and protein buy and merchanting Agricultural merchanting
Spillers Foods Ltd.	Lakeland Food Industries Ltd. Spratt's Patent Ltd. Henry Jones (Bristol) Ltd.	Pet food manufacturer distributors of prepacked flour and manufacture of meat-based convenience foods Private label pet and domestic foods Pet food distributors Suppliers to catering trades
Meade-Lonsdale Group Ltd.	18 companies	Cold store operators, slaughterers, whole- salers and importers of meat, bacon and pro- vision wholesalers, retail butchers
Spillers Food Services Ltd.	T. Lucas & Co. Ltd. Soya Foods Ltd. Spice & Flavour Services Ltd. and 8 other companies	Rusk, seasoning and spice manufacturers Soya products mfrs. Manufacturers of food ingredients Offal processors, rusk and seasoning, millers and merchants, distri- butors of butchers and catering equipment
Mario & Franco Restaurants Ltd.	M & F Catering Enterprises Ltd.	Italian restaurateurs

TABLE 6.2: Rank Hovis McDougall Ltd.'s Interests

Division	Main companies	Activities
Flour milling	RHM Flour Mills Ltd. Hovis Ltd.	Mills located in England (14) Scotland (1), Wales (1) and N. Ireland (1)
Bakery	RHM Bakeries Ltd. A.D. Wimbush & Son Ltd. Beatties Bakeries Ltd. Beatties Biscuits Ltd. Manor Bakeries Ltd. MacVitties Guest & Co. Ltd. and 52 other companies	Bread, cakes, biscuits etc. sold under brand-names of Mother's Pride, Nimble, Mr. Kipling
Grocery	RHM Foods Ltd. J.A. Sharwood & Co. Ltd. Energen Foods Ltd.	Pastry mixes, soups, hot snacks, sweeteners, breakfast cereals, crispbreads and dictary foods produced at 11 factories, selling under brand names of McDougall, Bisto, Cerebos, Saxa, Chesswoods, Energen, Scotts
Agricultural	RHM Blue Cross Ltd. Christopher Hill Group Ltd. Fulford, Trumps & Co. Ltd. RHM Agriculture Ltd. and 20 other companies	Animal feeding stuffs, processing of basic cereal seed, bacon curing, agricultural merchants
Other	Dairy Produce Packers Ltd. Pasta Foods (Holdings) Ltd. RHM Ingredient Supplies Ltd. Tenstar Products Ltd. McDougalls Catering Foods Ltd.	Butter blenders and cheese packers, Pasta products manufacturing Rusk and crumb manufacturers Wheat starch, gluten, sugars and syrups Suppliers to catering trade.

TABLE 6.3: Associated British Foods Ltd.'s Interests

Group	Main companies	Activities
Allied Bakeries Group	Aerated Bread Co. Ltd. Allied Bakeries (Midlands) Ltd. Sunblest Bakeries Ltd.	Operates 52 bakeries and 2,485 shops and restaurants throughout UK.
Allied Mills Group	Allied Mills Ltd. Cranfield Bros. Ltd. James Neill Ltd. Chancelot Mill Ltd.	Operates 21 mills throughout the UK
Fine Fare Group	Fine Fare Ltd. William Cussons Ltd. Melias Ltd. Welwyn Department Store Ltd.	Operates 460 supermarkets, 441 shops, 11 warehouses and manufacturing units
Food Securities Group	Anglia Cannery Ltd. Angus Foods Ltd. Rowallan Creamery Ltd. Alliance Wholesale Grocers Ltd.	Operates 52 warehouses and 7 factories
Power Supermarkets Group	Power Supermarkets Ltd. Alex. Findlater & Co. Ltd. Penneys Ltd.	Operates 36 supermarkets and stores in the Irish Republic and 4 stores in the UK
Twining Crosfield Group	R. Twining & Co. Ltd. Matheson McLaren & Co. Ltd. Namosa Ltd.	Operates 7 tea and coffee factories in Europe
Weston Foods Group	Burton's Gold Medal Biscuits Ltd. Nelson Preserving Co. Ltd. XL Crisps Ltd. Walters Biscuits Ltd.	Operates 8 factories throughout the UK

CHAPTER 6

BISCUITS

1: INTRODUCTION

1.1: In terms of its net output, the biscuits industry is one of the smaller food processing industries distinguished by the Census of Production, ranking eighth out of the eleven trades in 1973. Even so, it accounted for 5 per cent. of the total net output of UK food processing, and for about 8 per cent. of their employment.

1.2: Included among the principal products of the biscuits trade are rusks, crispbreads, matzos, and wafers, together with cereal fillers used in the manufacture of sausages. None of these products provide any significant competition with the main kinds of biscuits, such as plain, semi-sweet, sweet, and chocolate-covered which comprise the bulk of the industry's output. For this reason, detailed attention is mainly confined in this chapter to these more important products, although information on the crispbread market will be found in Chapter 10 which deals with health foods.

1.3: The biscuits industry is now highly-concentrated, largely as the result of amalgamations and acquisitions among companies which had previously grown by internal expansion to some significant size. Two firms - United Biscuits Ltd. and Associated Biscuit Manufacturers Ltd. - accounted together for as much as two-thirds of the sales of all biscuits by UK manufacturers in 1972. In contrast to Continental Europe, biscuits have been mass-produced and nationally marketed in the United Kingdom for many decades, and while imports of biscuits are limited, there has been a long standing export trade as well as the development of overseas production by UK companies.

2: STRUCTURE OF THE BISCUIT INDUSTRY

2.1: The biscuit trade in the United Kingdom corresponds to minimum list heading 213 in the 1968 Standard Industrial Classification. The activities of the industry comprise the manufacture of biscuits, rusks, shortbread, crispbread, matzos and matzo meal, oatcakes, dry wafers, etc., and cereal fillers (sausage meal). This definition has remained unchanged since 1963, thereby facilitating analysis of the changing structure of the industry over time.

2.2: The overall structure of the biscuit industry is shown in Table 2.1. In 1963 there were 78 enterprises, and while this number fell to 65 in 1968, it increased again to 69 in 1970 and 1971. However, the number of establishments controlled by these enterprises in the biscuit trade fell between 1963 and 1971 from 118 to 82. Despite the decreasing number of enterprises and establishments, total sales and work done rose (at current prices) by just over two-thirds between 1963 and 1971, and by a further $7\frac{1}{2}$ per cent. in the next two years to nearly £245 millions in 1973.

