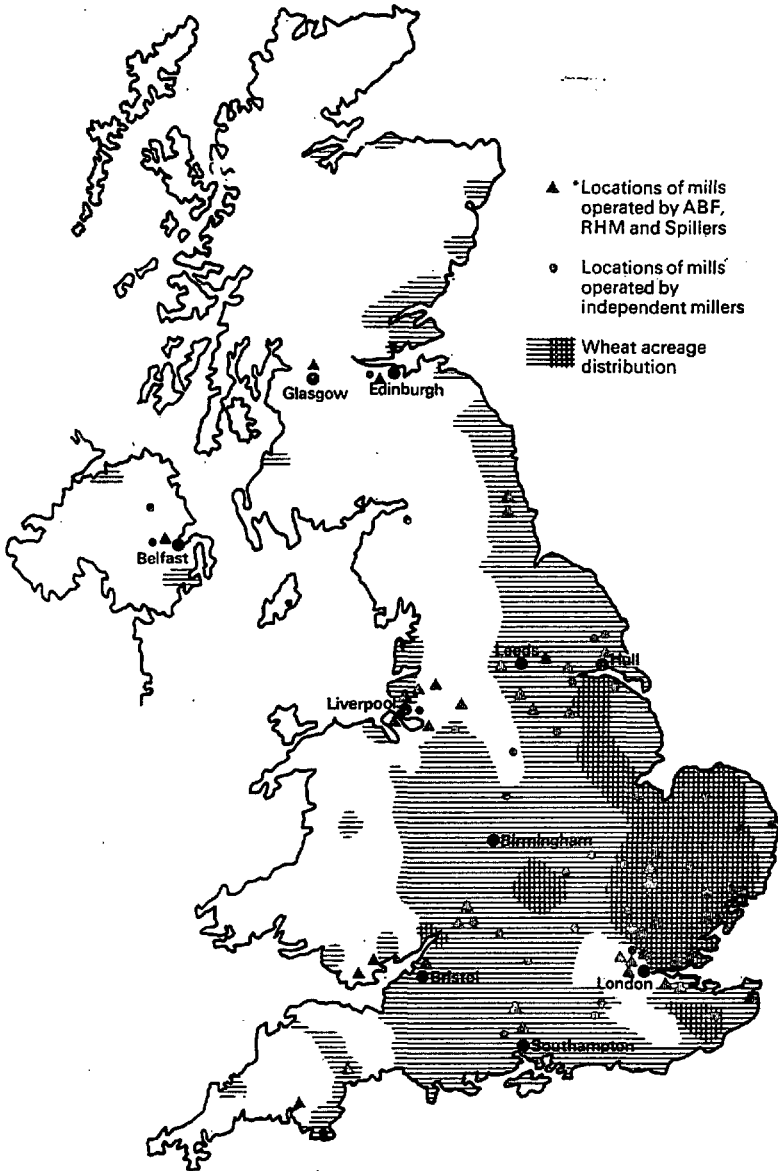


APPENDIX 1

(referred to in paragraphs 26 and 240)

Locations of flour mills and wheat acreage distribution



**In some instances two or more mills operate at the same location. In Jan 77 ABF, RHM and Spillers operated 57 mills*

APPENDIX 2

(referred to in paragraphs 71 and 479)

The Millers' Mutual Association
Purchase of goodwill and plant and machinery: 1953 to 1976

The following schedule showing the extent of its activities has been prepared by the Association.

(Note: Though the heading 'No of Mills' is used below for convenience, it has to be noted that the MMA only purchases the goodwill and plant and machinery relating to the flour milling business carried on in a mill. The MMA never buys the mill itself.)

<i>Year</i>	<i>No of Mills</i>	<i>Price Paid (£)</i>
1953	12	196,173
1954	None	Nil
1955	1	25,065
1956	1	17,528
1957	5	198,457
1958	9	204,106
1959	13	469,670
1960	11	848,233
1961	6	225,693
1962	4	197,698
1963	2	32,959
1964	None	Nil
1965	4	210,282
1966	3	86,543
1967	4	90,013
1968	None	Nil
1969	4	181,340
1970	4	468,482
1971	2	42,500
1972	3	158,937
1973	3	527,734
1974	None	Nil
1975	2	75,626
1976 (to November)	None	Nil
	<hr/> 93	<hr/> £4,257,039

APPENDIX 3

(referred to in paragraphs 314 and 480)

**The Millers' Mutual Association
Report to Members**

For weeks ended Saturday, 197

Period

Member	Total deliveries (sacks of 280 lb)				Export trade	Total trade	Average weekly running hours	Period
	Included trade							Total Trade (for weeks)
	Breadmaking flour	Biscuit flour	Other flours	Total included trade				
<i>First Area</i>								
Allinson Ltd								
Carr's Flour Mills Ltd								
Caudwell E (Rowsley) Ltd								
Croysdale John & Sons Ltd								
Greensmith T C & Sons Ltd								
Nelstrop Wm & Co Ltd								
Smiths Flour Mills Ltd								
Thirsk T S & D Ltd								
Tindall A W Ltd								
Wilson King Ltd								
<i>Area Total</i>								

