

Case 12

BIRDS EYE AND THE U.K. FROZEN FOOD INDUSTRY*

On 12th February 1946, George Muddiman arrived in Liverpool from Canada to take up the job as first chairman of Birds Eye Foods Ltd. "It was raining," he recalled. "There were no lights on the streets; it was seven o'clock at night and dark. As I looked out of the cab window my heart went into my boots and I thought, 'What have I done? Why have I left Canada to come to this?'"

By the early 1950s, after a host of problems with production, raw materials, and distribution, Birds Eye was firmly established. In 1952, it opened the "Empire's largest quick-frozen food factory" in Great Yarmouth and was set to embark upon a period of continuous expansion. By 1964 the food sales for the previous year had grown to £75 million (from a mere £150,000 in 1946) with Birds Eye accounting for 70% of the market.

However, from the late 1960s both return on capital and market share declined as competition in the market intensified. By the retirement of Birds Eye's second chairman, James ("Mr. Fish Fingers") Parratt in July 1972, the company's fortunes had passed their peak and by 1983, Birds Eye's share of retail frozen food sales had shrunk to 18.5 percent.

BEGINNINGS¹

Quick-freezing arrests the process of decay in perishable foods and enables fresh foods to be distributed to the consumer, wherever located and at any season. However, the freezing process must be quick to prevent the formation of large ice crystals that damage the cell structure of the food. By the late 1920s General Foods Corporation was successfully manufacturing and marketing "Birds Eye" frozen foods in the United States using the multi-plate quick-freezers developed by Clarence Birdseye.

The establishment of Birds Eye frozen foods in the U.K. was the initiative of Robert Ducas, chairman of a Kent engineering company, Winget Ltd., who had tried frozen foods in the U.S. and was impressed by their British potential. In August 1938 Birds Eye Foods Ltd. was incorporated, owned by General Foods Corp., Robert Ducas, and Chivers and Sons Ltd. (a British canner and jam-maker).

Birds Eye was not alone in pioneering frozen foods in Britain. Commercial quick freezing had begun in Britain before 1939, initiated by Smedley's (National Canning). In the early years Smedley's was better established than Birds Eye. Among other leading firms striving to establish viable frozen food businesses were several distributors and marketers of fish, notably Smethurst Ltd., Mudd and Son, and Associated Fisheries Ltd. (through Eskimo Foods Ltd.). A cold storage company launched "Fropax" frozen foods and Manuel's, an importer and wholesaler of frozen foods, obtained the U.K. concession for importing and distributing Findus frozen foods.

By 1942, Unilever had become strongly interested in the Birds Eye business for its value to its subsidiaries Macfisheries (fish), Batchelors Peas (dried peas), and Poulton & Noel, Ltd. (poultry). At a meeting of Unilever's management committee on 4th February 1942, the guidelines for a frozen food business were established.

They expected to see the business develop in three main groups of produce—fruit and vegetables, fish, and meat. They hoped to see Birds Eye companies in operation all over the world, and they expected to get together a team of people who could go wherever they were needed to give help with setting up these new companies. They could see that some of their products were likely to be expensive, and they were not against running luxury lines, but in the true tradition of a business founded on the demand of the mass market

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for everyday products, they hoped that, in general, the business would be built on the large-scale development of certain main products.²

In March 1943, when the Second World War was at its height, Unilever acquired Birds Eye Foods. Its task of establishing a frozen food business in the UK was formidable:

The costs of quick-freezing are high, and it does not pay to freeze any food except the best, that will sell for a price high enough to cover overhead and yield a profit worth having.... Next, food must be frozen at the top of its condition or most of the value of the process is lost. That means that something must be done to see that produce is gathered at precisely the right moment and processed, if possible, within hours. For fish, of course, and for some other foods there can be no control over production, but there must be a highly efficient buying organization.