2.3: Gross output also increased by around four-fifths in the 1963-73 period but net output at £106.6 millions in 1973 was 88 per cent. higher than ten years earlier. The major part of the difference between gross and net output is the cost of materials used in production and packaging and fuel. The cost of such purchases rose by about 5 per cent. per annum between 1963 and 1968, as compared with 3 per cent. per annum during 1968-73.

2.4: Employment in the biscuits industry rose, according to the Census data, by about 5 per cent. between 1963 and 1968, and remained at just under 49,000 to 1970. In the 1970-73 period, however, employment has fallen by $6\frac{1}{2}$ per cent., to 45,500, slightly below the 1963 level.

2.5: Some indication of the relative growth of the biscuits industry compared with the food processing industries as a whole (the latter being defined as in para. 2.2 of Part I of this Study) can be gained from Table 2.2. Between 1963 and 1968, the increase in employment for the biscuits industry was not much lower than for food processing as a whole, but since 1968 employment in the biscuits industry has fallen while in food processing it has remained more or less static. Compared with a share of 8.5 per cent. of food processing employment in 1963, the labour-force in biscuits dropped to 8.3 per cent. in 1968 and to 7.8 per cent. in 1973.

2.6: Net output of the food processing industries rose more than for the biscuits trade between 1963 and 1968. In the next five years to 1973, the net output of the biscuits trade rose by only 38 per cent. as compared with over 92 per cent. for food processing as a whole. It follows, therefore, that the relative importance of the biscuits trade has also fallen in terms of net output during the last decade. In 1963, it accounted for over $7\frac{1}{2}$ per cent. of the total net output of the food processing industry, but by 1968 it had dropped to little over 7 per cent. and in 1973 to around 5 per cent.

2.7: It will also be seen from Table 2.2 that net output per head (before allowing for price-changes) increased faster in food processing as a whole than in the biscuits trade in each of the two five year periods. In 1963-68, net output per head for biscuits increased by 29 per cent. as compared with 36 per cent., in food processing, and in the next five years, the increases were 49 per cent. and 93 per cent. respectively. Allowing for price-changes, however, it would appear that net output per head in real terms rose by only 1 per cent. between 1963 and 1968 in the biscuits trade, as compared with 5 per cent. in the whole of food processing, but in the 1968-73 period it improved to an increase of about $9\frac{1}{2}$ per cent. as against $7\frac{1}{2}$ per cent. in food processing generally.

Size-distribution of enterprises

2.8: In both 1963 and 1968, about one-third of the number of establishments classified to the biscuits trade employed fewer than 25 persons, but in terms of employment these small establishments, as can be seen from Table 2.3, accounted for only 1 per cent. of the total labour-force. Between 1968 and 1971, the latest year for which these data are currently available, the number of small establishments increased in numbers, while the larger establishments fell from 67 to 44. But in terms of employment, these larger establishments still accounted for 99 per cent. of the total labour-force.

2.9: The size-distribution of the enterprises with larger establishments in 1963 and 1968 are shown in Table 2.4. In 1963, twelve out of the 37 enterprises employed less than 200 persons but accounted for only 2 per cent. of employment and net output. Five years later, there were again twelve enterprises of that size, and although they had increased in relative numbers, their share of employment and net output was still about 2 per cent. Another one-third of the enterprises in both years employed between

200 and 1,000 people, and while their share of employment fell from 16 per cent. in 1963 to 13 per cent. in 1968, their relative importance in terms of net output remained static at 13 per cent.

2.10: Enterprises employing more than 1,000 persons comprised the remaining one-third of all enterprises in 1963, but they accounted for nearly three-fifths of the establishments and and over four-fifths of employment and net output. The number of such enterprises fell from 12 in 1963 to 10 in 1968, and the number of their plants from 44 to 39, and while their share of employment increased from 82 per cent. to 85 per cent., for net output it was the same in both years.

2.11: The largest enterprises in the biscuits trade are, therefore, multi-plant concerns. Those employing more than 1,000 persons in 1963 had an average of 3.7 plants each, and on average each plant employed 860 persons. By 1968, the number of plants for enterprises employing more than 1,000 persons had increased to 3.9, but average employment in those plants had increased to 1,050 persons.

2.12: Since 1968 the relative importance of the largest establishments has continued to increase. Whereas in 1968, 70 per cent. of the employment of all larger establishments (i.e. those employing 25 or more persons) was in plants employing more than 750 persons each, by 1971, the proportion had increased to 80 per cent. On the other hand, plants employing 500-749 persons, which accounted for over 18½ per cent. of employment in 1968, represented only 10 per cent. in 1971. Unfortunately, no data on the size-distribution of enterprises are available for 1971, but these trends in plant-size might suggest that the largest enterprises could well have increased their share of employment since 1968.

Sales of Principal Products

2.13: Sales of the principal products of the biscuit trade, as defined by the Census of Production, amounted in 1968 to just over £150 millions. About 92 per cent. of these total sales were made by establishments classified to the Census biscuits trade.

2.14: The Census distinguished two main categories of principal products, namely biscuits for human consumption and cereal fillers, the former being further sub-divided between (i) rusks, crisp-breads, oatcakes, etc; (ii) chocolate-covered biscuits and (iii) all other biscuits, sweetened and unsweetened. From Table 2.5 it will be seen that biscuits for human consumption form 97 per cent. of the total value of principal products' sales, within and outside the

trade, and that chocolate-covered biscuits accounted for 28 per cent. of all biscuit sales, as compared with 65 per cent. for other types of biscuit and 7 per cent. for rusks, crispbreads etc.

2.15: It will also be seen from Table 2.5 that the number of enterprises producing chocolate-covered and other biscuits exceeds the number of larger enterprises classified to the biscuit trade in 1968, and markedly as in the latter case. In addition, it will be noted that for rusks, crispbreads etc., and chocolate-covered biscuits combined, the establishments comprising the biscuits trade accounted for only 83 per cent. of the total value of sales of these products.

