Birds Eye and the U.K. Frozen Food Industry (A)

On 12th February 1946, George Muddiman arrived in Liverpool from Canada to take up the job as the 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?'"[1]

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 company was able to report that U.K. frozen food sales for the previous year had grown to £75 million (from a mere £150,000 in 1946) (**Exhibits 1a** and **1b**) with Birds Eye accounting for 70% of the market (**Exhibit 2**).

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 Parratt ("Mr. Fish Fingers"), at the end of July 1972, the company's fortunes had passed their peak. By 1983 Birds Eye's share of tonnage frozen food sales to the consumer market had shrunk to 18.5%.

The Early Development of the Frozen Food Industry

Quick-freezing arrests the process of decay in perishable foodstuffs and enables fresh foods to be distributed to the consumer, wherever located and at any season.[2] 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 multi-plate quick freezers developed by Clarence Birdseye.

[1]Reader, W.J., *Birds Eye Foods Ltd: The Early Days*, Birds Eye Foods Ltd., © 1963, p. 19.

[2]Frozen food does not include frozen whole animals or birds, uncooked butcher's meat, or ice cream.

This case, prepared by Professor David J. Collis, is largely excerpted from Professor Robert M. Grant's case of the same name, © 1985. It also draws on Geroski, P. and T. Vlassopoulos, "The Rise and Fall of a Market Leader: Frozen Foods in the U.K.," Strategic Management Journal, vol. 12, © 1991, pp. 467-478; Sutton, J. "Sunk Costs and Market Structure," chapter 8, © 1991; and "Frozen Foodstuffs," The Monopolies and Mergers Commission, © 1974. The case is intended as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

The establishment of "Birds Eye" frozen foods in the U.K. was the initiative of Robert Ducas, the 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 (**Exhibit 3**). 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 the distributors and marketers of fish, notably Smethurst Ltd., Mudd and Son, and Associated Fisheries Ltd. (through Eskimo Foods Ltd.). A cold storage company, Union International, 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), Bachelors Peas (dried peas), and Poulton & Noel, Ltd. (poultry). At a meeting of Unilever's Special 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 for everyday products, they hoped that, in general, the business would be built on the large-scale development of certain main products.[3]

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 on any scale in the U.K. 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 organisation.
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> When the produce is frozen, there is the problem of keeping it so 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.[4]

One of the first tasks for frozen foods companies was to secure supplies of high quality raw materials. For vegetables, this was usually achieved through annual contracts with farmers who

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[3]Reader, W.J., *Birds Eye Foods Ltd.: The Early Days*, Birds Eye Foods Ltd, London, □ 1963, p. 9.
[4]*Ibid*, p. 3.

committed a certain acreage to a processor, such as Birds Eye, in return for a fixed price per ton according to quality. The processor exercised close control over the crops, supplying the seed, determining 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 its 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 two 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 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 certain proportion of the catch, provided the catch exceeded a certain size, at a price up to 5% below the previous month's average auction price. One-third of the total whitefish catch went to freezers by the late 1960s, and contracts were tending to replace the old open auction at fish markets.

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 any food depending on seasonal demand (**Exhibit 4**). 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 the industry had to locate 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.

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.[5] Only a limited capacity existed in public cold stores, used mainly for frozen meat and fish and ice cream, and concentrated near big cities. Cold stores were also expensive. A minimum efficient scale 2.4m ft^3 store cost £0.6m in the mid-1960s, and the scale curve on operating expenses was about 80%.

The major barrier to the development of the frozen foods industry was, however, 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.

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[5]McClaren, K., "The Effect of Range Size on Distribution Costs," *International Journal of Physical Distribution and Materials Management*, vol. 10., © 1980, pp. 445-456.

> At an average cost of about £150, a QFF 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—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.

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 (**Exhibit 1a**). From 1956 to 1961 average annual growth was 36%, falling to 10.5% per annum between 1962 and 1973, and declining again to around 6.9% between 1974 and 1980.