For weeks ended Saturday,

197

<i>Member</i>	<i>Total deliveries (sacks of 280 lb)</i>				<i>Export trade</i>	<i>Total trade</i>	<i>Average weekly running hours</i>	<i>Period</i>
	<i>Included trade</i>							
	<i>Breadmaking flour</i>	<i>Biscuit flour</i>	<i>Other flours</i>	<i>Total included trade</i>				
<i>Second Area</i>								
Baker Edward Ltd								
Clark & Butcher Ltd								
Cranfield Bros Ltd								
Dewing & Kersley Ltd								
Duffield Wm C Ltd								
Green Walter & Sons Ltd								
Heygates Ltd								
Hills & Partridge Ltd								
Paine & Co Ltd								
Read Woodrow Ltd								
Whitworth Bros Ltd								
<i>Area Total</i>								

For weeks ended Saturday,

197

Member	Total deliveries (sacks of 280 lb)				Export trade	Total trade	Average weekly running hours	Period Total Trade (for weeks)
	Included trade							
	Breadmaking flour	Biscuit flour	Other flours	Total included trade				
<i>Third Area</i>								
Botley Flour Milling Co Ltd								
Botting C A & Sons								
Bowman Jas & Sons Ltd								
Clovers Ltd								
Garratt G & Sons								
Marriage W H & Sons Ltd								
Munsey W H Ltd								
Pledge H S & Sons Ltd								
Priday Metford & Co Ltd								
Wright G R & Sons Ltd								
<hr/>								
<i>Area Total</i>								
<hr/>								
RHM Flour Mills Ltd								
<hr/>								
Spillers-French Milling Ltd								
<hr/>								
<i>Sub-Total</i>								
Totals for the three areas (Note 1)								
<hr/>								
Grand Total								
<hr/>								

Note 1: Estimates have been included for Members who have not rendered their Weekly Returns.

APPENDIX 4

(referred to in paragraphs 315 and 481)

The Millers' Mutual Association

The following is an extract from Rule 2 of The Millers' Mutual Association's Constitution and Rules as at October 1976.

- '2(d) No Member shall retain or acquire any monetary interest in any Flour Mills in England or Wales or such other Areas in which the Association may be operating as determined by the Board if such Mills are owned or controlled by a non-member or non-members unless the owner or controller of such Mills becomes a Member of the Association.
- '(e) (i) No Member shall, without consent of the Board, sell lease or otherwise dispose of to a non-member any Mills owned or controlled by him save upon an undertaking that the purchaser shall forthwith become a member or that such Mills shall not be used for the production of flour.
(ii) No Member shall, without the consent of the Board, part with control of an Associated Company to a non-member save upon an undertaking that the Mills operated by such Associated Company shall not be used for the production of flour.
(iii) No Member shall without the consent of the Board, sell or otherwise dispose of to a non-member, the whole or any part of the goodwill of any business for the production of flour save upon an undertaking by the transferee forthwith to become a member. Where within this rule the consent of the Board is required, the decision to give or withhold such consent may be taken on behalf of the Board by the Chairman or deputy Chairman.
- '(f) No Member shall purchase from a non-member the goodwill of any business for the production of flour separate from the Mills used therewith without a covenant from the Vendor that the Mills will not at any future time be used by any person for the purpose of producing flour unless the Vendor obtains from the purchaser his consent thereto which the purchaser may in his absolute discretion refuse. A Member so purchasing goodwill shall not, while he remains a Member, give such consent.'

APPENDIX 5

(referred to in paragraphs 146, 173 and 197)

Assessment of bakery production capacity

The following are extracts from statements made by the Big Three groups about the method employed for assessing bakery production capacity.

ABF

Definition of production capacity

1. A bakery's bread¹ production capacity is the sum of its individual plant capacities. The weekly production capacity of each plant is taken as

$$(a \times b - c) \times d$$

where:

- (a) is the *nominal capacity* in sacks per hour, of the plant;
- (b) is the number of *production hours* available in the week;
- (c) is the number of *sack hours not available for bread production* on that plant owing to the need to bake other products;
- (d) is the *production factor*² based on the product mix normally required from the plant in question and on the most efficient scheduling of that product mix.

Each of the above factors involved in the computation of plant capacity is explained below in turn.

Nominal capacity

2. Each plant has a nominal capacity, expressed in sacks of flour per hour, based on the size of the equipment comprised in the plant (mixers, dividers, moulders, ovens, provers, coolers) and its ability to convert a number of sacks of flour per hour into 28 oz standard loaves with no tin changes. A sack of flour is 280 lbs and the yield is of the order of 234 to 236 28 oz standard loaves per sack. Yields for other types of bread will vary according to the weight and type of product. The most common plant sizes are 6, 9, 12, 15 and 18 sacks per hour respectively. . . . Most of the bakeries operate two or more plants, and this provides flexibility of operation in scheduling the product mix.