When the produce is frozen, there is the problem of keeping it frozen until it reached the [consumer]. Since many of the products, such as peas, are seasonal, that means keeping them for months in cold storage. On the journey from factory to shop, there must be insulated vehicles. In the shops themselves, there must be cabinets; the shopkeepers must be persuaded to find room, and somebody must finance them—either the shopkeepers themselves or the freezing firms.³

Birds Eye's early history was directed towards establishing an organization that was fully integrated from controlling food production to stocking the retailer's frozen food cabinet. In the absence of a well-developed infrastructure for producing, storing, distributing, and retailing frozen foods, Birds Eye was forced to build its own system.

BUILDING MARKET LEADERSHIP

Production and raw material supplies

In production, the chief problems arose from the concentration of processing into a short time space, the unreliability of machinery, and the lack of skilled labor. Much of the machinery had to be imported from the U.S. and Canada and capital costs were high. Over two-thirds of processing costs were fixed although each plate freezer could be used to freeze almost any food depending on seasonal availability. The location of frozen food processing factories was determined primarily by the source of raw materials. Prepared foods, like desserts or entrees, could be located anywhere. However, for vegetables and fish production needed to be located on the eastern side of Great Britain, near the vegetable growing areas and the big fishing ports. Peas, for example, needed to be processed within 90 minutes of picking so processing plants were concentrated in Humberside, Lincolnshire, and East Anglia. By 1960, Birds Eye operated six factories and associated cold stores at Great Yarmouth, Lowestoft, Kirkby, Grimsby, Hull, and Eastbourne. Each factory produced a number of different products in order to utilize manpower and equipment efficiently in the face of seasonal availability of raw materials.

Once production facilities had been planned, the next task was to secure supplies of high quality raw materials. For vegetables, this was usually achieved through annual contracts with farmers who committed a certain acreage to Birds Eye, in return for a fixed price per ton according to quality. Birds Eye exercised close control over the crops, supplying the seed, determining the planting times, and approving the fertilizer and insecticide used. Technicians monitored the moisture level in the produce to determine the optimal harvesting time and radioed the processing plants which coordinated the movement of harvesting equipment from farm to farm and the transportation of produce from farm to factory.

Initially, Birds Eye owned most of the harvesting equipment that growers used. Equipment took the place of manual labor because of the speed with which the crop needed to be harvested before freezing. It remained economical to pick fresh peas manually. Over the years, growers bought their own machines under long-term contracts with Birds Eye which agreed to repurchase the equipment if the parties could not agree on an annual acreage contract. Because of the high cost of pea harvesting equipment, farmer cooperatives became the main source of vegetables. By 1974 they were supplying 70% of the peas and 60% of the beans used for freezing. Many had been supplying Birds Eye

continuously for twenty years. As the demand for frozen vegetables grew, the frozen food industry became the single most important customer for green vegetables. In 1975, half of all the peas were grown for freezing as were three-quarters of green beans.

The fish used for quick-freezing was whitefish, mainly cod, haddock, halibut, plaice, sole, and coley. Most of it was either bought fresh from dockside auctions, or imported from Scandinavia in frozen blocks of fillets for use in fish fingers and other heavily processed items. Some fish, however, was frozen at sea and bought on contract. A typical contract guaranteed to buy a proportion of the catch, provided the catch exceeded a certain size, at a price up to 5% below the previous month's auction price. By the late 1960s, one-third of the total whitefish catch went to frozen food companies, as a result, contracts were tending to replace open auction at fish markets. Birds Eye also purchased fish at dockside auctions—mainly at Grimsby.

In some instances, Birds Eye sought direct ownership of its sources of raw material. It entered the broiler chicken industry in 1958 and within a few years had built a capacity for producing 6.5 million birds a year at about 20 farms. It sold the farms to Ross Poultry in 1972 in the face of overproduction in the broiler chicken industry and a belief that it was of suboptimal size. In 1965, Birds Eye acquired a majority stake in a fishing company to secure a regular supply of cod. Operating problems coincided with a drop in world fish prices, and Birds Eye sold the assets of the fishing company in 1969.

As Birds Eye developed a number of innovations in food processing and freezing techniques and developments in quality management, it was sought improvements in the production of its raw materials. In horticulture, Birds Eye was responsible for improvements in vegetable cultivation techniques, and harvesting equipment.