Initially, the primary determinant of market size was the number of outlets through which frozen foods were available. During the late 1950s and early 1960s, the number of outlets supplying frozen foods expanded rapidly (**Exhibit 5**), and by 1961, U.K. sales of frozen foods reached the 100,000 ton level. Henceforth, frozen food sales were determined much more by consumer demand than by availability and were stimulated by the continuous expansion in the range of frozen food available. Lt. Colonel A.E.H. Campbell of the Bunchrew Food Bank of Inverness is credited with marketing the first frozen beefburger in the U.K. in 1949; in 1955 Birds Eye introduced frozen chicken pies, that were followed in the next year by fish fingers. In 1956, Mudd and Sons introduced frozen haddock and chips in a newspaper design carton, and in 1958 it introduced fish-in-sauce in a boil-in-the-bag package. Following this, the late 1950s and 1960s saw a wave of amalgamations in the industry, as a result of which three major U.K. suppliers—Birds Eye, Findus, and Ross—emerged, each owned by a major consumer goods manufacturer (Unilever, Nestle, and Imperial Group, respectively) (**Exhibits 2** and **3**).

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 (**Exhibit 5**), 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 sq. 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 (**Exhibit 6**).

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

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 (supplied by Findus) in 1967, retailers' brands took an increasing share of retail frozen food sales (**Exhibit 2**).

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 (**Exhibit 1b**). To serve this growing market, a new model for 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 larger drops. Their share of frozen food sales was 18% in 1978 and 23.5% in 1986.

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 (**Exhibit 1b**). A set of independent wholesalers linked manufacturers to caterers for the distribution of all types of food. In 1974, while the combined share of the three major frozen food producers at retail was over 60%, it was less than 30% at caterers. Similarly, their share of home freezer center sales was just over 11%.

New Entry

While the early development of the industry had 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 a greater 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-Rol Ltd. and Primecut Foods Ltd. (then W.B. Wright Provision Ltd.) in 1954, Northray Foods Ltd. (then Northray Farm Products Ltd.) in 1956, Kraft Foods Ltd. (then Brains Frozen 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 Ltd. in 1970, White House Foods Ltd. and Fife Growers Ltd. in 1971, and Wold Growers Ltd. in 1974.
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> 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 their 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. (chiefly through its Harris subsidiary), 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 smaller companies specialize in a single product only—McCain's output is almost exclusively potato chips and King Harry Foods produces mainly pizzas.[7]

In addition a set of 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 refrigerated trucks, such as Christian Salvesen, handled their physical distribution needs.

Specialist firms providing storage, freezing, and transportation services also emerged. Public cold storage companies such as Christian Salvesen, Union Cold Storage, and Frigoscandia doubled their amount of cold storage 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 annual freezing capacity was almost one-third of Birds Eye. In 1978, Christian Salvesen processed three quarters of the vegetables it stored, up from 20% in 1969. Services were usually rented under 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 and Spencer, for example, used Christian Salvesen for some of their refrigerated distribution needs. Other firms specialized in the importing, broking, and distribution of frozen foods. For instance, 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). **Exhibit 7** lists the larger suppliers of frozen foods in 1973.

Birds Eye

Growth and Market Domination: The 1950s and 1960s

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. The company was orientated towards the frequent supply of small consumer packs to a large number of small retail stores. The centerpiece of Birds Eye's organization was its national system of distribution, which by 1963 enabled it to directly serve some 93,000 outlets and enabled its tonnage sales to increase at a remarkable 40% per annum during the 1950s.

The pioneering role of Birds Eye in the development of the industry was also reflected in its range of innovations. In 1953-54, Birds Eye was instrumental in persuading Prestcold and Frigidaire to design and market an open-top refrigerated display cabinet. It developed a number of food processing and freezing techniques—particularly in the manufacture of fish fingers and beefburgers—and in horticulture, Birds Eye was responsible for improvements in vegetable varieties, cultivation techniques, and harvesting equipment.

[7]"Report on the Supply of Frozen Foodstuffs," *Monopoly and Mergers Commission*, HMSO, © 1976, p. 9.

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. Birds Eye's parent, Unilever, through its distribution subsidiary, SPD (Speedy Prompt Delivery), made a heavy investment in cold storage and insulated vehicles.

> 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 had increased steadily, with buildings more and more advanced in their design. Depots were run in close conjunction with SPD and increased to the point where Birds Eye could store about 50,000 tons of frozen food.[8]

By 1974, SPD operated from 42 depots. 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.

From the late 1950s, Birds Eye's strategy became more marketing orientated. Having established a national, integrated organization, 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. A product list for 1975 is presented in **Exhibit 8**. 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 important to this consumer approach, particularly because until 1958 Birds Eye was the only industry advertiser.

