

# The OC&C Grocer Index 2007

Annual review of the UK's top 150 food and drink companies

## THE SQUEEZE IS ON

'Absolutely hellish' commodity prices are racking up the pressure on food manufacturers' margins. The Grocer reports.



OC&C Strategy Consultants

OC&C Strategy Consultants is a global consulting firm with extensive expertise in the food and drink sector.

Clients include leading manufacturers, primary producers, retailers and investment institutions. The firm advises on group-level and business unit strategy, profit improvement and mergers and acquisitions.

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Sales are soaring. Up 8.7% on average. But in the boardrooms of the UK's food and drink manufacturers, a case of the jitters has set in. After a 10-year growth in profit margins, last year they declined from 8.6% to 8.4%. This may sound like a small figure, but with less than half the 150 companies in the OC&C/Grocer 150 index improving margins, and the number of loss makers growing from seven to 12, "these are signs that a broader squeeze is on" says Luke Jensen, head of consumer and retail at OC&C Strategy Consultants.

A number of worrying factors are now at play. The first is interest rates. After a long period of low inflation and low interest rates, the recent hikes have started to hit home. And though food retail has been more resilient than most, supermarkets, led by Asda, and quickly followed by Tesco, Sainsbury's and Morrisons, have promised to do their bit to help. While promising that the cuts will be self-funded, supermarkets are sure to look to food and drink manufacturers for support.

At the same time, after a 10-year decline in the multiples' profit margins, they are starting to close the gap that had opened up (see graph, Operating profit margins). With Morrisons and Sainsbury's both promising to return margins to a respectable level, further tough negotiations can be expected.

But the biggest factor in the current squeeze is commodity prices. Prices for grain, wheat, dairy, edible oils and tea have all risen substantially. Bread wheat delivered to the north west this month is trading at £150 per tonne, a 50% increase since last August; while one coffee buyer said the price of coffee had risen 50% in the past four months alone.

This has not prevented sales increasing for commodity companies. Turnover growth was up 11.3% on average. But margins are plummeting. The biggest commodity-based manufacturers – those with turnover greater than £500m – saw operating margins fall from 8.1% to 5% (see p4). And the rising price of raw materials has already hit two of the biggest commodity players, ABF (no2 in the table on p3) and Tate & Lyle (no3). Their profits dropped 22.4% and 61% respectively.

"Both ABF and Tate & Lyle's performances in the past year highlight the risks that commodity companies face," says Jensen. "They were both hit

hard by the change in the EU sugar regime, which forced them both to take heavy exceptional charges. This blow more than offset the growth of Splenda for Tate & Lyle. As for ABF, its growth was mainly driven by Primark, its one business outside the food sector."

Smaller commodity-based manufacturers have been even harder hit, with margins falling from 2.8% to 2.4%.

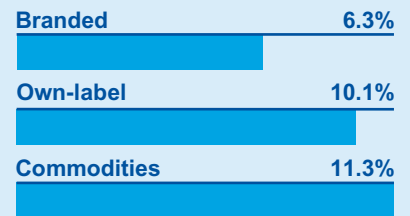
There are many reasons why raw material prices are going up, but essentially they boil down to one of soaring demand coupled with shrinking supply. "Demand has increased because world markets are being stimulated by economic and population growth in India and China," says retail analyst Clive Black at Shore Capital. "That, combined with an Australian drought, poor 2006 harvests in the northern hemisphere and a drive for biofuels in the US has created shorter supply, which means prices have gone up."

The cost of raw material prices is hitting branded and own label manufacturers too. Nestlé, Northern Foods and Unilever have all spoken publicly about the difficulties higher costs are causing. Coupled with soaring energy costs, input costs have increased by 9.5%, more than twice the 4.2% rate of food prices in the past year (see table, Rising costs). The strength of the pound may have softened the blow until now, but the need to shift costs on to consumers is growing. "We expect continued cost pressures," says a Unilever spokesman. "This may result in manufacturers needing to be more aggressive, pricewise, in order to recover these costs in the future."

Of course, whether retailers accept higher prices is another matter. "Multiple retailers are pretty tough on us," says Jonathan Grant-Nicholas, group communications director at own-label specialist Greencore. "It's up to us to be just as decisive and professional with retailers and with our suppliers." Manufacturers have to learn to say no if retailers get too pushy, he says. "We are not prepared to make a product at a loss out of sentiment. If someone else wants to, then fine."

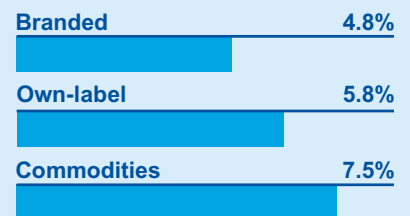
But Jensen believes supermarkets will be reluctant to accept higher prices: "While some costs have been passed on to the consumer via growing retail prices, recent price cuts announced by the supermarkets will result in a further squeeze on manufacturers."

### Turnover Growth All companies



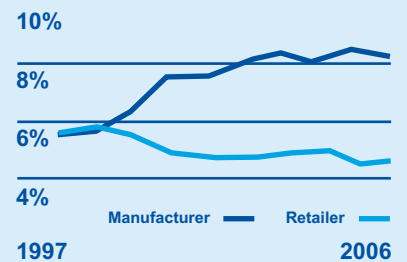
Sales were up 8.7% overall, with commodity-based food manufacturers seeing the fastest growth.

### Turnover Growth Companies < £500m



Smaller companies struggled to match the growth rates of larger food manufacturers.

### Operating Profit Margins



The gap that has developed between the manufacturers and the multiples is closing...

### Rising Costs



...While input costs are rising much more rapidly than retail prices.