Distribution

Production problems were small in comparison with those of establishing a national system of distribution. Distribution costs were estimated at between 15% and 25% of total costs for frozen food.⁴ Only a limited capacity existed in public cold stores, which were used primarily for frozen meat, frozen fish, and ice cream. These were concentrated near big cities. Cold stores were also expensive. A minimum efficient scale cold store of 2.4 million cubic feet cost £0.6m in the mid-1960s, and the scale curve on operating expenses was about 80%.

Birds Eye's investment in cold storage and refrigerated distribution was primarily through its sister company, SPD (Speedy Prompt Delivery)—also a wholly-owned subsidiary of Unilever:

SPD was increasingly drawn into the problem. They developed their cold storage capacity and added insulated vehicles to get the goods to shops.... Cold storage has increased steadily, with buildings more and more advanced in their design. Depots were run in close conjunction with SPD and increased to the point store about 50,000 tons of frozen food.⁵

By the end of the 1960s, SPD had built a national system of frozen food distribution for Birds Eye. It operated from 42 depots and enabled Birds Eye to directly serve some 93,000 outlets. Birds Eye treated it as an integral part of its own activities, paying for its services at cost and making an annual profit contribution to cover the capital employed by SPD on Birds Eye's behalf. In the few areas that it could not serve cost-effectively, Birds Eye franchised exclusive wholesalers to distribute its frozen foods to retailers. The coordination of investment between Birds Eye and SPD allowed Birds Eye's tonnage sales to increase at a remarkable 40% per annum during the 1950s.

Retailing

The biggest barrier to the development of the frozen foods industry was the state of retail distribution. During the 1940s and early 1950s retail distribution was highly fragmented with many small shops and with counter service nearly universal. The structure of retail trade virtually ossified in the early post-war period as a result of food rationing that continued until 1953 and almost eliminated competition among retailers. The chief short-term problem was persuading food retailers to install refrigerated cabinets:

At an average cost of about £150, a QIF cabinet is a big enough outlay to cause the average retailer to think twice about installing one. However, it can be shown that an average-sized cabinet of 10 cu. ft. can be made—even without proper siting—to yield an annual turnover of anything between £500 and £1,500. On an average retail margin of 20%, a retailer with an annual turnover of, say, £1,000 can net a profit of £200 before servicing and maintenance charges are deducted. Over the 12-15 year life of the cabinet this represents a substantial return on investment.⁶

In the supply of ice cream, the major manufacturers lent cabinets to retailers. The problem of this approach was the enormous capital requirements (equivalent at least to the size of investment in production facilities). In 1953, Birds Eye decided that it would not rent cabinets to retailers. Instead, it persuaded two producers of industrial refrigerators and air-conditioning equipment, Prestcold and Frigidaire to start the production of "open top" display cabinets suitable for frozen food storage and display. Birds Eye only sought new business with retailers that installed such cabinets.

Market development and product innovation

With the infrastructure in place, demand for frozen foods expanded. In the beginning, frozen foods were regarded as a luxury preferred over canned or dried food for their retention of the appearance and flavor of the fresh product. As the price of frozen foods fell, growth increased rapidly, though the price elasticity of demand remained very high and seasonal and annual fluctuations in the consumption of frozen foods were strongly influenced by the price and availability of fresh produce. Between 1956 and 1981, sales increased at an average annual rate of about 15%, although the rate of growth of tonnage sales tended to decline over time. From 1956 to 1961, average annual growth was 36%, falling to 10.5% per annum between 1962 and 1973, and 6.9% between 1974 and 1980. Table 12.1 shows the growth in UK spending on frozen food sales.

[Table 12.1 about here]

During the 1950s and 1960s, the number of retail outlets supplying frozen foods expanded rapidly. So too did the range of frozen foods available. Beginning with seasonal produce—green vegetables and fruit—a wide variety of processed foods and prepared meals soon appeared.