> Birds Eye pioneered frozen foods, with product quality higher than people were used to in processed food and with a personality combining efficiency, hygiene, confidence, and completeness. Birds Eye added values beyond the physical and functional ones that contributed to a clear and likeable personality for the brand.[9]

The company offered discounts on its published trade prices to a number of retailers. The size of discounts 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" and the discounts were intended to capture differences in the costs of serving different customers.[10] As a result, large retailers received the highest discounts—over 10% of the gross value of their purchases—although these were said to "exceed the cost savings in supplying them."[11]

Throughout the 1950s and 1960s, Birds Eye accounted for over 60% of U.K. frozen foods sales on a tonnage basis (**Exhibit 2**). In terms of the retail market, the company estimated its brand 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.

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

[9]King, S., *Developing New Brands*, Pitman, London, © 1973, p. 13.

[10]"Report on the Supply of Frozen Foodstuffs," *Monopoly and Mergers Commission*, HMSO, © 1976, p. 32.

[11]*Ibid*.

The success of Birds Eye encouraged it to develop its own 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 per year at about 20 farms. It sold the farms to Ross Poultry in 1972 in the face of over-production in the broiler 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.

Competitors

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) (**Exhibit 9**). Neither Findus nor Ross tried to innovate or change the structure of the industry. Because they imitated Birds Eye's actions, their advertising expenditures were limited (**Exhibit 10**). Ross Foods's parent company (Imperial Group) reported to 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 had 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."[12]

Neither competitor was prepared to underprice Birds Eye. Birds Eye's brand leadership was evident in the pattern of pricing behavior observed in the industry. Based on evidence shown in **Exhibit 11**, the Monopolies and Mergers Commission concluded: "The recommended retail prices of the larger selling retail packs 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."[13] The willingness of the smaller processors to follow Birds Eye was explained by Imperial Foods:

> In supplying frozen foods to retailers for sale under the Ross name, Ross Foods set its prices generally at the same level as those set by 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.[14]

Ross

Ross Foods operated seven factories and supplied a wide range of frozen foods to the retail and catering trades through two national centers and 25 regional depots. Its sister companies in Imperial Group, Ross Poultry, Youngs (fish), and Smedley-HP (meat and vegetables) were autonomous enterprises operating their own distribution networks. The company's market research data showed the Ross brand represented in only 31% of grocery outlets in January 1974 compared with 51% for Findus and 71% for Birds Eye. Ross Foods's brand representation was particularly poor in the supermarket grocery chains, the fastest growing sector of the retail trade, even though Ross had 8,000 refrigerated cabinets exclusively for its own products on free loan to retailers in the mid-1970s. In response, Ross began to focus from the early 1970s on the non-retail sector, particularly

[12] *Ibid*, p. 44.
[13] *Ibid*, p. 53.
[14] *Ibid*, p. 42.

"home freezer" packs sold through freezer centers. In 1974 only half of its sales were to the retail market outside freezer centers.

Findus

Formed in 1968 through the merger of four frozen food companies, Findus was a Nestlé subsidiary. Immediately after the merger Findus invested £7 million to expand its production capacity, particularly its two main factories on the East Coast. The company had three other factories and had long-term contracts with Christian Salvesen for some bulk freezing. It distributed products through 52 depots jointly owned with the ice cream company J. Lyons Co. Ltd. Like Ross, Findus used exclusive franchise distribution arrangements with wholesalers to reach areas not covered by its own system. The company provided retailers with one cabinet free out of every eight installed in return for a certain share of display space.

Findus, estimating its cost disadvantage against Birds Eye to be 3%-5% of sales, tried to retain a premium position in the retail market and exited the catering segment in the early 1980s. In 1974, 85% of its sales were to the retail segment. It was the supplier of private label frozen foods to J. Sainsbury and Marks and Spencer, and these sales accounted for almost 20% of its revenue.

Deterioration in Birds Eye's Competitive Position During the 1970s

In July 1972, Kenneth Webb, marketing director at Birds Eye since 1959, replaced James Parratt as chairman at a time that, in retrospect, proved to be a watershed in Birds Eye's development. During the early 1970s 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 (**Exhibit 2**).