"And, if the Competition Commission inquiry into the groceries market results in a slowdown in the store expansion plans of the major chains, that will inevitably mean increasing pressure to drive profit from suppliers and negotiate even harder with them," Jensen adds.

So who is best placed to survive in the new environment? As OC&C's analysis shows, big is definitely better. Sales growth for sub-£500m companies was lower across the board (see table p1); and while big branded and big own-label manufacturers grew both their operating profit margins (see p4) and their return on capital employed (see p5), smaller branded and smaller own-label companies saw a decline. Significantly, only one small company – confectionery manufacturer Dunhills – makes it into our list of the top 10 best operating profit margins (see p6).

Having strong brands is also key. The UK market may have one of the highest levels of own-label penetration and quality in the world, but the best margins are consistently achieved by iconic, quality brands such as Wrigley, Tropicana, HP Foods, Weetabix and Cadbury Schweppes.

The key is to play to your strengths, says Alexandra MacHutchon, UK communications manager at Wrigley, which achieved an operating margin of 29.2% on profits of £62.6m and with a ROCE of 76.3%. She lists those strengths as "historical know-how, understanding of the market, quality of products and trusted brands."

The benefit of being a branded player is bargaining power – the ability to cash in on a particular product's 'must-stock' status. But even Wrigley is being challenged. Cadbury Schweppes has this year launched Trident and has already gained a significant market share.

The own-label sector has less bargaining power, but has nevertheless seen a slight increase in margins, from 4.3% to 4.9%. Best placed, once again, are the bigger own-label companies.

"Big own-label companies seem to be finally getting their house in order," says Jensen, "with significant jumps in profit at Bakkavör and Northern Foods, although Uniq is still in the doldrums."

Bakkavör, whose profit grew 67.4% to £116.3m on turnover up 68.8% to £1.22bn, has set a gold standard for

performance in own-label, achieving nearly double the operating margin of the sector (9.5% vs 4.9% as a sector average), with ROCE reaching nearly 40%. It has achieved this through a combination of scale – with the 2005 acquisition of Geest, and the purchase of Hitchen Foods – successful integration, and focus on growth markets. "We will continue to identify and act on opportunities that will help us grow and add to our portfolio," says Bakkavör CEO Ágúst Gudmundsson. "The fresh prepared foods market in western Europe is expected to grow by 20% in the next four years and by 30% in China and we are well positioned to benefit."

For the first time, acquisitions and restructuring are being led by private equity players, and they are having a significant impact on the market. There were 21 deals worth more than £20m last year – only three more than the previous year – but the value of those deals was up an incredible 277% from £1.8bn to £6.8bn.

As well as bringing cash to the table, private equity companies have renewed focus on efficiency (see p4). And their ruthless approach has coincided with many trade buyers reviewing their portfolios and selling off peripheral assets. There has been plenty of restructuring at large companies such as Unilever and Northern Foods, and more changes are expected across the rest of the sector.

One company well down that track is Premier Foods, which pulled off the biggest deal of the year with the £1.92bn acquisition of RHM. While the two companies still appear separately in the index as the deal was consummated after the year-end, the acquisition will catapult Premier Foods to fourth place in OC&C/Grocer 150 Index. It is effectively the number one food manufacturer in the UK as the top three all include significant sales from international operations. Scale is only part of the formula that CEO Robert Schofield has employed. As this week's 650 job cuts at RHM proved, restructuring is essential in order to improve ROCE. Against an industry average up from 19.6% to 20.4%, Premier's ROCE increased from 9.5% to 32.3%, which enabled Schofield to achieve his reverse takeover.

But the key is NPD. Schofield knows that in order to make RHM's assets work harder he will need to demonstrate the

same levels of innovation that he has achieved in recent years at Premier. The best-known example of this brand extension is Branston, whose sales have increased from £22m in 2002 to £52m in 2006. But this innovation has been across a number of brands. Quorn (up 13% year-on-year), Loyd Grosman (up 25%), Hartleys (up 7%) and Ambrosia (up 6%) have all been reinvigorated. "I don't wait for market research," says Schofield. "If the food technicians create a recipe that we all believe in, I support that." He has promised a raft of NPD from Campbell's soups later this summer.

Another company that has modernised an 'old-fashioned' brand is Whitworths. Constrained by £35m of debt, Whitworths was losing over £1m per annum on turnover of £175m. But private equity firm Gresham Trust backed an MBO in 2001 and the team have turned the company around through a skilful repositioning. The market for the company's traditional dried fruits and other cooking ingredients had shrivelled up by the late 1990s as customers headed for shop-made products instead. So it switched to marketing its products as healthy snacks and targeted health-conscious consumers with dried fruit and nut, and the children's market in particular. After an initial drop in turnover, sales are now recovering and were up 36.7% to £98.9m last year, although profit margins remain tight. It has since been sold to private equity company European Capital after an £86m deal last October.

Repositioning has worked for many other players, too. "You can't have all your eggs in one basket," says Grant-Nicholas at Greencore, which has bought three Hazlewood businesses in the past year. "You have to move in a different direction to be in the right area. We have moved into chilled, sauces and WeightWatchers, which is paying off, and we ensure not all our products are in areas that are price-sensitive."

Developing a more premium offer has also helped many companies, offsetting the deflationary pricing that has hit categories such as biscuits and bread. OC&C analysis shows that in the biscuit market, for example, like for like price deflation of 2% was offset by a 3% increase thanks to new product development, enabling category average unit pricing to increase by 1% overall. But the most startling transformation has come in the bread category. In 1999, Hovis, Warburton and Kingmill accounted for 34% of the UK bread market.