Once Birds Eye had established its integrated system of production and distribution during the 1950s, its strategy became more marketing orientated. With a national, integrated organization in place, the company's principal task was to expand sales by introducing new products, promoting consumer awareness of the convenience and value-for-money of frozen foods, and developing consumer recognition of the quality associated with the Birds Eye brand. The introduction of fish fingers in 1955 was followed by beefburgers in 1960 and by a stream of new fish, meat, and dessert products. The five biggest-selling products—peas, beans, chips, fish fingers and beefburgers—accounted for nearly 40% of revenue. The introduction of commercial television in 1955 was vitally important for its marketing strategy by allowing it to engage in mass market advertising of its brand and new products. The medium also gave Birds Eye a big advantage over smaller producers—until 1958 Birds Eye was the sole industry advertiser.

Birds Eye pioneered frozen foods with a product quality higher than people were used to in processed food and with a personality that combined efficiency, hygiene, confidence, and completeness. Bird Eye added values beyond the physical and functional ones that contributed to a clear and likeable personality for the brand.⁷

BIRDS EYE'S MARKET DOMINANCE

The result of Birds Eye pioneering efforts backed by massive investment by the Unilever Group was Bird Eye's dominance of the fast growing UK frozen food market. Throughout the 1950s and 1960s, Birds Eye accounted for over 60% of UK frozen food sales on a tonnage basis. In terms of the retail market, the company estimated its brand market share at over 70% by value and around two-thirds by tonnage for most of the period. Among the outlets served by Birds Eye, its share of frozen food sales was 75%, and some 40,000 retail outlets were served exclusively by Birds Eye. Its top twenty retail customers accounted for nearly a third of total sales.

Birds Eye held a substantial competitive advantage over its closest competitors, Ross and Findus and consistently achieved higher returns on capital employed (on an historic cost basis) than them. In 1974, for example, while Birds Eye's return on capital stood at 15.9%, Findus earned 8.9% (frozen food only) and Ross Foods earned 4.3% (all food businesses). Both Findus and Ross acted as followers to Birds Eye, while Birds Eye pioneered the development of the market. Findus and Ross followed with similar approaches to production, distribution, product development, and marketing. Because they imitated Birds Eye's many of Birds Eye's product and marketing strategies, their advertising expenditures were limited. Ross Foods' parent company, Imperial Foods, told the Monopolies and Mergers Commission that it "considered massive brand support aimed at achieving dramatic increases in sales, to be far beyond the means of its frozen food companies and it never sought to answer Birds Eye's intensive advertising in kind. In 1973, Ross Foods virtually ceased advertising its retail packs since it was not making it more competitive."⁸ Tables 12.2 and 12.3 show Birds Eye's brand leadership and superior profitability.

[Tables 12.2 and 12.3 about here]

Neither of these leading competitors was prepared to undercut Birds Eye. Birds Eye's brand leadership was evident in the pattern of pricing behavior observed in the industry. Based on the evidence of published list prices, the Monopolies and Mergers Commission concluded: "The recommended retail prices of Birds Eye, Ross Foods, and Findus frozen food have until recently moved broadly in parallel, with Birds Eye more often than not, being the first to change its price."⁹ The willingness of smaller producers to follow Birds Eye was explained by Imperial Foods:

In supplying frozen foods to retailers for sale under the Ross name, Ross Foods sets its prices generally at the same level as Birds Eye. Since Ross Foods only advertises and promotes its products on a very limited scale, it cannot hope to win space in retailers' cabinets and charge prices above those charged by Birds Eye. On the other hand it cannot afford to undercut Birds Eye's prices to any significant extent.¹⁰

Birds Eye's retail dominance was assisted by a system of discounts that encouraged larger retailers to give Birds Eye the major part of their frozen foods business. The company offered discounts to a number of retailers. The size of discounts from its published trade prices depended on the annual turnover of the retailer, the cabinet space allocated to Birds Eye products, and the frequency and size of deliveries. Overall discounts averaged 6% of the gross revenues of all retailers. Its "criterion in discount negotiation was to achieve a consistent level of gross profitability from various customers"¹¹ and the discounts were intended to capture differences in the costs of serving different customers. As a result, "large retailers achieved the highest discount—over 10% of the gross value of their purchases—although these were said to exceed the cost savings in supplying them."¹²

THE GROWTH OF COMPETITION

During the 1970s and into the 1980s, Birds Eye market share, and its profitability declined as competition grew in the frozen foods market.