Under the chairmanship of Kenneth Webb, Birds Eye was forced to respond to changes in the market. The orientation of Birds Eye's product range, distribution, and advertising towards small packs for the grocery trade meant that it was slow in responding to the increasing impact of the home freezer. Birds Eye introduced the bulk pack to the retail market in 1972 and followed this with the establishment of County Fair Foods to supply the home freezer centers and anyone else willing to accept a minimum drop size in 1974. 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, Menumaster Ltd. was set up to supply frozen prepared meals to caterers. In the more traditional retail market, the principal aim of Birds Eye was to maintain sales growth, chiefly through extending its product range. During the 1970s the company's dependence upon its traditional big sellers—peas, chips, fish fingers, and beefburgers—was reduced by a constant flow of new products. Particularly important were ready-to-eat meals, desserts, and specialty dishes (i.e., Chinese foods, pizzas).

The growth in the power of large chains in the retail sector encouraged Birds Eye to redirect its marketing efforts. During the 1960s, marketing had been focused almost exclusively on the consumer. During the 1970s, increased attention was devoted to the trade. This shift from consumer marketing to trade marketing required differentiating among individual sectors of the trade and necessitated a closer involvement of the company with major customers, not only in negotiating terms of supply, but also in designing joint promotions. Eight groups were formed to devise tailormade marketing plans for the 40 or so customers that absorbed three-quarters of Birds Eye's production for the retail trade.[15]

The increased rate of new product launches combined with the new marketing approach led to considerable difficulties in designing an advertising policy, particularly within the limits of the advertising budget. Reviewing market developments over the 12 months to September 1974, Marketing Director Keith Jacobs outlined Birds Eye's advertising approach. For advertising purposes Birds Eye's products would be divided into three groups: lead lines (e.g., fish fingers, peas), support products (e.g., sprouts, sliced beef), and new products.[16] While lead lines required national TV advertising, smaller and newer lines generally required selective exposure where target consumer sectors could be reached at lower cost. As a result, Birds Eye's advertising became more regionally orientated and with greater emphasis on press advertising, especially in women's magazines.

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 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."

During the 1970s, product and marketing policy also had to take account of changes in the prices and availability of raw materials. The Cod War of 1975 and the fall in the value of sterling created short supplies and high prices of cod and necessitated reformulating and rescheduling advertising campaigns for fish fingers and other cod-based products. It also encouraged the introduction of fish products made from lower-cost fish—"Economy Fish Sticks" in 1974 and "Economy Fish Fingers" in 1977. Cod shortages were accompanied in 1976 and 1977 by vegetable shortages due to drought.

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. Toward the end of the 1970s an investment program was aimed at rationalizing the Unicold-Walls distribution network, and on 1st January 1982 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.

[15]*Financial Times*, October 5, 1978.

[16]*Financial Times*, September 12, 1974.

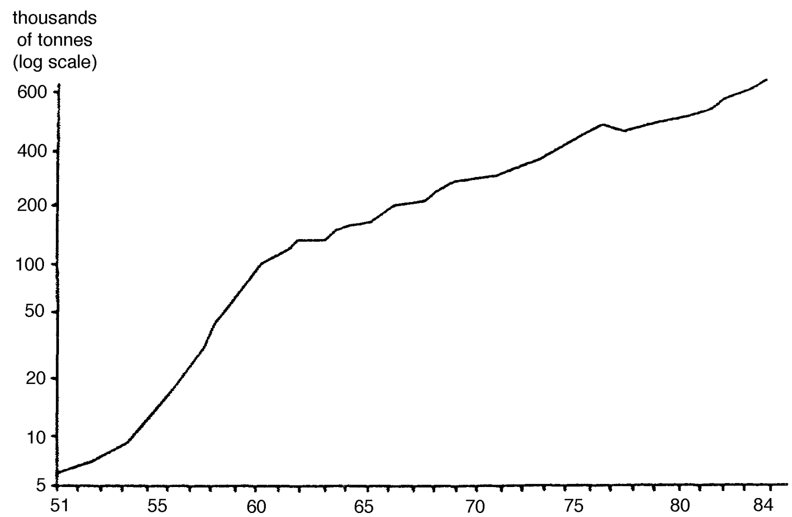
Birds Eye's Restructuring and Quest for Profitability

The efforts made in advertising, new product development, and expanding sales to home freezer outlets were successful in maintaining Birds Eye's brand leadership during the period of intense competitive pressure and unprecedented environmental turbulence of the 1970s, though the decline in share was continuous. In its 1979 Annual Report, Birds Eye was still able to report that "[f]ew brands in the British grocery market can claim the sort of dominance which Birds Eye has in frozen foods. The best parallel is probably Heinz in canned foods and soups."