2.16: Changes in the popularity of different types of biscuits are shown in Table 2.6. Between 1963 and 1968, increased sales of chocolate biscuits amounted to over 20,000 tons, which was matched by a fall in sales of plain biscuits. In addition, there was a substantial increase in the sales of rusks, crispbreads matzos, and dry wafers etc.

2.17: In 1971, however, sales of chocolate-covered biscuits had fallen by one-eighth compared with 1968, and while sweet and semi-sweet biscuits had slightly higher sales in 1971, there had been an even larger fall in the sales of all other types of biscuit. By 1973, chocolate-covered biscuits had increased to above their 1968 sales level, sweet and semi-sweet biscuits had fallen somewhat below it, and thanks to an increase in sales of savoury biscuits, the other categories together were also above their 1968 level in 1973.

2.18: The breakdown of the 1973 biscuit sales of £219 millions (at ex-factory values) is shown in Table 2.7, from which it will be seen that nearly two-fifths is attributable to sweetened biscuits, and another one-third to chocolate biscuits, the remainder being divided fairly equally between the other categories. It will also be seen from Table 2.7 that in terms of value per ton, by far the highest priced varieties are savoury biscuits (£524 per ton) and chocolate-covered biscuits (£510 per ton), with sweetened biscuits (£307 per ton) and plain biscuits (£305 per ton) being relatively low-priced.

International Trade

2.19: While imports can have a considerable effect on the degree of competition in a market, biscuit imports have so far been comparatively insignificant. From Table 2.8 it will be seen that in the 1971-73 period, imports of biscuits averaged only £4¼ millions

a year, equivalent to about 2 per cent. of the value of biscuit sales by U.K. enterprises. What is more, exports of biscuits averaged over £16 millions a year during the same period, of which the principal categories were chocolate-covered (£2.9 millions), other sweetened (£9.2 millions) and unsweetened (£2.2 millions).

TABLE 2.1

UK: Biscuit Trade: Enterprises, Establishments, Output and Employment
1963, 1968, 1970-73

	1963	1968	1970	1971	1972	1973 ^P
No. of enterprises	78	65	69	69	...	...
No. of establishments	118	100	83	82	...	...
Gross Output (£m)	135.5	178.1	208.4	227.9	227.8	247.0
Net Output (£m)	56.6	77.0	82.4	101.7	110.3	106.6
Employment (Thousands)	46.3	48.7	48.6	47.7	45.6	45.5

Source: Census of Production.

TABLE 2.2Index Numbers of Output and Employment for Biscuits and
All Food Processing Industries, 1963-73

	1963 = 100				
	1968	1970	1971	1972	1973 ^P
<u>Gross Output:</u>					
Biscuits	131	154	168	168	182
Food Processing	152	187	200	221	255
<u>Net Output:</u>					
Biscuits	136	146	180	195	188
Food Processing	146	188	210	244	281
<u>Employment:</u>					
Biscuits	105	105	103	98	98
Food Processing	107	107	108	107	107
<u>Net Output per head:</u>					
Biscuits	129	139	174	198	192
Food Processing	136	176	194	228	263

TABLE 2.3Biscuits Trade: Number of, and Employment in Small and Larger Establishments, 1963-1971

	Small Establishments			Larger Establishments		
	1963	1968	1971	1963	1968	1971
Establishments:						
No.	40	33	38	78	67	44
%	34	33	46	66	67	54
Employment:						
Thousands	0.5	0.4	0.5	45.8	48.3	47.2
%	1	1	1	99	99	99

TABLE 2.4

Biscuits Trade: Size-distribution of larger enterprises, 1963-68

Enterprises' Employment	Percent.								
	Enterprises		Establishments		Employment		Net Output		
	1963	1968	1963	1968	1963	1968	1963	1968	
25-99	22	27	11	14	1	1	)	2	2
100-199	11	9	5	4	1	1	)	5	5
200-499	19	15	13	12	6	4		8	8
500-999	16	18	13	11	10	9		15	18
1000-1999	19	21	24	30	20	22		70	67
2000 and over	13	9	34	29	62	63			
	—	—	—	—	—	—		—	—
	100	100	100	100	100	100		100	100
Total (base for percentages).	37	33	76	66	45.7	47.8		55.9	75.4
					Thousands			£Mns.	

Source: Census of Production

TABLE 2.5

Sales of principal products of Biscuits Trade, 1968

	No. of enterprises	Quantity Th. tons	Value £Mns.	Principal Products from within trade £Mns.	%
Biscuits for human consumption:					
Rusks, * crispbread, matzos and matzo meal, oat cakes and dry wafers	36	42.65	10.23	42.76	83
Chocolate-covered biscuits and wafers including assortments +	41	125.05	41.57		
All other biscuits, sweetened and unsweetened	59	423.35	95.14	95.56	97
Cereal filler	6	43.10	3.54		
Other products and work done, and waste products	...	...	0.87		
TOTAL	...	...	151.35		

* Including infants', diabetic and breakfast rusks.

+ Excluding those sold as chocolate confectionery.

Source: Census of Production

TABLE 2.6

Sales of biscuits for human consumption, by quantity and type, 1963-73

	Thousand tons				
	1963	1968	1971	1972	1973
Chocolate-covered biscuits	110.6	131.3	114.9	129.7	145.7
Sweet and semi-sweet	347.1	341.7	344.2	363.6	332.4
Plain	76.0	55.6)			(55.9
Savoury	...	22.4)	101.3	117.7	(33.6
Rusks, crispbreads, matzos, oat cakes, dry wafers etc.	33.3	43.5)			(36.9
All	...	594.5	560.4	611.0	604.5

Source: Census of Production

TABLE 2.7Sales of biscuits, by value and type, 1973

	<u>Sales Value</u>		Value per ton £
	£Mns.	%	
Chocolate-covered biscuits	74.31	34	510
Sweetened biscuits	85.14	39	307
Semi-sweetened biscuits	14.08	6	256
Plain biscuits	17.04	8	305
Savoury biscuits	17.61	8	524
Rusks, crispbreads, matzos, oat cakes, dry wafers etc.	10.85	5	372
Total	219.03	100.0	362