Developments in retailing

In the 1960s, developments in food retailing began to influence the frozen food industry. First was the move away from counter service towards self-service which increased vastly the marketing opportunities available to the frozen food processors, including introducing new and novel products and packaging. Second was the emergence of supermarkets and large supermarket chains. In 1960 there were only 367 supermarkets (self-service food shops with 2,000 square feet or more floor space). The ability of the supermarket chains to pass on their cost savings to consumers, together with consumers' demand for the wider variety of goods made available by supermarkets were major factors behind increasing concentration in the grocery trade.

Many of the major supermarket chains operated central or regional warehouses from which they distributed grocery products to their individual supermarkets. They also began to supply their own brands of frozen foods. Following the introduction by Sainsbury of its own brand of frozen peas in 1967, retailer' brands took an increasing share of retail frozen food sales.

The impact of supermarkets in expanding the amount of retail cabinet space available was reinforced towards the end of the 1960s by the introduction of specialist frozen foods stores to serve the increasing number of home freezer owners. To serve this growing market, a new model of frozen food retailing emerged: home freezer centers that combined the sale of home freezers with the sale of large packs of frozen foods (packed for caterers). The retailing of frozen foods by these outlets was characterized by large pack sizes, wide product range, lack of brand consciousness and low prices. Larger cabinet capacity, usually with back-up storage, enabled freezer centers to require fewer deliveries with bigger drops. Their share of frozen food sales was 18% in 1978 and 23.5% in 1986. Table 12.4 shows the changing structure of UK grocery retailing.

[Table 12.4 about here]

New entry

While the early development of the industry has seen a consolidation around three major, vertically integrated suppliers, there was a wave of new entry in the 1960s and 1970s. For companies already engaged in food processing, a new technology, blast freezers, could be purchased “off the shelf” for as little as a few thousand pounds for a small unit. These allowed freezing and packing to occur together and eliminated the need for two separate production processes. While large scale processing and freezing offered opportunities for automation and greater division of labor, the cost savings from increased scale of production tended to be small.

New entrants to the industry were a diverse group. The Monopolies Commission observed in 1976 that:

A number of new companies have entered the frozen food processing industry during the past twenty years. They include Jus-Roll Ltd and Prime cut Foods Ltd. (then W.B. Wright Provision Ltd.) in 1954, Northray Foods Ltd. in 1956, Kraft Foods Ltd. in 1963, McCain International Ltd. and Potato and Allied Services Ltd. In 1968, Frozen Quality Ltd. in 1969, Country Range Ltd. and King Harry Foods in 1970, White House Foods Ltd. and Fife Growers Ltd. in 1971, and Wold Growers Ltd. In 1974.

Although some of the new entrants have been new enterprises, most have been either established companies or subsidiaries of established companies. In many cases companies already engaged in the production of food have extended production to include frozen foods. Many of the smaller processors of vegetables and fruit, for example, Northray Foods Ltd., Frozen Quality Ltd., Fife Growers Ltd. and Wold Pea Growers Ltd. originated as agricultural cooperatives. Among the meat companies which have entered frozen food processing are FMC Ltd, Dalgety Ltd. (chiefly through Dalgety-Buswell Ltd. and Dalgety Frozen Foods Ltd.) and Thos Borthwick & Sons Ltd. (through Freshbake Foods Ltd.). Several fishing and fish merchanting companies have developed the processing of frozen food, notably Associated Fisheries Ltd., J. Marr (Fish Merchants) Ltd. and Chaldur Frozen Fish Co. Ltd.