But brand leadership was not a guarantee of growth and prosperity as it had been in the prosperous 1960s. The use of pricing policy to maintain market position and sustain sales growth meant that frequently the first casualty was profitability. In 1974, in the face of falling sales and sharply rising costs, Birds Eye maintained its advertising budget and cut prices on some major selling products (mainly fish fingers and beefburgers). 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 (**Exhibit 12**). The outbreak of a price war between supermarkets in 1977 and the increasing share of private labels pressured food manufacturers to give higher discounts and promotional allowances. By the early 1980s, Sainsbury's own brand had over 10% of the market, a share greater than that of either Findus or Ross.

The appointment of Mr. Don Angel (then chairman of Wall's Meat) to the chairmanship of Birds Eye early in 1979 came at a time when Birds Eye was again reappraising its strategy in the frozen foods market and embarking upon a period of internal restructuring. Reflecting on the erosion of the company's dominant market position, Don Angel observed that "choices must be made about what the company is best at." Behind this search for a new role was a desire to exploit more effectively the competitive advantages associated with Birds Eye's market leadership and brand recognition. The overriding objective was to restore a satisfactory level of profitability.

Exhibit 1a Growth in Volume Sales of Frozen Foods to Households, 1951-1984



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

Exhibit 1b UK Frozen Food Expenditure 1967-1982

	At Constant 1975 Prices[a] £ million	Freezer Owners %	Nonfreezer Owners %	Consumption	
				In-Home %	Catering %
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

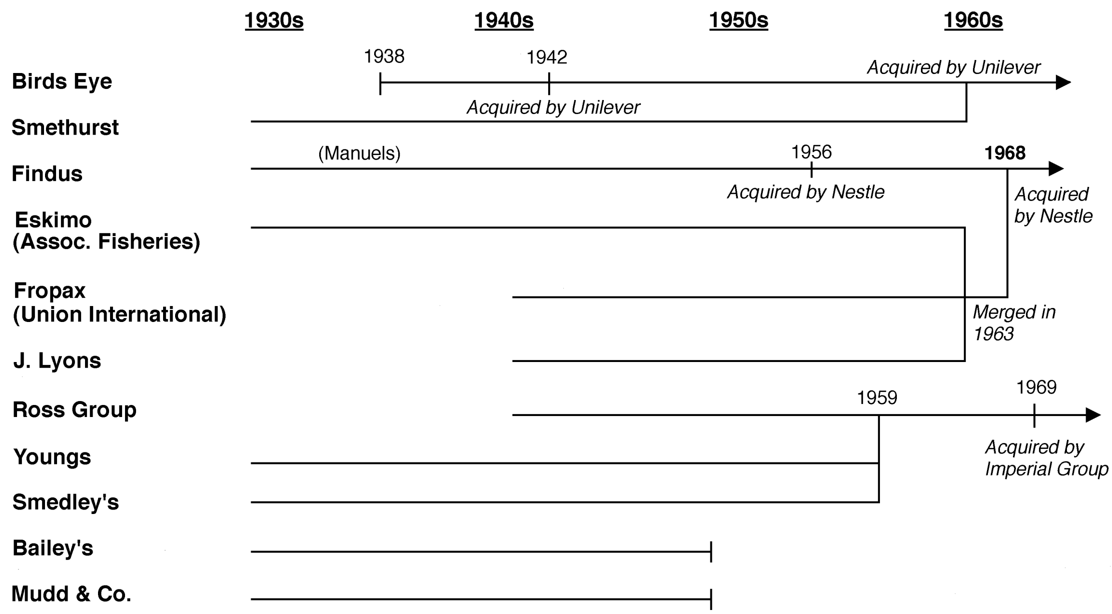
[a]Sales at current prices deflated by the index of retail food prices.