Source: Business Monitor

TABLE 2.8

Imports and Exports of Biscuits, 1971-73

	1971		1972		1973	
	Value (£000s)	Volume (Tons)	Value (£000s)	Volume (Tons)	Value (£000s)	Volume (Tons)
<u>Imports (c.i.f.)</u>						
Chocolate covered	327	652	419	818	554	949
Other sweetened	1,483	4,626	1,394	3,853	1,354	3,249
Unsweetened	336	1,196	452	1,500	357	817
Ships Biscuits, Crumbs and Rusks	44	167	16	73	25	147
Crispbread & Matzos	1,196	5,053	1,494	6,054	1,700	6,139
Wafers, etc.	368	1,174	442	1,166	833	1,893
TOTAL	3,754	12,868	4,216	13,463	4,823	13,194
<u>Exports (f.o.b.)</u>						
Chocolate covered	2,616	6,674	2,775	6,637	3,227	7,138
Other sweetened	9,158	29,227	8,665	26,453	9,710	28,611
Unsweetened	1,933	5,941	1,975	5,681	2,578	7,084
Ships Biscuits, Crumbs and Rusks	120	1,028	97	784	236	2,210
Crispbread & Matzos	327	1,462	640	2,948	767	3,420
Wafers, etc.	890	2,579	889	2,587	1,544	3,902
TOTAL	15,044	46,911	15,039	45,091	18,062	52,365
<u>Balance of Trade (Exports-Imports)</u>						
Chocolate covered	2,289	6,022	2,356	5,819	2,673	6,189
Other sweetened	7,675	24,601	7,271	22,600	8,356	25,362
Unsweetened	1,597	4,745	1,523	4,181	2,221	6,267
Ships Biscuits, Crumbs and Rusks	76	861	81	711	211	2,063
Crispbreads & Matzos	- 869	-3,591	- 854	-3,106	- 933	-2,719
Wafers, etc.	522	1,405	447	1,421	711	2,009
TOTAL	11,290	34,043	10,823	31,628	13,239	39,171

Note: Figures do not always sum exactly to totals because of rounding errors.

Source: Business Monitor

3: TRENDS IN THE BISCUITS TRADE

3.1: During the interwar period, the biscuits industry expanded rapidly. Employment in the Census trade increased from 28,000 in 1924 to 44,000 in 1935, and the production of biscuits doubled between the wars. Mechanisation and mass production had developed before World War 1, and during the 1920's new techniques aimed at perfecting rather than revolutionising the production process. The nationally known biscuit manufacturers tended to sell direct to the retailer, thereby incurring relatively high distribution costs. During the 1930's, however, two changes occurred which not only increased the size of the market but also established new firms among the leaders in the trade:

"In the first place, a considerable quantity of low-priced biscuit flour was imported from the continent during the depression years and used for the manufacture of cheap lines of biscuits by new firms which entered the market at that time. Secondly, other firms began to distribute through wholesalers (instead of direct to the retailer), and consequently were able to provide biscuits, comparable in quality to those of the national firms, at lower prices."*

3.2: The traditional biscuit manufacturers fought back. Through the agency of the National Association of Biscuit Manufacturers which had been established in 1918, the seven largest manufacturers had established agreed terms of trading and margins which limited competition between them to quality and service. Now in the early summer of 1938 they launched cheaper ranges of biscuits and intensified their sales efforts, which "restored the lost volume, for which NABM companies later had cause to be grateful when the restored volumes became the basis for allocation of supplies of raw materials during the Second World War."

3.3: In 1939, the nine leading biscuit manufacturers had a total production of 186,600 tons, of which Associated Biscuit Manufacturers Ltd. comprising Huntley & Palmer Ltd. and Peek, Frean & Co. Ltd. accounted for 35,000 tons ($18\frac{3}{4}$ per cent.), followed by Weston Foods Ltd. (one of the newcomers selling at lower prices) 34,500 tons ($18\frac{1}{2}$ per cent.), Meredith & Drew Ltd., 29,360 tons (16 per cent.) and William Crawford & Sons Ltd., 26,080 tons (14 per cent.). The remaining four leading companies were McVitie & Price Ltd. (10 per cent.), Macfarlane Lang & Co. Ltd. (8 per cent.), Carr & Company Ltd. (8 per cent.) and W. & R. Jacob (Liverpool) Ltd. (7 per cent.).

* R. Evely and I. M. D. Little: Concentration in British Industry. (Cambridge University Press, 1960), p. 274.
 + J. S. Adam: A Fell Fine Baker: The story of United Biscuits (London, Hutchinson Benham, 1974), p. 5.

3.4: During the war, the industry operated under a system of controls, which apart from the allocation of raw materials extended into zoning of distribution, rationing and price regulations, and these were not entirely removed until 1954. By 1951, however, there were 92 enterprises in the Census trade as compared with 72 in 1935, and the share of the three largest enterprises in terms of employment had fallen from 37 per cent. in 1935 to 34 per cent. in 1951. Apart from the influx of new firms before the outbreak of war, the fall in concentration has been explained in the following terms:

"While new firms entering the trade to meet the increased demand for biscuits were able, during the control period, to produce from unrationed ingredients lines which sold under conditions of shortage, the largest firms were unable to expand their production at the same rate without jeopardising the good name of their products." *

3.5: The three largest enterprises in the biscuits trade by 1951 were Associated Biscuit Manufacturers Ltd., United Biscuits Ltd., and Weston Foods Ltd., a subsidiary of Allied Bakeries Ltd., (later to become Associated British Foods Ltd.). Associated Biscuit Manufacturers Ltd., (ABM) was formed as long ago as 1921 by the merger of Huntley & Palmer Ltd., and Peek, Frean & Co. Ltd., whereas United Biscuits Ltd., a merger of Macfarlane, Lang & Co. Ltd., and McVitie & Price Ltd., was not formed until 1948.

3.6: Weston Foods Ltd., was established in 1938 to take over the Weston biscuit interests, and in 1948, it gained control of Burton's Gold Medal Biscuits Ltd., followed by the acquisition of the Caledonian Oat Cake Baking Co. Ltd., in 1953 as well as a large stake in Meredith & Drew Ltd., in the following year. The latter company was formed in 1891, and went public in 1926, and was one of the original introducers of cheaper biscuits through its subsidiary, the Betta Biscuit Company in the early 1930's. During the war, its London factory was destroyed, and after an initial recovery and the opening of new plants, it ran into financial difficulties and Allied Bakeries Ltd. (through Weston Foods Ltd.) acquired 50 per cent. of the 'A' shares but only 30 per cent. of the voting rights.