[Most] companies specialize in one or other of the broad categories of frozen food products, namely vegetables, fish, meat products and fruit and confectionery. Some companies specialize in a single product only—McCain's output is exclusively potato chips and King Harry Foods produces mainly pizzas.¹³

In addition, marketing-only companies, such as W.B. Pellew-Harvey & Co. Ltd., and J. Muirhead emerged. These bought frozen food from other manufacturers and placed their own brand names, “Angelus,” “Chef's Garden,” and “4F,” on the products. Independent companies with such as Christian Salvesen, handled their physical distribution needs.

Specialist storage, freezing, and transportation providers played a critical role in allowing the entry and viability of these smaller, specialist, frozen food suppliers. Public cold storage companies such as Christian Salvesen, Union Cold Storage, and Frigoscandia doubled their cold storage capacity between 1969 and 1973. These companies came to offer not only storage facilities but a comprehensive range of processing, freezing, and distribution services. By 1974, Christian Salvesen's cold storage capacity was almost one-third of Birds Eye. In 1978, Christian Salevesen processed three-quarters of the vegetables it stored, up from 20% in 1969. Services were made available on medium term, multi-

year contracts. Salvesen's fleet of refrigerated trucks operating out of its national network of cold stores was also available for rent, either on long-term contracts or as needed. Sainsbury and Marks & Spencer, two of Britain's largest food retailers each with a wide range of own-brand frozen foods, used Christian Salvesen for some of their refrigerated distribution needs. Other firms specialized in the importing, broking, and distribution of frozen foods. For example, Frionor and Bonduelle began marketing products imported from their overseas parents while companies such as Anglo European foods, Snowking, Frozen Foods, and Flying Goose specialized in distribution (mainly to the catering trade).

The rapid growth of the eating away from the home by the British, and the rapid shift of the catering industry from fresh and canned foods to frozen foods provided a particularly attractive opportunity for new entrants into frozen foods. Catering establishments were served by a separate segment of the market that was more concerned with price than with brand name recognition and sophisticated product packaging. Smaller processors could easily market their products to the catering trade without the need for investing in brands and distribution. From serving the catering industry it was easy to expand into supplies to retail home freezer centers and to supermarket's own-label products.

Decline and strategic reappraisal

The retirement of Birds Eye's chairman, James Parratt, in July 1972 marked the highpoint of the company's fortunes. Under his successor, Kenneth Webb, Birds Eye was to face a new era of competitive pressure that led to a fundamental reassessment of its strategy.

Although still far and away the UK market leader in frozen foods, Birds Eye's market dominance existed primarily in sales of small retail packs to independent grocers and to a lesser extent, supermarkets. Birds Eye was poorly represented in some areas: in home freezer centers its share was around 8% in 1974 and it had little involvement in retailers' own labels. In the catering sector Birds Eye's market share by value was about 10% in 1973. After the early 1970s, the company's share of tonnage sales fell continuously although the market as a whole continued to expand, albeit at a slower rate.

To respond to changes in the market—particularly the rise in bulk buying by consumers with home freezers—and to the competition of recent entrants in this sector, Birds Eye introduced the bulk packs to the retail market in 1972 and followed this with the establishment in 1974 of a new business, County Fair Foods, to supply the home freezer centers and other purchasers willing to accept a minimum drop size. County Fair Foods shared production facilities with Birds Eye but had a separate distribution system using Christian Salvesen because of the different requirements of freezer centers with regard to quality, product types, distribution, prices, and promotion. In 1976, Birds Eye established Menumaster Ltd. to supply frozen prepared meals to caterers. In the traditional retail market, Birds Eye's main aim was to maintain sales growth, primarily by extending its product range through new product introductions. During the 1970s the company's dependence upon its traditional products—vegetables, fish fingers, and beefburgers—was reduced by a constant flow of new product introductions—especially ready-to-eat meals, desserts, and ethnic dishes (e.g. Chinese, Indian and Italian dishes).