## Top 150 Grocer Index

Company & Ranking	Ownership	Annualised Turnover (£m)		Turnover Growth (%)	Operating Profit (£m)		Profit Growth (%)	Operating Margin (%)		Return On Capital (%)		Main Activity
		Current	Previous		Current	Previous		Current	Previous	Current	Previous	
1 Cadbury Schweppes	PLC	7,447.4	6,449.7	15.5	1,537.2	1,108.0	38.7	20.6	17.2	54.0	39.3	B
2 Associated British Foods	PLC	6,012.5	5,637.4	6.7	466.3	600.7	-22.4	7.8	10.7	11.9	16.0	C
3 Tate & Lyle	PLC	3,720.0	3,339.0	11.4	120.0	308.0	-61.0	3.2	9.2	5.9	16.9	C
4 Grampian Country Foods Group	Family	1,851.9	1,709.1	8.4	26.3	30.2	-13.0	1.4	1.8	6.8	9.0	O/L
5 Nestlé Holdings UK	UK sub	1,850.1	1,752.7	5.6	147.2	154.0	-4.4	8.0	8.8	12.3	13.2	B
6 RHM*	Listed	1,563.6	1,531.7	2.1	143.9	91.3	57.7	9.2	6.0	24.6	16.5	B
7 Mars UK	UK sub	1,498.0	1,531.5	-2.2	188.3	197.2	-4.5	12.6	12.9	48.4	51.1	B
8 Coca-Cola Enterprises	UK sub	1,398.6	1,396.6	0.1	201.1	204.8	-1.8	14.4	14.7	42.5	50.0	B
9 Dairy Crest Group	Listed	1,355.2	1,260.6	7.5	49.2	80.2	-38.7	3.6	6.4	10.0	16.5	C
10 United Biscuits Group	PE	1,270.4	1,213.4	4.7	119.1	87.7	35.8	9.4	7.2	18.2	13.9	B
11 Bakkavör Group	Other F/O	1,219.2	722.1	68.8	116.3	69.4	67.4	9.5	9.6	39.9	30.2	O/L
12 Northern Foods	Listed	1,209.2	1,442.2	-16.2	57.9	18.4	215.3	4.8	1.3	12.6	3.0	O/L
13 Arla Foods UK	Other F/O	1,146.6	1,088.7	5.3	19.4	40.4	-52.0	1.7	3.7	6.1	13.1	C
14 Premier Foods**	Listed	959.4	789.7	21.5	101.4	99.6	1.8	10.6	12.6	32.3	9.5	B
15 Tulip	Other F/O	929.8	270.9	243.2	37.7	5.2	619.1	4.1	1.9	8.6	2.0	C
16 Archer Daniels Midland Int	Other F/O	863.2	903.4	-4.5	36.2	24.0	50.8	4.2	2.7	6.1	3.0	C
17 Unilever UK Foods <sup>1</sup>	UK sub	841.1	889.6	-5.4	140.8	127.0	10.8	16.7	14.3	114.7	100.5	B
18 Kellogg UK	UK sub	835.4	759.8	9.9	74.8	112.1	-33.3	9.0	14.8	8.8	13.1	B
19 Uniq	Listed	825.1	879.0	-6.1	(11.5)	(15.8)	N/A	-1.4	-1.8	-4.4	-7.8	O/L
20 WM Morrison Produce	Listed	800.2	475.4	68.3	87.4	44.5	96.3	10.9	9.4	81.4	91.9	O/L
21 Prince	Other F/O	763.1	661.4	15.4	37.9	35.3	7.3	5.0	5.3	28.5	30.0	O/L
22 Britvic	Listed	679.8	700.1	-2.9	60.5	76.8	-21.3	8.9	11.0	26.1	32.1	B
23 Kraft Foods UK	UK sub	653.0	667.2	-2.1	60.2	41.3	45.6	9.2	6.2	26.5	16.7	B
24 Unilever UK Ice Cream <sup>2</sup>	UK sub	627.0	657.4	-4.6	57.8	47.3	22.2	9.2	7.2	38.9	29.3	B
25 HJ Heinz Company <sup>3</sup>	UK sub	573.0	563.9	1.6	114.1	120.8	-5.5	19.9	21.4	24.0	31.1	B
26 Robert Wiseman Dairies	Listed	570.1	490.5	16.2	27.5	26.1	5.3	4.8	5.3	19.9	19.8	C
27 Gands UK	Other F/O	569.2	461.6	23.3	13.7	12.4	10.8	2.4	2.7	10.2	12.3	O/L
28 Anglo Beef Processors	Other F/O	542.0	490.7	10.5	5.9	5.2	12.9	1.1	1.1	6.0	5.4	C
29 Young's Seafood	PE	521.6	498.9	4.6	33.1	20.3	62.8	6.3	4.1	N/A	30.6	B
30 Gerber Foods Holding	PE	498.5	448.7	11.1	24.1	27.6	-12.7	4.8	6.2	16.0	18.9	O/L
31 Bernard Matthews	Family	481.2	451.3	6.6	27.0	39.9	-32.3	5.6	8.8	14.8	23.1	B
32 Samworth Brothers	Family	463.3	411.7	12.5	36.9	32.9	12.3	8.0	8.0	26.1	25.3	O/L
33 Kerry Foods	Other F/O	459.7	437.4	5.1	21.5	32.5	-34.0	4.7	7.4	21.4	32.9	B
34 Müller Dairy UK	UK sub	443.6	389.3	14.0	32.9	41.7	-21.1	7.4	10.7	18.7	27.8	B
35 Cranswick	Listed	441.2	318.5	38.5	34.1	24.5	39.2	7.7	7.7	39.1	36.3	C
36 Milk Link Holdings	Family	434.9	454.2	-4.2	4.9	8.7	-43.5	1.1	1.9	3.3	8.3	C
37 NZMP	Other F/O	371.2	427.0	-13.1	8.3	5.8	42.2	2.2	1.4	37.8	34.5	C
38 Fresca Group	Family	360.9	N/A	N/A	8.2	N/A	N/A	2.3	N/A	16.0	N/A	C
39 Warburtons	Family	322.7	292.1	10.5	49.1	36.9	33.1	15.2	12.6	25.3	22.0	B
40 Boparan Holdings	Family	315.3	325.9	-3.2	23.8	20.0	19.2	7.6	6.1	93.8	88.2	O/L
41 Dawn Meats UK	Other F/O	313.6	305.5	2.7	(3.1)	1.9	N/A	-1.0	0.6	-4.6	3.3	C
42 McCain Foods GB	UK sub	291.2	300.1	-3.0	24.1	39.6	-39.1	8.3	13.2	19.1	29.8	B
43 Burton's Foods	PE	287.9	296.0	-2.7	3.0	(3.0)	N/A	1.0	-1.0	2.5	-2.2	B
44 Icelandic Group UK	Other F/O	286.5	173.8	64.9	6.1	6.6	-7.6	2.1	3.8	12.2	15.8	C
45 Faccenda Holdings	Family	265.3	268.0	-1.0	4.9	3.7	29.7	1.8	1.4	5.1	4.2	O/L
46 Weetabix	PE	255.5	246.1	3.8	54.9	52.1	5.4	21.5	21.2	16.8	17.7	B
47 Tata Tea GB	Other F/O	255.4	233.8	9.2	39.5	36.2	9.1	15.5	15.5	107.7	87.4	O/L
48 The Real Good Food Company	Listed	250.8	117.7	113.2	13.0	4.7	177.8	5.2	4.0	24.5	16.5	O/L
49 Neerock	Listed	250.2	156.2	60.2	10.8	7.4	44.9	4.3	4.8	68.9	90.3	O/L
50 Sun Valley Foods	Other F/O	218.3	210.9	3.5	5.3	(0.8)	N/A	2.4	-0.4	8.4	-1.1	O/L