3.7: Acquisition and re-grouping of interests continued during the 1950's and 1960's. Associated Biscuits acquired the old-established firm of W. & R. Jacobs (Liverpool) Ltd., in 1960 but the main acquisition activity came from United Biscuits. In 1962, United acquired William Crawford & Sons Ltd., which had a sales turnover of £8.8 millions at that time, together with its Scottish bakery and

* R. Evely and I.M.D. Little, *op. cit.* p. 276.

restaurant business, D.S. Crawford Ltd. In 1966, United went on to acquire Meredith & Drew Ltd. with a turnover of £7½ millions, and interests in the crisps and own label markets.

3.8: Perhaps more important than either of these two acquisitions, although representing a smaller turnover of £4.7 millions, was United's acquisition of Wm. Macdonald & Sons Ltd. in 1964, which gave it a large stake in the chocolate biscuit market. This company was originally a selling agency for various food products, including the De Beukelaer cream-filled wafer biscuits imported from Belgium. In 1927, Macdonalds started the chocolate coating of biscuits manufactured by other firms, subsequently enlarging their range by starting manufacturing themselves in the early 1930's. After the war, Macdonalds planned "to specialise, simplify and standardise on a small range of high-quality products, mainly chocolate covered....(and) to sell each product by its individual name and to advertise boldly." * The initial products were the Glengarry shortcake biscuit and the individually-wrapped Penguin chocolate-covered cream biscuit, and in the 1950's, Munchmallow, Yoyo, Bandit and Taxi were added to their list. Thus, by 1956, Macdonalds were credited with a 25 per cent. share of the UK fully-coated chocolate biscuit market, and its advertising expenditure represented more than 6 per cent. of sales value.

3.9: By 1963, the five largest enterprises, in terms of their sales of biscuits for human consumption, together were responsible for 65.5 per cent. of the total sales by larger establishments. Five years later, as can be seen from Table 3.1, the share of the five largest enterprises had increased to over 71 per cent., (whereas that share in 1971 represented the sales of the seven largest enterprises).

Changes since 1968

3.10: Since 1968, there have been more changes which have increased the importance of United Biscuits. In 1972, United Biscuits acquired the biscuit manufacturing interests of Cavenham Ltd., which at that time included Carr & Co. Ltd., Carrs of Carlisle Ltd., Kemp Biscuits Ltd., and Wright Biscuits Ltd. The first of these three companies to be acquired by Cavenhams in 1964 was Carr's of Carlisle Ltd. which dates back to 1830, and in 1910 purchased a London firm producing matzos. At the time of the sale to United Biscuits, Kemps Biscuits Ltd. was already a subsidiary of Wright's Biscuits Ltd., having been acquired by the latter from Scribban's Kemp Ltd. in 1964, passing into Cavenham's hands when Cavenham acquired Wright's Biscuits Ltd. in 1971.

* J.S. Adam, op. cit. p. 69.

3.11: Looking back over the series of mergers and acquisitions which has established United Biscuits in "its position as the leading biscuit manufacturers in the United Kingdom", two main influences have been identified:

"The first merger between McVitie & Price and Macfarlane Lang took place because of death duties - a most compelling factor. The growing power of the retailer later came to exercise pressure on the manufacturers, who for this and other reasons came to realise that improved efficiency postulated larger-sized undertakings." *

The reference to the "growing power of the retailer" relates both to the direct effect of the Resale Prices Act 1964 which "took retail price control out of the hands of manufacturers and put it into the hands of retailers" and the development of the 'own label' biscuit market.

3.12: The growth in United Biscuits has clearly come about largely through a process of amalgamation and acquisition. In 1973, the sales of its Biscuits Division amounted to £80 millions, which was twice the turnover of the whole Group in 1965 which itself has risen to £154 millions in 1973. In terms of total turnover, ABM Ltd.'s sales of under £91½ millions in 1973 were only three-fifths of those of United Biscuits, but no information is available on their biscuit sales although the numbers employed in the manufacturing and marketing of biscuits represented over four-fifths of ABM's total UK labour-force.

3.13: While these two companies dominate the UK biscuits industry, there remain other important producers among the dwindling number of biscuit manufacturers. Changes in the number of makers with large establishments between 1968 and 1973 are shown in Table 3.2. For the two categories of biscuits for which the numbers are directly comparable, there was a fall from 41 to 31 enterprises in the case of chocolate-coated biscuits while for rusks, crispbreads, matzos, oatcakes etc., the number of enterprises nearly halved from 36 in 1968 to 19 in 1973. Otherwise, the number of manufacturers was smallest (10) for savoury biscuits and largest (21) for semi-sweetened biscuits. While it is not possible from these data to be precise about the change in the total number of enterprises producing all four types of biscuits between 1968 and 1973, the number has almost certainly declined.

3.14: What can be stated with absolute confidence is that United Biscuits and ABM are to be found among the largest producers of all the types of biscuits separately identified in Table 3.2, although the degree of sales concentration (as measured by the five largest

* J.S. Adam, *op. cit.*, p. 120.

companies) is likely to be different from one type to another. The identity of the other largest producers may also vary (or if not their identity, their rank) between the different types of biscuit, but in most cases they will be one or other of a few large and well-known food manufacturers.

3.15: Associated British Foods Ltd., is, of course, one such firm, which played a critical role in the prewar development of the biscuits industry as already described above. Another is the Cooperative Wholesale Society Ltd., which operates two biscuit factories, with an employment in 1972 of 750, about one-quarter less than in 1968. In 1968, the output of biscuits by the CWS Ltd. represented about 2 per cent. of the total value (at ex-factory prices) of biscuits produced by large establishments; between 1968 and 1972 the CWS output rose by nearly two-fifths (at current values) as compared with just over three-tenths for all larger establishments, so that it has at least held on to its 1968 share of the biscuits trade.

3.16: The growth in the production of chocolate biscuits has given two chocolate manufacturers - Cadbury-Schweppes Ltd., and Rowntree Mackintosh Ltd. - an important stake in the biscuits industry, although in neither case is their output limited to chocolate biscuits. While Cadbury's lines are sold wholly under their own name, the Rowntree Mackintosh products also include the Gray Dunn range.