The widening of Birds Eye's product range and increased range of market segments that it sought to serve posed major difficulties for Birds Eye's marketing strategy and the allocation of its advertising budget. The marketing effort necessary to promote Birds Eye's products in widely different sectors—promoting up-market prepared dishes while expanding into economy packs of commodity products—was difficult to orchestrate. "We will be walking a tightrope," explained marketing director Keith Jacobs, "the company's advertising will have two jobs to do: to maintain its image as a basic convenience foods company and to make it credible as a purveyor of, for example, pizzas." In relation to advertising, Birds Eye adopted a more targeted approach. It focused its national TV advertising on its lead lines, while new products were introduced with more regionally and segment focused advertising. Advertising support was largely withdrawn from "support products."

In response to the growing power of large supermarket chains, Birds Eye redirected its marketing efforts. During the 1960s, marketing had been focused almost exclusively on the consumer. During the 1970s, Birds Eye shifted its focus from consumer marketing to trade marketing with particular emphasis on developing relationships with major supermarket chains, including joint promotion efforts.

On the production side, the mid-1970s witnessed a program of heavy investment in modernization and rationalization that was designed to exploit efficiency from volume production. Between 1977 and 1980 expenditure on this program amounted to some £20 million. A key feature of the program was the focus of production resources for different product groups at specific factories—fish products at Hull and Grimsby, ready meals at Kirkby and Yarmouth, vegetables at Hull and Lowestoft, and cakes and desserts at Eastbourne—since it was observed that some specialist producers achieved much higher levels of automation.

The quest for lower costs was instrumental in the decision to merge Unilever's two principal frozen product operations, Birds Eye Foods and Walls Ice Cream, into a single company, Birds Eye Walls Ltd. Although the potential for cooperation and the elimination of duplicated functions between Birds Eye and Walls had been identified in the 1960s, the two Unilever subsidiaries had been almost entirely independent prior to the merger. During 1979-81, Birds Eye Walls worked on merging and rationalizing the two companies' distribution networks. On January 1st, 1982 the combined refrigerated distribution company, Unicold-Walls, was transferred to Birds Eye Walls with the intention of speeding the reorganization of distribution and improving coordination. The plan was to complete the reorganization of distribution by early 1985 with a streamlined national network of 7 regional distribution centers in operation.

Despite Birds Eye's efforts to adjust to new market circumstances, its market and financial performance continued to deteriorate throughout the 1970s. Although, in its 1979 Annual Report, Birds Eye was still able to report that "few brands in the British grocery market can claim the sort of dominance which Birds Eye has in frozen foods." that leadership was no guarantee of growth and prosperity. In the face of rising competition, Birds Eye maintained its advertising budget during the mid-1970s while cutting prices on some major selling products. Though this approach raised sales volume, in July 1975 Chairman Kenneth Webb complained that profit margins had been halved over the previous two years and were currently one-third of the level consistent with the company's heavy investment in manufacturing and distribution facilities. In 1976, the company barely broke even and in 1977 it registered a post-tax loss. Table 12.5 shows Birds Eye's financial performance.

[Table 12.5 about here]

The appointment of Mr. Don Angel to the chairmanship of Birds Eye early in 1979 led to Birds Eye reappraising its strategy in the UK frozen foods market and considering a new phase of internal restructuring. Reflecting on the erosion of the company's dominant market position, Don Angel observed that the model that had served Birds Eye's development and growth during the 1950s and 1960s needed to be reconsidered and "choices must be made about what the company is best at." In particular, there was a widespread realization that the vertically integrated approach to the sourcing, processing, distribution, and marketing of frozen foods through which Birds Eye had developed the UK market for frozen foods may now be a weakness rather than a strength for Birds Eye.