Exhibit 2 Market Shares (%) (Retail volume basis)

	1966	1970	1974	1978	1982
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

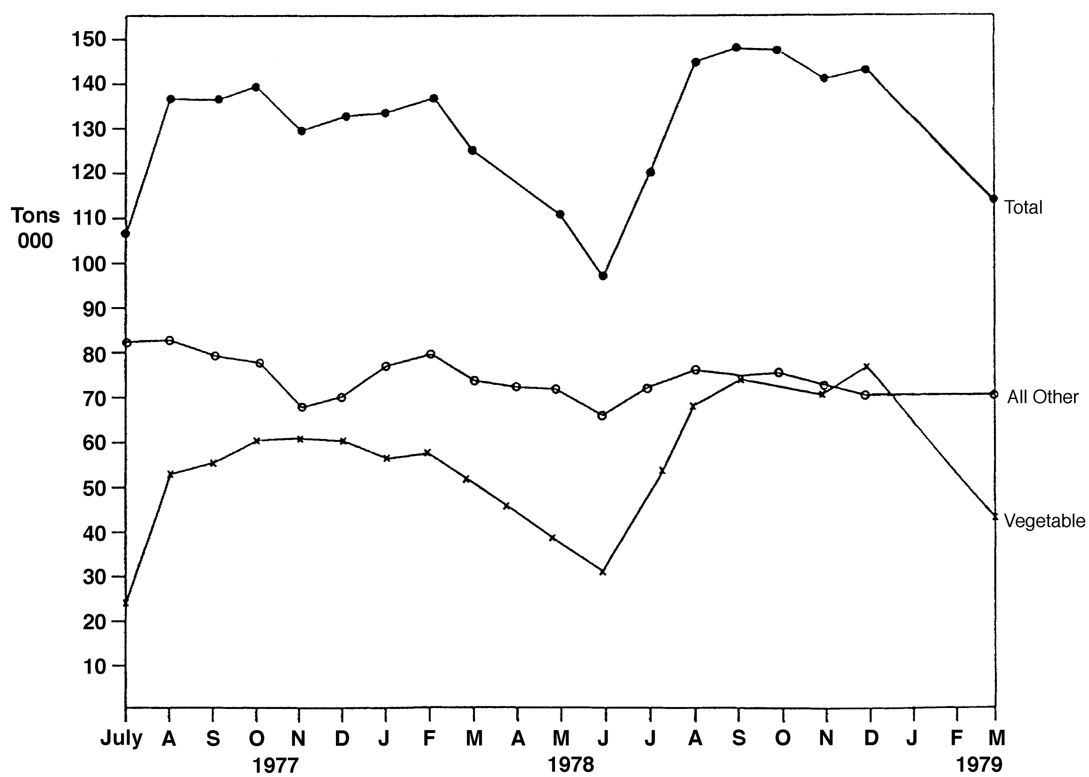
Source: Casewriter

Exhibit 3 Early Competitors



Source: Casewriter

Exhibit 4 Seasonal Cold Store Occupancy



Source: Stock records

Exhibit 5 UK Retailing (Number of Stores, 000)

	1947	1957	1967	1980
Counter-Service	143	147	108	50
Self-Service	3	4	15	40
Of which Supermarkets	-	1	2	7
Selling Frozen Food	NA	20	120	87

Source: IFS, Birds Eye, Monopolies & Mergers Commission

Exhibit 6 Shares of Packaged Grocery Sales by Type of Retailer (%)

	1970	1974	1978	1981
Multiples	49	53	64	70
Cooperatives	19	21	18	17
Voluntary groups	16	14	10	7
Independents	18	13	8	6
4 firm concentration ratio[a]	0.26	0.27	0.34	0.42

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

[a]Excluding cooperatives.

Exhibit 7 The Larger Manufacturers of Frozen Foods and Their Sales of Frozen Foods