3.17: While biscuits represent only a small proportion of its total business, another producer of significance is J. Lyons & Co. Ltd., which includes among its subsidiaries, Fox's Biscuits Ltd., and Symbol Biscuits Ltd. Similarly, the flour-milling concern of Ranks Hovis McDougall Ltd. includes two biscuit manufacturers among its subsidiaries, Beatties Biscuits Ltd. and Inglis & Co. Ltd., as well as Energen Foods Co. Ltd., which includes crispbread among its range of products.

3.18: Another biscuit manufacturer owned by a food processing firm is Elkes Biscuits Ltd. which was acquired by Adams Foods Ltd. in 1973, while the British American Tobacco Co. Ltd. also has biscuit manufacturing interests through International Stores Ltd. The US company, Nabisco Inc., also has a stake in the British biscuit industry through Nabisco-Frears Biscuits Ltd. and the Ritz Biscuit Co. Ltd.

Recent changes in concentration

3.19: Official data on concentration-changes since 1968 are not available, but using the Census data on the size-distribution of establishments and enterprises in 1968 and 1972 in the Biscuits industry, it has been estimated that the five largest enterprises (in terms of employment) accounted for over 78 per cent. of total employment in 1972 as compared with 70 per cent. in 1968.

3.20: Furthermore, there is evidence that on a product basis, the sales concentration-ratio for the five largest enterprises has risen to at least 90 per cent. for chocolate, savoury and plain un-sweetened biscuits, and only for sweetened biscuits does it fall to around 75 per cent.

TABLE 3.1Biscuits for human consumption: Sales concentration ratios, 1963 and 1968.

	1963	1968
Total Sales (£ Millions)	120.8	146.9
Proportion of total sales by five organisations with largest sales (%)	65.5	71.0

Source: Census of Production

TABLE 3.2Biscuits: No. of enterprises, 1968, 1972 and 1973.

	1968	1972	1973
Chocolate-coated biscuits	41	31	31
Sweetened biscuits)		19	19
)			
Semi-sweetened biscuits)	59	21	21
)			
Unsweetened biscuits)		17	17
)			
Savoury biscuits)		10	10
Rusks, crispbread, matzos, oat cakes, dry wafers etc.	36	19	19
Cereal filler	6	9	9

4: CONSUMPTION, MARKETING AND PRICES

4.1: The National Food Survey distinguishes two categories of biscuits: chocolate (including marshmallows and wafers) and other (including cream crackers, rusks, crispbread and shortbread), and in Table 4.1 are shown the levels of consumption and expenditure per head and average prices paid for household purchases of biscuits in Great Britain from 1968 to 1973.

4.2: Annual consumption per head in 1972-73 was very little different from what it was in 1968-69, but the proportion represented by chocolate biscuits increased slightly. Both types of biscuit increased in price by just over 30 per cent. between 1968-69 and 1972-73, and total spending per head on biscuits rose by one-third during this period.

Changes in Raw Material Costs

4.3: The main ingredients used in the manufacture of biscuits are biscuit flour, cocoa butter, margarine and cooking fats, refined sugar and vegetable and seed oils. Together these raw materials accounted for over 68 per cent. of the trade's purchases of ingredients (by value) in 1968. In Table 4.2 are shown the changes in the wholesale prices for these five main ingredients between 1968 and 1973, and a combined index for all five weighted by their relative importance in 1968.

4.4: It will be seen that there have been substantial variations in the year to year changes in price among these five ingredients, but that a large rise in their wholesale prices was common to all between 1972 and 1973. The combined price index shows an increase of 18 per cent. between 1968 and 1971, followed by a year with no change, and then a rise of 37 per cent. in 1973. There will have been some time-lag before these increases in raw material costs worked through to the retail stage, but in 1974, the wholesale price of biscuits rose by 38 per cent. as compared with under 25 per cent. between 1970 and 1973.

Brand Shares in the Retail Market

4.5: It is estimated that the retail market for biscuits in Great Britain amounted to around £200 millions in 1973, of which sales through grocers represented about 85 per cent. Five years earlier, the total market was worth about £135 millions, with grocery shops claiming about 80 per cent.

4.6: The relative position of the main manufacturers in terms of their brand-shares varies considerably between different sections of that market. As far as sales of chocolate biscuits are concerned, United Biscuits has at least one-half of the total market, as compared with Cadbury's share of one-fifth to one-quarter, and ABM's share of under one-tenth. For crackers and savoury biscuits, on the other hand, ABM has a larger share than United Biscuits, with Nabisco claiming third place, their relative shares being of the order of 45:35:20. For all other types of biscuit, own label lines possibly account for a larger share of the market than ABM's branded products, with United Biscuits' sales exceeding those of ABM by about one-half.

Advertising Expenditure

4.7: It has been stated that in the biscuit industry there is a general belief "that if a firm maintained a five per cent. of turn-over expenditure on advertising it could hold its brand name with the public." * In Table 4.3 is shown the levels of expenditure on press and TV advertising of biscuits during the 1968-73 period, from which it will be seen that total annual spending in 1972-73 averaged £4.15 millions as compared with £2.30 millions in 1968-69, an increase of 80 per cent. Related to the estimated retail market value of biscuit sales, these expenditures represented an increase from 1.7 per cent. in 1968-69 to 4.5 per cent. in 1972-73.

4.8: It will also be seen from Table 4.3 that the companies already belonging to United Biscuits Ltd. in 1968 increased their spending from £1.27 millions in 1968-69 to £1.64 millions in 1972-73, or taking the group as it stood in 1973 from £1.30 millions in 1968-69 to £1.74 millions in 1972-73. But as against the increase of 34 per cent. indicated by the latter comparative figures, the spending by the Associated Biscuits' companies doubled during the same period. Thus, whereas United accounted for 55 per cent. of the total spending in 1968-69, their share was down to 42 per cent. in 1972-73, while that of Associated Biscuits rose from 22 per cent. to 25 per cent. during the same period.

4.9: In 1972-73, the other biscuit manufacturers spending most on press and TV advertising were Nabisco (£326,000), Rowntree's, including Gray Dunn (£321,000) and Cadbury's (£290,000). Compared with 1968-69, Rowntree's had increased their spending by 170 per cent., Cadbury's by 73 per cent. and Nabisco by 61 per cent.