TABLE 12.1. UK Frozen Food Expenditure 1967-1982

	<i>Total at constant 1975 prices £ million)</i>	<i>Freezer Owners %</i>	<i>Nonfreezer Owners %</i>	<i>In-Home %</i>	<i><u>Consumption</u> Catering %</i>
1967	322	--	—	84	16
1973	510	17	54	71	29
1974	527	20	50	70	30
1975	500	24	48	72	28
1976	515	30	46	76	24
1977	508	32	43	75	25
1978	514	37	40	77	23
1979	539	40	37	77	23
1980	570	47	32	79	21
1981	593	53	28	81	19
1982	621	59	24	84	16
1983	646	63	21	84	16
1984	692	67	18	85	15

Source: Birds Eye

TABLE 12.2. Brand Shares of the UK Retail Market for Frozen Foods (% of total volume)

	<i>1966</i>	<i>1970</i>	<i>1974</i>	<i>1978</i>	<i>1982</i>
Birds Eye	62	60	45	29	20
Ross	5	8	6	6	8
Findus	13	13	11	8	4
Own-Label	-	6	14	21	28
Other	20	13	21	35	40

TABLE 12.3. Comparative Profitability (Pretax Return on Capital Employed %)

	<i>1964</i>	<i>1967</i>	<i>1971</i>	<i>1972</i>	<i>1973</i>	<i>1974</i>
Birds Eye	16.2	22.2	19.1	18.4	18.7	15.9
Findus	NA	NA	7.2	5.9	7.2	8.9
Ross	NA	NA	NA	7.6	5.5	4.3
UK Manufacturing Industry	14.6	12.0	12.5	14.9	17.4	17.4

Source: Monopolies and Mergers Commission.

TABLE 12.4. Shares of UK Packaged Grocery Sales by Type of Retailer

	<i>1970</i>	<i>1974</i>	<i>1978</i>	<i>1981</i>
Multiples	49	53	64	70

Cooperatives	19	21	18	17
Voluntary groups	16	14	10	
Independents	18	13	8	6
4-firm concentration ratio	0.26	0.27	0.34	0.42

C. Baden Fuller, *Rising Concentration: The UK Grocery Trade 1970-82*, London Business School, 1984

TABLE 12.5. Birds Eye Foods Ltd: Financial Data for 1972-1979 (£ 000s)

	1972	1973	1974	1975	1976	1977	1978	1979
Sales	91,838	113,997	132,636	157,142	187,415	212,322	226,308	266,018
Operating profit	2,110	2,875	3,445	4,414	3,453	2,477	6,310	9,352
After-tax profit	1,223	1,465	1,468	1,925	249	(679)	1,094	1,094
Group service charge	NA	NA	NA	NA	NA	5,305	5,527	8,145
Net current assets		15,164	24,717	31,034	32,069	44,792	53,337	59,141
Stocks (Inventories)	17,479	26,012	29,263	30,983	40,356	52,431	54,317	54,317
Debtors	5,928	10,677	12,124	13,739	17,483	13,523	21,102	28,522
Creditors	4,863	7,484	8,768	9,481	10,592	14,563	15,350	24,573
Capital employed	33,893	42,947	48,993	52,199	90,383	100,004	122,352	132,801

Source: Robert M. Grant, "Birds Eye and the U.K. Frozen Food Industry," case study, July 1985, p. 13a

NOTES

¹ Birds Eye's history is outlined in Reader, W.J., *Birds Eye Foods Ltd: The Early Days*, Birds Eye Foods Ltd., 1963,

² Reader, W.J., *Birds Eye Foods Ltd: The Early Days*, Birds Eye Foods Ltd., 1963, p. 9.

³ *Ibid*, p. 3.

⁴ McClaren, K. "The Effect of Range Size on Distribution Costs," *International Journal of Physical Distribution and Materials Management*, Vol. 10, 1980, pp. 445-456.

⁵ Wilson, C., *Unilever 1945-1965: Challenge and Response in the Post-War Industrial Revolution*, Cassell, London, 1968, pp. 172-173.

⁶ "Frozen Food: Market Prospects," *Retail Business*, Special Report No. 14, April 1959, p. 83.

⁷ King, S., *Developing New Brands*, Pitman, London, 1973, p. 13.

⁸ *Report on the Supply of Frozen Foodstuffs*, Monopoly and Mergers Commission, HMSO, 1976, p. 44.

⁹ *Ibid*, p. 53.

¹⁰ *Ibid*, p. 42.

¹¹ *Ibid.*, p. 32.

¹² *Ibid.*, p. 32.

¹³ *Ibid.*, p. 9.