\* Now owned by Premier Foods \*\* Does not include RHM sales <sup>1</sup> Unilever Bestfoods accounts used. <sup>2</sup> Includes Unilever's frozen foods division, since sold.

<sup>3</sup> Has subsequently sold part of the business, including John West.

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

## Rule No.1: Surviving the squeeze – Fully flex your assets

Private equity has entered the food and drink market in a serious way, with a raft of big money acquisitions in 2006.

The number of deals involving private equity rose from two in 2005 to seven last year in the UK, but it is the value of the new deals that is striking. More than half (50.7%) of the £6.8bn spent on acquisitions came from private equity compared with just 2.3% in 2005. Two of the biggest deals involving private equity were worth more than £1bn.

The money men have swooped, in particular, on frozen. Brands such as Birds Eye, Findus and Heinz's frozen divisions have all fallen into the hands of private equity firms in the past two years, who hope that by acquiring several players in the same sector, while stripping out costs, they can create stronger market positions.

“Unilever’s frozen foods division was an “ugly duckling” prior to the sale.”

**Luke Jensen**

Director, OC&C Strategy Consultants.

Unilever’s frozen foods division was an “ugly duckling” prior to the sale, says Luke Jensen at OC&C, but he expects owner Permira to take it to a new level after spending £1.16bn last December.

Of course, the private equity boys may flash the cash, but there’s no reason why companies can’t learn a lesson and restructure. Businesses need to be fully flexible asset workers if they are going to thrive, and selling off peripheral assets, rationalising manufacturing and outsourcing non-core functions are high on the agenda.

Large food groups still to complete restructuring need to get their skates on or the money men will be looking to step in once more, says Jensen.

“Private equity firms have large funds available and a growing knowledge of the food and drink industry so the big deals will continue to flow,” he predicts.

“Those companies that have already gone through the process of restructuring are reaping the rewards.”



## The Biggest Deals

Target	Bidder	Value (£m)	Private Equity
RHM	Premier Foods	1,919	x
United Biscuits	Blackstone PAI	1,610	✓
Unilever (Frozen Foods)	Permira	1,164	✓
Campbell Soup	Premier Foods	460	x
MW brands	Lehman Bros	290	✓

## Operating Profit Margins

### All companies

Branded 2006	12.9%
2005	11.7%
Own-label 2006	4.9%
2005	4.3%
Commodities 2006	4.5%
2005	6.9%

### Companies > £500m

Branded 2006	14.4%
2005	12.8%
Own-label 2006	4.5%
2005	3.1%
Commodities 2006	5.0%
2005	8.1%

### Companies < £500m

Branded 2006	8.4%
2005	8.5%
Own-label 2006	5.3%
2005	5.6%
Commodities 2006	2.4%
2005	2.8%

Commodity-based manufacturers have been hit hard, with margins down by 2.4 percentage points.

Big and branded is the place to be with that segment further widening its profit leadership.

Small companies have seen margins falling across the board.

## Rule No.2: Surviving the squeeze – Get in on the health trend

Move over Pot Noodle. This year's top performers have responded to consumers' growing desire for healthier lifestyles with a flurry of new products.

An estimated 60% of all new food and drink products claim to be organic, fresh or natural. In the meantime, developments in the instant/microwave sector are becoming a thing of the past as manufacturers adapt to new trends.

"The decline in the instant/quick market is startling," says Luke Jensen of OC&C. "The rise of organic and generally healthy products shows that shoppers are turning away from eating quickly and poorly in favour of carefully chosen meals that either require longer preparation or cost more – or both. This creates a whole new set of opportunities for manufacturers."

The only limiting factor at the moment appears to be supply shortages. Successful organic companies have tended to be small but this may change.

