



## **DETERMINATION OF MERGER NOTIFICATION M/06/051 – LARGO/TAYTO**

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### **Section 21 of the Competition Act 2002**

#### **Proposed acquisition by Largo Food Exports of Tayto Crisps Limited**

**Dated 4/09/06**

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#### **Introduction**

1. On 4 August 2006, the Competition Authority (“the Authority”), in accordance with Section 18 (1) of the Competition Act, 2002 (“the Act”) was notified, on a mandatory basis, of a proposal whereby Largo Food Exports Limited (“Largo”) would acquire the entire issued share capital of Tayto Crisps Limited (“Tayto”).

#### **The Undertakings Involved**

2. Largo, the acquirer, is an Irish company active in the manufacturing, marketing and distribution of savoury snack foods. It has two manufacturing plants in the State: one in Meath and one in Donegal; and a manufacturing plant in the Czech Republic. The acquirer also has a subsidiary based in Northern Ireland. This subsidiary is not, however engaged in manufacturing.
3. The acquirer manufactures its own savoury snack foods under its own brands (Perri”, “Hunky Dorys” and “Sam Spudz”) and manufacturers savoury snack foods, branded and unbranded for third parties such as Tayto and several retail multiples from its manufacturing plants in Meath and Donegal.
4. The acquirer is active in the distribution of and manufacture of savoury snacks in Czech Republic, Slovakia, Austria and Germany from its manufacturing plant in the Czech Republic.
5. For the year ending 31 December 2005, the acquirer’s world-wide turnover was €53.7 million of which €32.5 million derived from its activities in the State.
6. Tayto, the target, is owned by Bouchell Limited, a wholly-owned subsidiary of the C&C Group. The target is involved in the distribution of savoury snacks, in particular, extruded snacks, crisps and popcorn, under either/both of its brands “Tayto” and “King”.
7. The target is not active in the manufacturing of its own and/or third party savoury snack products. Since 2003, the manufacturing of the target’s products (savoury snack and crisps) has been outsourced principally to the acquirer. The target has no manufacturing facilities in the State.

8. For the financial year ended 28 February 2006, the target's turnover was €50.8million from its activities in the State. The target is not active outside of the State.

**The Savoury Snack Sector in the State**

9. Savoury snacks can be understood as including potato crisps, corn snacks, extruded snacks<sup>1</sup>, popcorn, baked snacks and nuts.
10. Suppliers of savoury snacks in Ireland include both domestic and international suppliers, supplying branded and non-branded<sup>2</sup> products to retailers in the State. The major suppliers of savoury snacks in the State are set out in Table 1 below which also includes the brands under which savoury snacks are supplied and the market share of the leading undertakings annually between 2000 and 2005.

SUPPLIER	LOCATION	BRAND/ NON-BRANDED	SHARE (%) <sup>3</sup>	
			2000	2005
Largo	Ireland	Perri Hunky Dorys Sam Spudz	15.0	10.5
Tayto	Ireland	Tayto King	51.8	36.8
Frito-Lay ("Walkers")	United Kingdom	Walkers	0.0	19.3
United Biscuits	United Kingdom	KP Phileas Fogg Hula Hoops	14.8	13.5
Procter & Gamble	Belgium	Pringles	10.8	12.6
Multiples	Various, including Ireland & the United Kingdom	Own-label	7.5	7.2
Total			100	100

Source: The Competition Authority based on Nielsen and Euromonitor data

11. The undertakings involved have estimate that the value of the savoury snacks sector in Ireland is approximately €175 million. The breakdown of the value of the savoury snack sector in order to determine the activities of the various entities active in the savoury snacks sector is complicated and difficult. However, based on data provided by the undertakings involved and sourced through Nielsen<sup>4</sup> and Euromonitor, several general but not definitive points can be made:

<sup>1</sup> Extruded or granular snacks have a cereal or potato base: See Monopolies & Mergers Commission 1982. *Nabisco Brands Inc and Huntley & Palmer PLC*. London: HMSO; and OFT. 2002. *Report in Frito Lay Trading Co. GmbH, a subsidiary of Pepsico Inc Proposed acquisition of certain assets ( including the "Wotsits" brand) from the Golden Wonder Group Limited*, London: OFT.

<sup>2</sup> Non-branded products can generally be understood as savoury snack products manufactured by or on behalf of retail multiples.

<sup>3</sup> Share data, sourced from Nielsen and Euromonitor is based on all brands held by the company identified in the left-hand column and based on weight/volume of products sold for the years identified.

<sup>4</sup> Data available only in relation to potato crisps and extruded snacks and does not include data for nuts and popcorn.