* J.S. Adam: op cit., p. 120.

4.10: It has been suggested that the growth of the own label market for biscuits was initially attributable in part to manufacturers finding it difficult to maintain their levels of spending on advertising at around the 5 per cent. level. * But the recent increases in advertising spending, which are often concentrated on the newly-introduced branded lines, could indicate that manufacturers are now concerned to constrain the growth of own-label products and to that end, are prepared to increase their advertising appropriations.

* J.S. Adam, *op. cit.* p.120.

TABLE 4.1

Great Britain: Biscuits: Annual consumption and spending per head and average prices paid, 1968-73

	1968	1969	1970	1971	1972	1973
Annual consumption per head (lbs)						
Chocolate	3.34	3.34	3.15	3.21	3.38	4.06
Other	15.41	15.32	15.35	15.41	14.92	14.85
	<u>18.75</u>	<u>18.66</u>	<u>18.50</u>	<u>18.62</u>	<u>18.30</u>	<u>18.91</u>
Annual spending per head (£)						
Chocolate	1.74	0.79	0.81	0.90	1.02	1.22
Other	1.86	1.90	2.00	2.21	2.31	2.51
	<u>2.60</u>	<u>2.69</u>	<u>2.81</u>	<u>3.11</u>	<u>3.33</u>	<u>3.73</u>
Average prices paid (pence/lb.)						
Chocolate	22.22	23.70	25.65	27.97	30.38	29.92
Other	12.04	12.42	13.01	14.36	15.47	16.90
	<u>13.85</u>	<u>14.44</u>	<u>15.19</u>	<u>16.70</u>	<u>18.20</u>	<u>19.73</u>

Source: Ministry of Agriculture, Fisheries and Food.

TABLE 4.2

Wholesale Price Indices of Materials used in Biscuit Manufacture, 1968-73

1968 = 100

	Biscuit flour	Imported Cocoa Butter	Margarine and cooking fats	Refined sugar	Refined vegetable and seed oils	Combined
1969	97.8	126.8	104.5	103.7	106.8	103.6
1970	99.7	93.6	141.8	102.3	126.1	107.4
1	112.2	73.6	164.0	115.8	133.5	117.8
2	112.0	94.3	147.2	121.8	121.1	117.6
3	165.4	190.0	163.3	130.8	182.8	160.9

TABLE 4.3

Expenditure on press and TV advertising of biscuits, 1968-73

	£000s					
	1968	1969	1970	1971	1972	1973
<u>United Biscuits:</u>						
Macfarlane Lang	149	164	76	-	-	-
McVities & Price	376	382	511	837	800	960
Crawford's	409	379	242	330	450	466
Meredith & Drew	83	111	6	13	-	-
Macdonald's	213	271	182	153	318	291
	1230	1307	1017	1333	1568	1717
Carr's	19	-	27	8	15	181
Kemp's	8	32	33	1	-	-
	1257	1339	1077	1342	1583	1898
<u>Associated Biscuits:</u>						
Huntley & Palmer	177	202	197	247	165	227
Peek Frean	58	71	63	72	118	101
Jacobs	251	258	261	372	763	682
	486	531	521	691	1046	1010
Cadbury's	185	151	279	274	152	428
Rowntree's and Gray Dunn	170	69	93	134	333	309
Nabisco	185	219	208	63	282	370
Associated British Foods	*	*	*	34	127	132
Chiltonian	6	28	*	-	-	7
TOTAL	2301	2309	2461	2974	3983	4310

Sources: IPC Marketing Manual
and MEAL

5: THE PRINCIPAL BISCUIT MANUFACTURING CONCERNS

5.1: The principal manufacturers of biscuits have already been identified in the preceding sections of this chapter, and the main stages in the growth of United Biscuits Ltd. and Associated Biscuit Manufacturers Ltd. have been described in section 3. Apart from these two major producers, the general background and range of interests of several other manufacturers of biscuits are to be found in other chapters of this report, namely: Associated British Foods Ltd., Nabisco Ltd., and Ranks Hovis McDougall Ltd. in chapter 5 and J. Lyons & Co. Ltd. in chapter 4. Consequently, attention can be directed mainly to the present range of interests of United Biscuits Ltd. and Associated Biscuit Manufacturers Ltd., with shorter notes on Cadbury-Schweppes Ltd. and Rowntree Mackintosh Ltd.

United Biscuits (Holdings) Ltd.

5.2: United Biscuits (Holdings) Ltd. was originally registered as a private company under the name United Biscuits Ltd. in March 1948, and converted into a public company four months later. Its present name was adopted in 1966. Formed by the merger of Macfarlane Lang & Co. Ltd. and McVitie & Price Ltd., its main subsequent acquisitions in the biscuits and associated trades have been:

- 1962: William Crawford & Sons Ltd., biscuit manufacturers, together with D.S. Crawford Ltd., bakers and restaurateurs.
- 1965: Wm. Macdonald & Sons Ltd., biscuit manufacturers.
- 1966: Meredith & Drew Ltd., biscuit and crisps manufacturers.
- 1968: Kenyon Sons and Craven Ltd., producers of K.P. Nuts.
- 1972: Carr's of Carlisle Ltd.) biscuit manufacturers
 Kemp Biscuits Ltd.) acquired from
 Wright's Biscuits Ltd.) Cavenham Ltd.

5.3: In addition to these acquisitions, United Biscuits' cake interests were merged with those of Cadbury-Schweppes Ltd. in 1971 in a joint subsidiary, McVitie & Cadbury Cakes Ltd., the combined operation involving the closure of two cake factories and the amalgamation of their separate distribution systems. Towards the end of 1973, with 80 per cent.

of the production concentrated in United Biscuit factories, United agreed with Cadbury-Schweppes Ltd. to purchase the latter's share in the joint venture, although continuing to operate under the same name. In 1973, the cake business was worth £20 millions.

5.4: During 1974, United Biscuits purchased the US Keebler Biscuit Company, operating six factories, with sales of over \$250 millions, for about £21 millions in cash. Other overseas interests of United Biscuits include a factory in Canada, subsidiaries in the Netherlands (Milane Unvers) and Belgium (Fritma), sales and distribution arrangements through Lu Brun & Associates in France and United Biscuits A/S in Denmark, a 60 per cent. stake in Productos Ortiz SA, a Spanish cake manufacturer, as well as joint marketing company with Meiji Seika Kaisha in Japan and a royalty agreement with Australia's leading biscuit manufacturer, Arnott's. United Biscuits Ltd. also sells and distributes Ry-King crispbread produced by Wasabrod of Sweden, the world's original and largest manufacturer of crispbread.