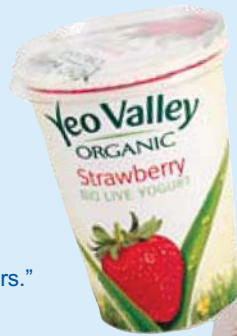
"Organic still makes up less than 2% of the whole market but has huge potential to grow. It is changing from a niche market to a general requirement."

Yeo Valley has thrived from tapping this trend, with sales up 35% and profit up 56%. Its core product is still yoghurt but it has expanded into areas such as cheese, butter, ice cream and milk. Timing was key in growing the company's

range, says marketing director Ben Cull, who believes customers were ready for the organic market to move into new categories.

"Years ago the words organic or vegetarian were associated with slightly strange people," he says. "Now they are issues that have become fashionable. Even children are asking parents to buy organic and ethical products."

"We set out to provide organic excellence for the masses, not just something for a select few who can afford to pay more. We have always taken the long-term view and had confidence in our product and the potential to grow in the organic market."



### A Natural Revolution

Claims	2001 %	2006 %
Natural/fresh	23.1	23.6
Healthy	15.5	23.3
Organic	5.3	12.6
Vegetarian	7.6	6.9
Environmental	1.0	5.1
Instant/quick	11.1	2.8
Other	36.3	25.6

NPD making claims to be 'healthy', 'organic' or 'environmentally friendly' has risen markedly in the past five years. This table also highlights the massive move away from instant/quick products.

### ROCE

#### All companies

Branded 2006	29.7%
2005	24.9%
Own-label 2006	17.6%
2005	15.3%
Commodities 2006	9.6%
2005	14.0%

#### Companies > £500m

Branded 2006	34.6%
2005	27.3%
Own-label 2006	18.5%
2005	11.7%
Commodities 2006	9.5%
2005	14.2%

#### Companies < £500m

Branded 2006	17.0%
2005	17.9%
Own-label 2006	16.8%
2005	18.7%
Commodities 2006	10.1%
2005	11.8%

**Sweating** – growing return on capital employed to 20.4% is a sure sign assets are being worked.

**Sorted** – big really is beautiful when it comes to ROCE, but commodities are still in the doldrums.

**Dropping** – smaller companies, across the board, saw a decline in ROCE.

### Rule No.3: Surviving the squeeze – Make brands work harder

Innovation and extension are the best way to reinvigorate brands in mature categories.

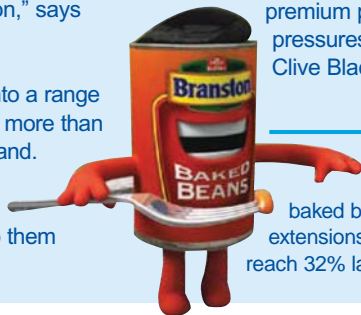
Take Premier Foods. Its greatest success has come from stretching established brands into new areas.

After redesigning the core Branston pickle packaging and introducing new varieties, such as smooth or chunky, Premier Foods has moved seamlessly into new categories, most notably baked beans.

Fuelled by such extensions, Branston sales increased from £22m in 2002 to £52m in 2006. "Premier Foods set the standard with Branston," says Luke Jensen of OC&C.

"It turned a pickle brand into a range of sauces and in doing so more than doubled the size of the brand.

"With its new acquisitions it can drive innovation into them and grow even further."



Innovation is as much about adding value as growing volume. The classic example is the repackaging of Heinz Tomato Ketchup, which addressed both customer need – an easier way to get all the sauce out of the bottle – and gained a price premium.

The old bottle costs shoppers the equivalent of 18p per 100g, while they pay 25p per 100g for the new shape.

The trend for trading up is a sign that food companies willing to develop more premium products will survive the pressures of rising costs, says Clive Black at Shore Capital.

#### Brand extension

Premier Foods' Branston baked beans and other brand extensions saw return on capital reach 32% last year.



#### Brand innovation

Heinz Tomato Ketchup's Top Down bottle is a classic example of how a twist in presentation can transform profits.

Bread is a good example: a sector that has seen an innovative turnaround through premiumisation, with significant share gain by the leading brands. The days of the 7p loaf are now long gone.

Premium loaves costing more than £1 and changes in loaf sizes have modernised the market and led to companies such as Warburtons growing profits.

"Health, convenience and premiumisation are three major factors," says Sarah Miskell, Warburtons' category director, "with the largest growth in the grains and seeded sector, up 22% year-on-year."

### Highest Sales Growth

Company	Sales growth (%)	Total sales (£m)
Tulip	243.2	929.8
Real Good Food Company	113.3	250.8
Innocent	100.1	75.5
Farmers Boy	70.1	213.8
Bakkavör	68.8	1219.2
WM Morrison Produce	68.3	800.2
Icelandic Group UK	64.9	286.5
B Brooks	63.9	86.9
Neerock	60.2	250.2
Cranswick	38.5	441.2

### Highest Operating Profit Margins

Company	Profit margin (%)	Operating profit (£m)
Wrigley	29.2	62.6
Tropicana	27.1	37.7
HP Foods	24.6	32.6
Weetabix	21.5	54.9
Cadbury Schweppes	20.6	1,537.2
HJ Heinz	19.9	114.1
Quaker Oats	19.5	24.9
Unilever Bestfoods	16.7	140.8
Dunhills	16.5	12.2
Tata Tea	15.5	39.5

### Highest ROCE

Company	Current (%)	Previous (%)
HP Foods	172.1	161.9
Innocent	115.6	129.4
Unilever Bestfoods	114.7	100.5
Tata Tea	107.7	87.4
Boparan Holdings	93.8	88.2
WM Morrison Produce	81.4	91.9
Wrigley	76.3	69.5
Nutricia	70.8	104.0
Neerock	68.9	90.3
Wight Salads	63.3	52.0

#### continued from page 2

By 2006, thanks to innovations such as 'Crusty White' and 'White Wholemeal', as well as revitalised packaging (Hovis baked bean wrapper), new bread sizes, and increased ad spend, the three leading brands accounted for 56% of the market.

