

Squeezed supply chain must seize opportunity

Manufacturers must decide now if they want to eat or be eaten as price pressures drive ongoing rationalisation, says Ronan Hegarty

Consolidation Index 2005

>>FRUIT AND VEG SET FOR THE MOST ACTIVITY

CATEGORY	VALUE (£M)	Y-ON-Y(%)
Fruit & vegetables	5,900	+3.7
Total fresh meat, fish & poultry	3,000	+1.0
Snacks and crisps	1,700	-2.3
Frozen savoury	1,100	-3.5
Prepared salads	649	-1.0
Frozen desserts	325	-5.2
Milk	2,500	+3.5
Bread/morning goods	1,800	+5.0
Cheese	1,800	+4.1
Chilled ready meals	1,500	+6.6
Sugar confectionery	1,200	+0.1
Ambient cakes	872	+4.7
Fruit juices	795	+5.5
Sandwiches	635	+7.7
Cooking aids	295	+3.4
Home baking	264	+17.3
Chilled pies, quiches & pasties	5,200	-0.3
Carbonated drinks	3,800	-0.5
Chocolate confectionery	3,000	+1.4
Biscuits/crackers	1,400	+4.5
Ice cream	671	-6.1
Frozen vegetables	659	-0.5
Water	521	+9.2
Cooking sauces	483	+1.4
Rice/pasta	422	+0.2
Fresh cakes	91	-14
Chilled pot desserts	1,500	+3.2
Hot beverages	1,300	-0.2
Canned Produce	1,200	n/c
Cereals	1,100	+2.9
Canned pies/meat/soups	1,000	+2.7
Butter & spreads	851	+0.4
Eggs	486	+5.7
Sugar/sweeteners	260	+1.9
Preserves	201	+2.5
Squash	10	+43.0

- Very high level of consolidation expected
- High level of consolidation expected
- Moderate level of consolidation expected
- Low level of consolidation expected

Source: GRANT THORNTON/INFLEXION PRIVATE EQUITY CONSOLIDATION INDEX

In the UK food sector, 150 companies have gone into receivership, there has been 200 mergers, and 300 businesses have been dissolved, all in the past two and a half years.

And the indications are that there is still plenty of room for further consolidation over the next few years, according to a new report by Axis Management Consulting on behalf of administrators Grant Thornton and Inflexion Private Equity.

Having witnessed the effects of a consolidating market on a daily basis, the two parties have come up with a Consolidation Index, from which they believe they can identify the areas of the food industry most susceptible to the forces of consolidation.

The survey breaks the food sector down into 36 distinct categories and identifies whether each category is likely to be subject to a very high, high, moderate or low level of consolidation activity.

Those categories that are expected to have a very high level of consolidation activity are fruit and vegetables, fresh meat fish and poultry, snacks and crisps, frozen savoury, prepared salads and frozen desserts.

With a value of £5.9bn the biggest of these categories is fruit and vegetables. The category has a very high rating as the supply base is fragmented while retailers have continued to put pressure on suppliers both to rationalise the supply base and to improve their standards of value-adding service.

Many companies in fruit and veg are in a precarious profit position because of intense price pressures. With this in mind, the survey predicts a significant number of further company failures and activity to merge small suppliers into large entities.

This picture is a common one across the food industry. Sectors deemed to expect low levels of consolidation are given this prognosis mainly because there has already been plenty such activity in those areas.

And the reason for all of this consolidation? Jonathan Smith, MD, of Axis Management Consulting is clear. "We tried looking at all the different factors which could impact on the food sector, from



Fruit & vegetables and fish are categories very likely to see major consolidation activity

consumer trends to population shifts. However, there is no getting away from the overwhelmingly large influence of the multiples," he explains.

While the thought of wave after wave of consolidation in the food sector is enough to keep many an MD or CEO awake at night, there is also plenty of opportunity for the brave and forward thinking supplier.

Smith cites the example of Glisten, which has been able to emerge as a key confectionery player over the last few years following a series of strategic acquisitions.

"Obviously this is not a good news story for suppliers," Smith says, "but if suppliers want to make it work they have to consider all the opportunities available. Company bosses cannot afford to get dragged into the day-to-day running of the business. If they are doing their job right, they need to be looking at what they need to make their company a necessary supplier for the multiples for the next few years."

The research confirms that across the board, retailers are seeking to rationalise their supplier base, so for those companies involved in categories with very high or high potential for consolidation, key decisions on where their businesses are going to be in the next three years have to be made now if it is not too late already.