- the savoury snacks sector in the State is experiencing, overall in terms of volume, a slight decline over the last several years<sup>5</sup>;
  - domestic branded savoury snacks suppliers are facing vigorous competition from non-domestic branded savoury snack suppliers (e.g. imported savoury snacks under the brand name “Walkers”) which have gained considerable share at the expense of domestic and non-domestic suppliers; and
  - market shares have fluctuated across the many suppliers active in the sector.
12. The route to market for savoury snacks can be generally divided into three stages: (1) manufacturing; (2) marketing; and (3) distribution. It does not appear to be necessary for a savoury snack supplier to be fully vertically integrated in order to compete. Review of the sector shows a variety of business models ranging from complete vertical integration (manufacturing, marketing and distribution as carried on by Largo, the acquirer) to partial vertical integration (manufacturing outsourced and marketing and part-distribution in-house as carried on by Tayto, the target).
  13. In the State, Largo, the acquirer, is the only manufacturer of savoury snacks. Largo manufactures its own brands of savoury snacks and also manufactures for the target and for other third party savoury snack suppliers (including non-branded savoury snacks for multiple retailers) for distribution either in the State or abroad. A large proportion of the acquirer’s manufacturing activities relates to its manufacturing of savoury snack products for Tayto.
  14. Many of the branded suppliers (e.g. United Biscuits, Frito-Lay and Procter and Gamble) manufacture their own savour snack products. In respect of non-branded “own-label” savour snacks, however, manufacturers in the State, in the United Kingdom and elsewhere in the European Union compete with each other for outsourced manufacturing contracts.
  15. The marketing (or “branding”) of savoury snacks is generally carried out in-house by the savoury snack provider.
  16. Distribution of savoury snacks may be carried out by third-parties or by the savoury snack supplier itself. Review of the sector has shown that specialisation in savoury snack distribution is not a necessary feature of savoury snack distribution and that distributors who distribute products by way of ambient temperature distribution are capable of distributing savoury snacks.
  17. The undertakings involved have estimated that there are in excess of fifteen distributors currently distributing on behalf of savoury snack providers. These distributors also distribute other products such as ambient snack foods, confectionary and/other impulse purchases and mineral drinks in cans and/or bottles.

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<sup>5</sup> The savoury snacks sector in the State expanded up to and including 2002 but has since seen a contraction in volume (consumption). Current levels of volume are approximately 7% less than in 2002.

## Analysis

18. Both the acquirer's and the target's product focus concerns savoury snacks. The undertakings involved operate at several levels of the manufacturing process which are set out in Table 2 below.

UNDERTAKINGS INVOLVED	BRANDS	MANUFACTURING		MARKETING		DISTRIBUTION	
		OWN	THIRD PARTY	OWN	THIRD PARTY	OWN	THIRD PARTY
Largo	Perri Hunky Dorys Sam Spudz	YES	YES	YES	NO	YES	NO
Tayto	Tayto King	NO	NO <sup>6</sup>	YES	NO	YES	NO

Source: The Competition Authority

■ Horizontal Overlap  
■ Vertical Overlap

19. As Table 2 above demonstrates, the activities of the undertakings involved overlap horizontally in respect of marketing and distribution of savoury snacks in the State.
20. Table 2 above further demonstrates that only the acquirer is active in the manufacturing of savoury snacks in the State. There is, however, vertical overlap in activities of the undertakings involved as the acquirer currently manufactures the products of the target.
21. Each of the overlapping areas of activity will be reviewed below.

### *Marketing and Distribution of Savoury Snacks in the State*

22. The activities of the undertakings involved overlap horizontally in respect of the marketing and distribution of savoury snacks in the State.
23. Both the target and the acquirer are active in the marketing, branding and development of their respective product brands which compete against each other at the retail level. Table 1 above indicates that the acquirer and the target will have a combined post-merger share of approximately 47.3% of savoury snacks in the State (by weight/volume).
24. While this figure appears relatively high, the Authority notes that the share figures of the undertakings involved have been declining. Over the period 2000-2005, their combined market share declined by 19.5 percentage points. Further, the undertakings involved, and consequently the post-merged entity, will face considerable competition from other suppliers of savoury snack foods most of which are imported from the UK and from elsewhere in the European Union.
25. In particular, the undertakings involved have submitted, and the Authority has found that, Walkers (an imported product) poses a significant

<sup>6</sup> Prior to 2003, Tayto manufactured its own savoury snack products. However, its manufacturing operations were never utilised for third-party product manufacture.

competitive constraint on the undertakings involved and should continue to do so post-merger. Walkers have vigorously competed with the undertakings involved and other savoury snack suppliers in the State since entering the market in 2000/01 and in 2005 had a market share of 19.3%.

26. Despite the appearance of a high market share post-merger, in terms of volume of savoury snacks consumed in the State, the Authority has found that given the strong competitive constraints by other savoury snack providers established outside of the State, no competition concerns arise.
27. In respect of the distribution activities of the undertakings involved, the acquirer distributes its own products but not those of third parties and the target distributes its own savoury snacks using its own dedicated distribution fleet. Post-merger, no competition concerns arise in respect of the distribution of savoury snacks given the large number of alternative distributors in the State.

#### *Manufacturing of Savoury Snacks in the State*

28. The acquirer is the only manufacturer of savoury snacks in the State. It manufactures its own savoury snacks and those of third parties, including Tayto. The target, prior to 2003, manufactured only its own savoury snack products but did not manufacture on behalf of third parties. In 2003, it began to discontinue its manufacturing operations on the basis of a detailed cost-benefit analysis and following a competitive tendering process it awarded the acquirer with the manufacturing contract for the target's savoury snacks.
29. The acquirer also manufactures savoury snacks for third parties, the majority of which are own-brand savoury snacks of large retail multiples. The undertakings involved have submitted and the Authority has found that manufacturing of savoury snacks by third parties is a regular feature of the sector and that manufacturing services can be readily provided by manufacturers in other countries. By way of example, the acquirer manufactures in the State on behalf of several third parties whose manufacturing requirements are not destined for domestic retail outlets.
30. The Authority, therefore, concludes that the proposed merger does not give rise to competition concerns.

#### **Determination**

The Competition Authority, in accordance with Section 21(2) of the Competition Act, 2002, has determined that, in its opinion, the result of the proposed acquisition by Largo Food Exports Limited of Tayto Crisps Limited will not be to substantially lessen competition in markets for goods and services in the State and, accordingly, that the acquisition may be put into effect.

#### **For the Competition Authority**

Dr. Paul K. Gorecki  
Member of the Competition Authority