Company	Ultimate Parent Company (if applicable)	Sales of Reference Goods £ million (1973)	Main Products	Brand Names
Birds Eye Foods Ltd.	Unilever Ltd.	109.0[a]	Wide range	Birds Eye, Tempo, Market Day, County Fair
Ross Foods Ltd.	Imperial Group Ltd.	41.5[b]	Wide range	Ross
Findus Ltd.	Nestlé group of companies	41.2	Wide range	Findus
Young's Seafoods Ltd.	Imperial Group Ltd.	21.9[b]	Shellfish and specialty fish products	Youngs
McCain International Ltd	McCain Foods Ltd of Canada	10.1	ChipsMcCain, Caterpac, Valley Farms	
Associated Fisheries Ltd.		8.8	Fish and fish products	Kingfrost
MacFisheries Ltd.	Unilever Ltd.	7.2[a]	Fish and fish products	Kiltie
Henry Telfer Ltd.	J. Lyons & Co., Ltd.	7.2	Meat products	Telfer
Kraft Foods Ltd.	Kraftco Corporation, USA	5.4	Meals, pies, faggots, sausages	Kraft, Brains
Ross Poultry Ltd.	Imperial Group Ltd.	4.3[b]	Poultry products	Buxted, Premier Farm
Northray Foods Ltd.	ITT Corp. of New York	3.6	Vegetable	Northray
Primecut Foods Ltd.	Sardove Ltd.	3.1	Meat and meat products	Primecut
Potato and Allied Services Ltd.	Christian Salvesen Ltd.	2.5	Chips	Distributors' own brands only
Frozen Quality Ltd.		2.4	Vegetables	Froqual
Jus-Rol Ltd	Fitch Lovell Ltd.	2.3	Pastry products	Jus-Rol
J.B. Eastwood Ltd.		2.1	Poultry portions	Chubby, Kentucky
TW Downs Ltd.	Union International Co., Ltd.	2.1	Portioned meats, poultry, and vegetables	Downs, Ocoma
Brooke Bond Oxo Frozen Foods Ltd.	Brook Bond Leibig Ltd.	1.8	Poultry, meat, pies	Brooke Farm
Anglian Tendabeef Ltd		1.4	Meat products	Emborg, Fribo
J. Marr (Fish Merchants) Ltd.		1.1	Fish	Marr, Junella
Scot Bowyers Ltd.	Unigate Ltd.	1.0	Meat products	Scot Bowyers
Unger Meats Ltd.		1.0	Meat products	Unger meats

Source: "Frozen Foodstuffs: A Report on the Supply in the United Kingdom of Frozen Foodstuffs for Human Consumption," The Monopolies and Mergers Commission, Great Britain, © 1976, p. 106.

[a]Excluding frozen foods sales between Unilever subsidiaries.
[b]Including sales to other subsidiaries of Imperial Foods.

Exhibit 8 Birds Eye's Retail Product List at August 25, 1975

	Pack Size (oz.)
Vegetables	
Garden peas	32, 16, 8, 4
Supreme peas	16, 8
Petits pois	32, 10
Economy peas	32, 16
Peas and baby carrots	16, 8
Peas and sweet corn	8
Peas and pearl onions	8
Sliced green beans	32, 16, 8, 4
Supreme sprouts	8
Casserole vegetables	8
Broad beans	8, 4
Sweet corn	6
Corn on the cob	12
Cauliflower	12
Crinkle cut chips	32, 12, 6
Potato fries	12
Potato croquettes	6
Potato fritters	8
Tasti-fries	8
Mushy processed peas	10
Whole french beans	8
Chopped spinach	8
Broccoli	9
Small onions and white sauce	5
Potato waffles	12
Mixed vegetables	4
Savory vegetable rice (3 varieties)	8
Fish	
Cod fish fingers	36, 16, 10, 6
Fish cakes	12, 8, 4
Salmon fish cakes	4
Economy fish sticks	9, 5-4
Battered fish fingers	9, 4½
Cod fillet in batter	-
Cod fillets in breadcrumbs	7½
Breaded plaice filets	7½
Cod steaks	14, 7
Haddock steaks	14, 7
Buttered kipper fillets	10, 6
Buttered smoked haddock	7½
Savory fish cakes	4
Cod steaks in batter	7½
Cod steaks in breadcrumbs	6
Crispy cod fries (handipack)	7
Cod and chips (handipack)	9
Cod in butter sauce	6
Cod in sauce—other varieties	6
Cod fillets	13, 7½
Haddock fillets	13, 7½
Plaice fillets	13, 7½
Hake fillets	7½
Meats	
Beefburgers	48, 16, 8, 4

