FOOD manufacture

Retailers to fuel "unprecedented" consolidation among processors

By Rick Pendrous, 13th June 2008

Retailer pressure will remain the major driver behind consolidation of food and drink companies, with rising raw material costs and reduced credit availability compounding issues, according to a new report.

The Food Sector Consolidation Index 2008 report produced by Axis Management Consulting for Grant Thornton and Barclays claims 450 companies failed and over 260 were acquired over two years. This compares with 150 receiverships and over 200 deals in a similar report produced by Axis in 2006.

The latest report predicts an "unprecedented level of consolidation" over the next two to three years. Only those companies which are able to respond to the needs of their demanding retail customers are likely to survive, it suggests. Those sectors worst hit would be ones that are still most fragmented such as meat, fish and poultry; fruit and vegetables; bread and morning goods; and specialist soft drinks, it says.

"In these very fragmented sectors there are so many undifferentiated, relatively low value added smaller suppliers," said Axis md Jonathan Smith. Smith added that the major multiples wanted to do business with fewer, more efficient players; ones able to meet their needs for high levels of innovation, low cost and consistency of supply. For fruit and vegetables this meant multi-product suppliers with all-year-round supply.

'Portfolio adjustment', in which larger companies acquired small innovative firms to help "position them to a trend" such as organic or healthy eating, would also drive consolidation, said Smith. But of all the macroeconomic influences at play, retailer pressure was top of the list, he added.

"The really predominant factor is the need for suppliers to meet the needs of major retailers," said Smith. "These retailers continue to want to reduce their number of suppliers. They obviously need to see cost efficiencies out of their suppliers." He added that raw material price rises and reduced credit availability "just make the environment that bit harsher".

"In some categories it is much more sorted out and you could point to things like breakfast cereals where you have a handful of suppliers: quite differentiated, lots of strong brands, lots of innovation," said Smith. "And then you go to the opposite extreme and fresh produce and meat, fish and poultry. You've got numerous small guys, many of them carbon copies of each other, not bringing anything different to the market place and being of a scale that isn't best economically."