The biggest trend NPD-wise, however, has been the move towards healthier products. It has led to phenomenal growth for companies with a health ethos, such as Innocent and Yeo Valley.

Innocent makes it into the index for the first time after doubling sales to £75.5m with an operating profit of £9.1m and an impressive ROCE of 115.6%, achieved

thanks partly to its outsourcing of manufacturing to third parties (though it retains ownership of the juicing machines), and partly to its continuing innovation. The latest has seen the launch of its range of kids' smoothies, which has widened its demographic appeal. "Previously children's drinks were full of E-numbers and people thought they had to be cheap. They don't," says Jamie Mitchell, MD at Innocent UK. Innocent enjoys a 62% share of the smoothie market.

Organic, too, has proved an important trend for this year's most successful companies. The market, which was last year valued at £1.3bn, is predicted to

grow to £2bn by 2010, but as Yeo Valley (see p5), Rachel's Organic, Plum, Alpro and other small manufacturers have profited from the trend, the largest companies are still missing out, says Jensen: "Bigger manufacturers have relied too heavily on purchasing smaller companies where it is difficult to maintain ethical standards. They need to look at increasing their organic ranges if they want to avoid the squeeze over the next 12 months."

The only blot on the landscape are supply constraints. With demand in the organic market once again exceeding supply, the commodity squeeze is even being felt here.

## Top 150 Grocer Index

Company & Ranking	Ownership	Annualised Turnover (£m)		Turnover Growth %	Operating Profit (£m)		Profit Growth %	Operating Margin (%)		Return On Capital (%)		Main Activity
		Current	Previous		Current	Previous		Current	Previous	Current	Previous	
51 Perkins Foods	PE	218.1	353.7	-38.3	(3.0)	18.7	N/A	-1.4	5.3	-3.2	15.1	O/L
52 Wrigley Company	UK sub	214.2	220.1	-2.7	62.6	61.6	1.6	29.2	28.0	76.3	69.5	B
53 Farmers Boy	Listed	213.8	125.7	70.1	22.2	12.1	83.8	10.4	9.6	53.7	52.1	O/L
54 Meadow Foods	Family	205.7	208.2	-1.2	(1.6)	1.3	N/A	-0.8	0.6	-7.8	5.8	C
55 James Finlay	Family	203.9	185.2	10.1	15.0	18.9	-20.8	7.4	10.2	8.5	12.0	C
56 Hazlewood Convenience <sup>4</sup>	Other F/O	196.9	224.7	-12.4	13.9	17.6	-20.8	7.1	7.8	8.5	14.9	O/L
57 Nutricia	UK sub	191.8	165.4	16.0	24.9	25.8	-3.6	13.0	15.6	70.8	104.0	B
58 HJ Heinz Frozen & Chilled Foods	PE	190.2	179.2	6.1	17.1	11.4	50.3	9.0	6.4	16.2	11.8	B
59 Hazlewood Grocery <sup>4</sup>	UK sub	184.1	162.1	13.6	21.1	9.8	115.8	11.5	6.0	18.4	8.7	O/L
60 The Kerrygold Company	Other F/O	183.4	179.6	2.1	5.5	5.1	6.6	3.0	2.9	15.0	16.6	B
61 General Mills UK	UK sub	178.8	165.4	8.1	7.5	6.1	24.4	4.2	3.7	9.2	7.9	B
62 Danone Waters (UK & Ireland)	UK sub	176.7	152.9	15.5	11.3	1.8	519.4	6.4	1.2	50.5	9.2	B
