

## **Sections from the report of the Monitoring Trustee, relating to the production problems at Hartington and the ongoing profitability and viability of Millway<sup>1</sup>**

### **2. Summary of conclusions and recommendations**

#### **2.5 *Production problems at Hartington***

- 2.5.1 The quality issues do not indicate that Hartington cannot produce good cheese – indeed we have been provided with evidence that in blind tastings held by the Stilton Cheesemakers' Association (“SCMA”) that Hartington has been consistently well scored.
- 2.5.2 However, Hartington is currently struggling to produce good cheese on a sufficiently consistent basis in large enough volumes to meet the quality demands of the major retailers despite the significant time and capital invested in the site and attempts at rectification. Given that Dairy Crest, with its resources, could not solve the problems, we question whether a smaller organisation such as Long Clawson or another purchaser with less stilton experience would be able to do so.
- 2.5.3 We were given a number of explanations for the quality issues including problems with curd consistency, heating, curd handling on the CV and motors breaking down resulting in a whole day's production being wasted and/or impaired. There are clearly deep seated issues with production at Hartington. These explanations highlighted issues in connection with the operation of the continuous coagulator, with some of the subsequent processing and the general factory environment.

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<sup>1</sup>KPMG was appointed as Monitoring Trustee on 5 November 2008 and sent us its final report on 28 November 2008. This appointment was pursuant to the directions issued by us on 13 October 2008 and the undertakings given by Long Clawson to the OFT on 29 August 2008, which were subsequently adopted by us. The Monitoring Trustee was asked, among other things, to report on the production and quality problems which Long Clawson had told us existed at Millway, and the related viability of the business. KPMG considered the business' current operations and alternative ways in which to run the business, including the possibility of adding more traditional vat capacity. The sections of KPMG's report and conclusions relating to these issues are reproduced in their entirety in this appendix. The sections of KPMG's report relating to other issues are not included. In publishing these sections of KPMG's report to us, KPMG asked us to point out that, under the terms of its engagement and to the fullest extent possible, it accepts no liability to any third party.

2.5.4 It seems that it would be feasible to implement the proposal to increase the traditional vat capacity. Based on our analysis, however, the savings would not be significant enough to recover the site overheads and render the site profitable. Furthermore, there is the possibility that the implementation of the vats could also limit the ability of the business to expand.

## **2.6 Ongoing viability**

2.6.1 Our analysis has shown that in order to break even, overheads would have to be decreased by at least 45% (whilst maintaining sales volumes and prices) or sales prices increased by 29% (without any corresponding increase in costs) for the site to break even.

2.6.2 Whilst there may be a number of feasible cost saving initiatives, given that the factory has been designed for a much larger throughput than is currently forecast, we believe that these initiatives are unlikely to be significant enough to rescale the site to a lower volume. Whilst improvements could be made by looking at energy providers, maintenance contracts and overtime we believe it is unlikely that all overheads could be reduced to a sufficient level to generate a profit.

2.6.3 As it stands, the current Hartington business does not appear to be viable as a standalone business.

2.6.4 The combined Long Clawson and Hartington business is viable in the short term on the basis of the financial support currently being provided by Long Clawson to Hartington. [REDACTED] In the medium to longer term, the combined business does not appear sustainable with both sites remaining operational given the significant ongoing trading losses incurred by Hartington of roughly £[REDACTED] to £[REDACTED] per month based on Long Clawson's projections and historic financial statements.

2.6.5 In the short term, and subject to identifying interested purchasers, the sale of the shop and/or agricultural land would help to alleviate some of the losses and cash flow issues to a certain extent. In the longer term, and without knowing the likely sales value of these assets, it is difficult to assess the impact of this sale. Whilst it is clear that these assets are not core to the business and therefore would not be a critical feature in any divestment, it is not possible to assess their attractiveness to any specific potential purchaser of the business should divestment be required.

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