5.5: The company's activities are now grouped into five trading divisions, namely: Biscuits, Foods, D.S. Crawford Ltd., International and McVitie & Cadbury Cakes. The relative importance of the various activities in 1967, 1972 and 1973 was as follows:

	<u>1967</u>	<u>1972</u>	<u>1973</u>
Total Sales (£ Mns)	61.9	128.5	154.3
Percentage Distribution:			
Biscuits	78.4	64.2	62.5
Other foods	14.6	21.3	21.8
D.S. Crawford	4.6	7.5	6.6
Overseas & Exports	2.4	7.0	9.1

Thus, biscuit sales, produced at ten factories, are becoming relatively less important in terms of United Biscuits' total business, despite the fact that they doubled in value (at current prices) between 1967 and 1973.

5.6: It is worth noting that the Foods Division is responsible for sales of own label biscuits, cakes, crisps and nuts for such multiples as Marks & Spencer, Tesco, Sainsbury, International, Waitrose and Pricerite, as well as the voluntary groups selling under the Spar Vivo, V.G., Mace and Wavy Line symbols. It is said to account for 31 per cent. of the own-label biscuit market as well as 65 per cent. of the own-label crisp market, while all United Biscuits sales through own-label were expected to be around £20 millions in 1974.

5.7: The financial results of United Biscuits (Holdings) Ltd. during the 1968-73 period as shown in its annual reports were as follows:

United Biscuits (Holdings) Ltd.

	£ Millions					
	1968	1969	1970	1971	1972	1973
Turnover	76.7	83.2	95.2	107.2	128.5	154.3
Trading Profit (pre-tax)	6.0	5.4	6.0	7.8	10.2	12.0
Retained Profit	-0.6	0.5	2.2	1.1	2.7	3.1
Net Assets	46.5	47.2	51.8	53.4	58.9	71.3
Trading Profit (pre-tax) as % of net assets	12.8	11.4	11.6	14.5	17.3	16.7

5.8: Finally, about 91 per cent. of the 1973 turnover represented sales in the United Kingdom, 6 per cent. in the rest of Europe and the remaining 3 per cent. elsewhere in the world, with direct exports amounting to 45 per cent. of overseas business.

Associated Biscuit Manufacturers Ltd.

5.9: The Associated Biscuit Manufacturers Ltd. was registered towards the end of 1921 to amalgamate Huntley & Palmer Ltd. and Peek, Frean & Co. Ltd. Its major acquisition as far as biscuits manufacturing is concerned occurred in 1960 when it absorbed W. & R. Jacobs (Liverpool) Ltd. In 1967 it sold the business carried on by Meltis Ltd. to Chocolat Tobler Meltis Ltd., in which ABM Ltd. took a 50 per cent. interest. Following an agreement with the Swiss firm Interfood SA, Chocolat Tobler Meltis acquired the whole of the equity of Suchard Chocolate Ltd. with effect from the beginning of 1974. ABM's stake in Chocolat Tobler Meltis Ltd. being reduced to 40 per cent. Furthermore, at the end of 1972, ABM Ltd. acquired O. P. Chocolate Ltd., which included among its subsidiaries, Hunter & Roberts Ltd., Caxton Chocolate Co. Ltd. and Novelty Chocolates Ltd. Another subsidiary of long-standing is Huntley Bourne & Stevens Ltd., manufacturers of tin boxes, packaging materials and light engineering products.

5.10: In 1973, the total numbers employed by ABM Ltd. in the UK was about 11,500, of whom, 9,500 represented the labour-force of Associated Biscuits Ltd. at four factories. Out of ABM's total sales of £91.3 millions in 1973, the UK companies' share was two-thirds, as compared with their 70 per cent. contribution to the total trading profit of £6.2 millions. The overseas interests of ABM Ltd. comprise biscuit manufacturing in Canada, India and Australia, as well as selling agencies in the USA, Belgium, Malaysia and Singapore.

5.11: The financial results of ABM Ltd. for the 1968-73 period, as shown in the annual company accounts, are as follows:

Associated Biscuit Manufacturers Ltd.

	£ Millions					
	1968	1969	1970	1971	1972	1973
Turnover	49.0	51.8	55.3	58.9	73.4	91.3
Trading Profit (pre-tax)	2.5	2.0	2.2	3.1	5.4	5.9
Retained Profit	0.3	-	0.2	0.7	2.1	1.7
Net Assets	25.6	25.8	26.0	26.9	32.8	46.7
Trading Profit (pre-tax) as % of net assets	9.8	7.8	8.5	11.5	16.5	12.6

Cadbury-Schweppes Ltd.

5.12: A general description of the development of Cadbury-Schweppes Ltd. was included in Part 1 of this Study (p.82). The biscuit manufacturing activities were wholly within the interests of Cadbury Bros. Ltd. at the time of its merger with Schweppes Ltd. in 1969, and constituted only a small part of the new company's turnover. The manufacture and sales of biscuits as well as chocolate and confectionery comes within the scope of the Confectionery Group, which had world-wide sales of nearly £230 millions (out of a total of over £555 millions) in 1974.

Rowntree Mackintosh Ltd.

5.13: A general description of Rowntree Mackintosh Ltd.'s activities is to be found in Part 1 of this Study (p.89), which mentions its 16 per cent. holding in Associated Biscuit Manufacturers Ltd. Its own biscuit manufacturing interests are represented by Gray Dunn & Co. Ltd. and Hill Biscuits Ltd., as well as the Rowntree lines. Some chocolate biscuit lines of the "snack" type, such as Kit Kat, fall within the scope of the Confectionery Division, but for the most part, biscuits come under the Grocery Division. A sales breakdown by Division is not given in the annual company accounts, but the total sales of Rowntree Mackintosh Ltd. in 1974 amounted to £252 millions, out of which only 55 per cent. represented UK business, with 20 per cent. of the remaining 45 per cent. being sales to other EEC countries.

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