13 G's Group Holdings	Family	173.1	189.2	-8.5	1.4	6.1	-77.0	0.8	3.2	1.9	10.6	O/L
64 Lactalis Mcllelland	Other F/O	169.5	160.5	5.6	13.2	12.7	4.4	7.8	7.9	14.0	15.9	O/L
65 Walkers Snack Foods	UK sub	162.0	151.1	7.2	16.2	14.5	12.2	10.0	9.6	3.4	3.1	B
66 McCormick UK	Other F/O	144.6	149.2	-3.1	0.8	2.4	-66.8	0.6	1.6	0.8	2.3	B
67 Danone	UK sub	142.7	110.9	28.7	18.2	9.2	98.5	12.8	8.3	N/A	N/A	B
68 AG Barr	Listed	142.3	129.1	10.2	17.2	18.0	-4.3	12.1	13.9	21.0	21.6	B
69 Oscar Mayer	Family	140.2	159.4	-12.0	6.2	9.1	-31.6	4.4	5.7	30.7	47.3	O/L
70 Greenvale	Family	140.1	123.6	13.4	8.1	7.3	10.6	5.8	5.9	34.9	28.5	C
71 Key Country Foods	Other F/O	140.0	124.6	12.4	2.6	1.9	36.2	1.9	1.6	8.0	8.1	O/L
72 John West Foods	PE	139.9	142.8	-2.0	(0.8)	10.8	N/A	-0.6	7.6	-1.7	26.5	B
73 Cott Retail Brands	Other F/O	139.8	106.3	31.6	8.5	7.1	19.4	6.1	6.7	12.3	14.9	O/L
74 Tropicana UK	Other F/O	139.2	120.7	15.3	37.7	19.8	90.1	27.1	16.4	53.8	28.6	B
75 Richmond Foods	Listed	138.4	144.0	-3.9	17.0	13.8	22.8	12.3	9.6	26.7	25.2	O/L
76 Yeo Valley Group	Family	135.4	100.0	35.4	8.5	5.5	56.5	6.3	5.5	28.7	N/A	B
77 O'Kane Group	Family	135.4	N/A	N/A	(5.4)	N/A	N/A	-4.0	N/A	N/A	N/A	O/L
78 Dale Farm	Family	134.4	142.3	-5.6	2.3	1.2	87.1	1.7	0.9	5.0	2.7	C
79 HP Foods	UK sub	132.8	124.9	6.3	32.6	29.0	12.6	24.6	23.2	172.1	161.9	B
80 Inter Link Foods	Listed	130.4	98.1	32.9	7.6	7.1	7.0	5.8	7.3	17.4	23.7	O/L
81 Heygate & Sons	Family	129.4	128.6	0.7	4.3	6.3	-31.3	3.3	4.9	8.4	12.8	C
82 Quaker Oats	UK sub	127.9	138.9	-7.9	24.9	11.1	125.2	19.5	8.0	46.2	27.5	B
83 Berry Gardens	Family	125.8	111.6	12.7	0.7	0.7	3.3	0.5	0.6	12.5	15.0	C
84 Lipton	UK sub	124.0	115.2	7.6	0.3	0.6	-51.8	0.2	0.5	3.0	4.1	B
85 Delice de France	UK sub	120.0	109.6	9.5	3.9	4.9	-20.8	3.2	4.5	10.9	11.7	B
86 Cumbrian Holdings	Family	116.5	98.9	17.7	5.9	4.9	22.5	5.1	4.9	39.6	40.6	O/L
87 Barry Callebaut Manufacturing UK	Other F/O	116.2	108.1	7.4	1.7	2.2	-24.9	1.5	2.1	7.0	7.0	O/L
88 Produce World	Family	114.7	85.6	34.0	3.0	2.5	19.6	2.6	2.9	20.6	16.5	C
89 Ferrero UK	Other F/O	114.1	100.4	13.7	(0.3)	1.8	N/A	-0.2	1.8	-1.6	12.4	B
90 Adams Pork Products	Family	113.4	111.8	1.4	1.7	2.6	-34.5	1.5	2.3	4.3	6.9	O/L
91 Bakemark UK	Other F/O	112.6	110.3	2.1	1.9	2.8	-32.6	1.7	2.6	3.8	5.8	B
92 JW Galloway	Family	108.2	91.4	18.4	2.5	2.3	8.7	2.3	2.5	11.1	11.2	C
93 Glanbia Cheese	Other F/O	107.4	98.8	8.6	0.7	(1.3)	N/A	0.6	-1.4	2.3	-3.1	C
94 WA Baxter & Sons	Family	106.5	98.5	8.1	7.5	9.1	-17.6	7.1	9.3	16.0	21.4	B
95 CP Foods UK	Other F/O	100.4	76.8	30.7	3.4	2.3	52.2	3.4	2.9	9.6	8.9	B
96 Whitworths <sup>5</sup>	PE	98.9	72.4	36.7	3.8	2.9	31.3	3.8	4.0	28.8	22.2	C
97 Danish Crown UK	Other F/O	98.3	141.3	-30.4	1.3	1.5	-13.9	1.3	1.1	6.5	6.2	B
98 William Jackson & Son	Family	95.8	126.0	-24.0	(3.8)	4.2	N/A	-4.0	3.3	-5.1	6.3	O/L
99 Lyndale Group	Family	95.3	90.6	5.2	2.6	2.6	-2.6	2.7	2.9	19.7	20.6	B
100 Branston	Family	91.0	74.1	22.8	5.4	4.5	21.5	6.0	6.0	40.4	42.1	C