	Pack Size (oz.)
Minceburgers	8, 4
American style beefburgers	8
Savory rissoles	9, 4½
Chicken rissoles	4½
Brunchies	4
Steaklets	11, 5½
Skinless pork sausages	10, 6½
Battered bangers	7
Gravy and lean roast beef	12, 8, 4
Gravy and roast chicken	12, 4
Gravy and roast leg of pork	12, 4
Shepherds pie	16, 8
Faggots, Faggot dinner	13, 14
Roast beef dinner	12½
Roast chicken dinner	11
Chicken and mushroom casserole	6
Lamb casserole	6
Braised kidneys in gravy	5
Beef stew and dumpling	16, 7½
Minced beef in gravy	16, 6
Liver with onion and gravy	5
Quarter chicken	9, 8, 7
Four crispy pancake rolls	8
Special fried rice	8
Sweet and sour pork in crispy batter	8
Sweet and sour chicken	8
Chicken chow mein	8
Prawn curry	9
Beef pie	Serves 3/4, 1
Steak and kidney pie	Serves 2/3, 1
Chicken pie	Serves 2/3, 1
Chicken and mushroom pie	Serves 1
Minced beef and onion pie	Serves 1
Pizza bolognese	8
Pizza tomato and cheese	8
Six sausage rolls	-
Two large beef and onion rolls	-
Egg, bacon, and cheese flan	-
Danish savory rolls	12, 6
Cakes, Desserts, and Pastries	
Moouse cartons	9
Ripple moouse cartons	9
Moouse tubs	-
Trifle	-
Lovely	-
Melba	-
Cream desserts	-
Arctic roll	-
Dairy cream sponge	-
Chocolate (strawberry and blackcurrant)	-
Cheesecake (creams)	-
Gateaux	-
Puff pastry	13, 7½
Short crust pastry	13, 7½
Raspberries	8
Strawberries	8
Florida orange juice and grapefruit juice	-

Source: "Frozen Foodstuff: A Report on the Supply in the United Kingdom of Frozen Foodstuffs for Human Consumption," The Monopolies and Mergers Commission, Great Britain, © 1976, pp. 100-101.

Exhibit 9 Comparative Profitability (Pretax Return on Capital Employed %)

	1964	1967	1971	1972	1973	1974
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: Robert M. Grant, "Birds Eye and the U.K. Frozen Food Industry," case study, © July 1985.

Exhibit 10 Advertising and Promotion Expenditures (£M)

	1971	1972	1973	1974
Birds Eye				
Sales	88.8	93.2	114.3	132.8
Ads	2.1	2.1	2.8	2.7
Total Promotion & Advertising	3.8	3.8	4.2	4.5
Ross				
Sales	41.9	49.0	64.2	75.4
Ads	.2	.2	.1	NA
Findus				
Sales	29.0	32.5	43.1	51.5
Ads	.3	.5	.5	.4
Total Promotion & Advertising	NA	NA	NA	1.6

Source: Casewriter estimates

Exhibit 11 Changes in the Recommended Retail Prices of Certain Products Supplied by Birds Eye, Findus and Ross Foods, November 1971 to July 1975

		Price at Nov ‘71	’71 Dec	’72 Jan	Apr	Jun	Jul	Oct	’73 Feb	Mar	Apr	Jun	Jul	Sep	Oct	Nov	’74 Feb	May	Aug	Sep	Nov	Dec	’75 Feb	Mar	Apr	May
Fish	B	19	20			21½			22½	23		25		26½	28½		30						31			32
Fingers	F	19		20			21½		22½	23			25		28	30	31			30			31			32
10 oz	R	18		19				20½	21½	22			24	26		28	29½		26		26		26			27
Beef	B	20½	22			23½			24½	26½	27½	28½					29½						30			31
Burgers	F	20½		22			23½		24½	26½	27½		28½				29½								30	31
8 oz	R	20½		22				23½	24½	26½	27½		28½				29½									31
Peas	B	9½	10		10[a]							11			9[b]		9½	10	11		11½		12½			14
8 oz	F	9½		10			9½						10½							11½		12½	13½			15
	R	9½		10			9						9½				10	10½	11½		12		12½			14
Sliced	B	11½						12				12½					13½		14½		16½			16		17
Green	F	11½						12½					13		13½	14½	15½			16½		17			18½	19½
Beans	R	11½						12					12½				13½		14½		15½					17

Source: “Frozen Foodstuffs: A Report on the Supply in the United Kingdom of Frozen Foodstuffs for Human Consumption,” The Monopolies and Mergers Commission, Great Britain, © 1976, p. 106.

B: Birds Eye; F: Findus; R: Ross Foods

[a]Weight of pack increased from 8 oz to 10 oz.
[b]Weight of pack reduced from 10 oz to 8 oz.

Exhibit 12 Birds Eye Foods Ltd: Accounts 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	8,145
Group service charge	NA	NA	NA	NA	NA	5,305	5,527	4,946
Net current assets	15,164	24,717	31,034	32,069	44,792	53,337	59,141	73,165
Stocks	17,479	26,012	29,263	30,983	40,356	52,431	54,317	68,921
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