<sup>4</sup> Now acquired by Greencore. <sup>5</sup> Parent company Seckloe 260 accounts used.

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

## Top 150 Grocer Index

Company & Ranking	Ownership	Annualised Turnover (£m)		Turnover Growth %	Operating Profit (£m)		Profit Growth %	Operating Margin (%)		Return On Capital (%)		Main Activity
		Current	Previous		Current	Previous		Current	Previous	Current	Previous	
101 WT	PE	90.9	161.8	-43.8	5.0	11.2	-55.2	5.5	6.9	21.9	32.2	O/L
102 Hazlewood Conv Food Group <sup>6</sup>	Other F/O	89.1	80.0	11.5	4.0	5.0	-20.2	4.5	6.3	9.7	9.6	O/L
103 B Brooks (Norwich)	Other F/O	86.9	53.0	63.9	0.3	0.3	16.1	0.4	0.5	1.5	1.7	O/L
104 Lloyd Maunder	Family	85.1	112.8	-24.6	(5.2)	5.3	N/A	-6.2	4.7	-48.0	44.1	O/L
105 Albert Bartlett & Sons (Airdrie)	Family	84.7	84.2	0.5	6.9	9.6	-28.5	8.1	11.4	10.3	17.7	O/L
106 Marshall Bros	Family	81.1	67.1	21.0	0.7	(0.2)	N/A	0.9	-0.2	5.0	-1.2	C
107 Serious Foods	Other F/O	80.8	62.8	28.7	1.2	4.7	-74.6	1.5	7.5	7.3	34.8	B
108 Tilda	Family	79.9	75.8	5.5	2.3	1.8	26.4	2.8	2.4	4.9	4.4	B
109 Walkers Shortbread	Family	79.8	68.9	15.8	11.1	10.0	11.0	13.9	14.5	24.5	20.6	B
110 F Smales & Son	Family	77.4	76.9	0.6	0.3	0.6	-45.4	0.4	0.8	4.5	7.8	C
111 Lyons Seafoods	Other F/O	77.1	68.7	12.3	6.0	5.4	11.2	7.7	7.8	29.5	25.0	B
112 Dairy Produce Packers	Other F/O	75.8	77.2	-1.8	1.3	6.6	-80.7	1.7	8.5	2.5	14.1	C
113 Innocent	Family	75.5	37.7	100.1	9.1	4.3	111.1	12.1	11.4	115.6	129.4	B
114 Kettle Produce	Family	74.7	73.5	1.7	0.4	(0.7)	N/A	0.6	-1.0	4.5	-8.5	C
115 Dunhills (Pontefract)	Family	74.0	68.5	8.2	12.2	11.4	6.9	16.5	16.7	16.7	17.6	B
116 Finsbury Food Group	Listed	73.3	59.3	23.6	2.6	3.6	-25.7	3.6	6.0	22.0	34.9	O/L
117 GF Produce	Family	72.7	65.9	10.3	0.6	1.4	-60.5	0.8	2.1	10.6	58.7	O/L
118 Recordline	Family	72.1	80.6	-10.5	0.9	0.1	765.9	1.2	0.1	3.5	0.5	C
119 Schwan's Consumer Brands UK	UK sub	71.8	82.9	-13.3	(11.5)	4.2	N/A	-16.0	5.1	-36.1	14.2	B
120 KTC (Edibles)	Family	71.7	64.0	11.9	1.1	1.2	-11.2	1.5	1.9	5.4	6.5	O/L
121 Natures Way Foods	Family	71.0	71.6	-0.8	5.6	3.4	62.7	7.9	4.8	29.4	20.3	O/L
122 Dovecote Park	Family	70.4	57.3	22.9	2.9	2.0	42.4	4.1	3.5	28.9	26.2	O/L
123 North Downs Dairy Company	Other F/O	69.5	68.5	1.5	2.9	2.8	1.2	4.1	4.1	12.1	13.2	B
124 Bowes of Norfolk	Family	68.6	63.1	8.7	1.7	0.0	3,825.6	2.5	0.1	11.1	0.3	C
125 Headland Foods	Family	66.9	59.2	12.9	1.5	2.5	-37.9	2.3	4.2	5.6	8.2	O/L
126 Primebake Holdings	Family	66.5	N/A	N/A	2.4	N/A	N/A	3.6	N/A	N/A	N/A	O/L
127 W Jordan (Cereals)	UK sub	66.5	62.9	5.7	3.7	4.4	-15.4	5.6	6.9	16.4	20.1	B
128 Del Monte Europe	Other F/O	66.3	122.9	-46.0	1.2	0.8	50.7	1.8	0.7	0.7	0.6	B
129 S Daniels	Other F/O	65.3	57.4	13.8	5.0	2.5	101.7	7.7	4.3	23.2	14.0	B
130 Cuisine de france	Other F/O	64.6	61.1	5.8	1.0	0.9	17.4	1.6	1.4	8.6	7.7	B
131 Murray Vernon Holdings	Family	64.1	119.8	-46.5	(1.8)	1.3	N/A	-2.8	1.0	-13.7	5.0	C
132 Banham Poultry	Family	63.4	60.4	4.9	0.8	1.3	-39.3	1.2	2.1	4.0	6.6	C
133 Nichols	Listed	63.3	87.8	-27.9	7.2	4.9	45.4	11.4	5.6	30.1	14.6	B
134 Kanes Foods	Family	62.2	68.0	-8.5	7.2	6.4	13.5	11.7	9.4	22.8	23.8	O/L
135 Armaghdown Creameries	Other F/O	62.1	61.9	0.3	0.4	0.4	-11.6	0.6	0.7	2.8	3.2	C
136 Country Style Foods	Family	61.7	54.5	13.2	2.6	1.4	80.5	4.2	2.6	15.5	6.8	O/L
137 Worldwing Investments	Family	61.1	55.0	11.2	2.6	1.7	55.0	4.2	3.0	14.4	9.4	B
138 Wight Salads	Family	60.9	47.1	29.4	1.8	1.0	82.4	2.9	2.0	63.3	52.0	C
139 Buckingham Foods	PE	60.6	58.2	4.2	0.9	4.8	-80.8	1.5	8.2	11.5	47.8	O/L
140 Direct Table Foods	Other F/O	58.2	74.6	-22.0	2.8	2.7	4.1	4.8	3.6	17.8	24.3	O/L
141 Bettys & Taylors Group	Family	57.9	53.3	8.6	6.7	6.6	1.9	11.5	12.3	12.7	13.7	B
142 Zetar	Listed	57.9	N/A	N/A	5.1	N/A	N/A	8.7	N/A	N/A	N/A	O/L
143 Bel UK	Other F/O	57.7	54.6	5.8	1.4	1.2	17.0	2.5	2.3	13.2	11.4	B
144 S&A Foods Group	Family	56.6	62.4	-9.2	1.3	(2.6)	N/A	2.3	-4.2	7.6	-15.0	O/L
145 Cheale Meats	Family	56.3	50.6	11.2	(1.5)	0.1	N/A	-2.7	0.3	-9.1	0.9	C
146 Glisten	Listed	55.6	41.2	35.0	5.3	3.5	51.3	9.6	8.5	33.0	33.3	O/L
147 Orchard House Foods	Family	54.4	48.7	11.8	2.7	1.7	62.2	5.0	3.5	25.1	17.1	O/L
148 Elisabeth The Chef	Family	53.8	51.7	4.1	1.0	1.2	-18.2	1.8	2.4	9.0	18.8	O/L
149 Peter's Food Service	Family	53.3	90.3	-41.0	1.3	0.8	54.6	2.4	0.9	15.6	10.2	B
150 Alpro	Other F/O	53.0	44.0	20.5	7.4	5.3	39.6	13.9	12.0	22.9	19.5	B

<sup>6</sup> Now acquired by Greencore.

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