Production hours

3. The number of hours for which the plant is available for production is the maximum number consistent with freshness of the product and the working of reasonable and not excessive overtime. This number of 'production hours' is taken as 100 hours per week. There is a time-lag of about 1 hour 40 minutes between the commencement of mixing to the completed baking of the first loaf of bread. After baking, a cooling time must be allowed of about two and a half hours. As a result of these factors, 100 hours of production time imply a weekly schedule of broadly 100-112 working hours for production staff. A six-day week is worked from Sunday to Friday inclusive, with two eight-hour shifts a day worked from Sunday to Thursday, two consecutive shifts of twelve hours each on Friday and a total of 6-8 hours of additional

¹ Bread rolls are excluded as they differ so markedly from bread loaves that no meaningful plant utilisation figures could be arrived at by their inclusion. The term 'bread' therefore in this note refers to bread as defined in the Reference but excluding bread rolls.

² As this can only be calculated in each case by the bakery in question, there is inevitably some element of imprecision involved even in comparing plant utilisation figures of different bakeries within the Allied Bakeries Group. Any comparison with similar figures for other concerns in the bread industry (if available) would be of doubtful value, because of the impossibility of ensuring comparability of the 'production factor' applied in each case.

overtime, usually on Sunday and Thursday. The above schedule is broadly the pattern of working in the group's bakeries. . . . There are also variances from this normal pattern due to type of plant, product mix and, more especially, the despatch requirements which differ at each bakery.

4. Retail sales of bread peak sharply at the weekend, being heaviest on Saturday but also heavy on Friday. Consumer demand on Saturday is such that it represents more than the average bakery is capable of producing in 24 hours. Production schedules for Friday's deliveries must therefore be advanced sufficiently to allow enough production time for Saturday's requirements.

Sack hours not available for bread production

5. Bread rolls and similar products are baked on the bread plants in many of the group's bakeries, a record is kept of the weekly sack hours unavailable for bread production and an average used for the period in question.

Production factor

6. On the basis of 100 production hours per week a 9-sack plant could produce 900 sacks per week, provided it was producing nothing but 28 oz standard bread with no tin changes. In practice, however, all bakeries have requirements for a variety of breads, and this factor unavoidably reduces the level of production below that which could be obtained on uninterrupted baking of 28 oz standard bread without tin changes.

7. Among the factors affecting the level of production are the following:

- (i) the number of different types of loaf being baked affects down time because of changes of tin and mix and the need to alter machinery settings;
- (ii) some types of bread can only be produced at a rate slower than (in some cases only half) the rate implied by the nominal sackage of the plant;
- (iii) the mix of sales outlets, depots and associated bakeries supplied by the bakery will affect the average length of production runs.

8. As part of its routine production planning each bakery calculates the production of its sales requirements over its lines of plant and over the working day in the most efficient manner possible. For the purpose of the quarterly returns of plant utilisation each bakery calculates for an average week the degree to which the product mix normally allocated to each plant depresses the bread sackage production rate per hour below the nominal figure for that plant. This depressing effect is called the 'production factor' and is expressed as a percentage. This percentage, when applied to the number of nominal sack hours available for bread production, gives the available capacity of each plant for bread production. The average weekly bread sackage produced in the quarter is then expressed as a percentage of the bakery's total available capacity, to give the level of plant utilisation.

Assessment of plant utilisation figures: seasonal influences

9. The main cause of seasonal fluctuations in demand is the effect of holidays. The effect of the annual holiday is felt mainly by bakeries situated in or near the holiday resorts, but also, though to a much less marked extent, by bakeries serving population centres temporarily depleted by the absence of those on holiday. The effects of the national and Bank Holidays are felt by all bakeries.

10. Where a bakery is situated in or near a holiday resort, its trade will normally start to increase in June and fall away again in September. In some cases this affects nearly all the bakery's trade and in others only a part. Where a bakery is normally affected by a peaking of demand in the holiday months, allowance is made for this in assessing its plant utilisation. One aims at an acceptable minimum during the off-peak period of, say, 75-85 per cent utilisation, while expecting a figure of around 100 per cent in the high season.

11. All bakeries throughout the country are affected by national seasonal holidays at Christmas, Easter, and Spring and Summer Bank Holiday weekends. The production required during the week preceding a Bank Holiday can be 20 per cent or more up on a normal week, and as much as 50 per cent up at Christmas time depending on the part of the week in which the holiday falls.

Evaluation of quarterly performance figures

12. The figures for average utilisation of production capacity provide a broad indication to management of the efficiency of the bakeries' operations. Other things being equal and ignoring factors special to a particular bakery company, a plant utilisation figure of between 80 per cent and 90 per cent is felt to be satisfactory. Anything under 75¹ per cent would give cause for concern and lead to a reappraisal of that company's business (for example by transferring business to it from a nearby but over-worked associated group bakery). A figure in excess of 95 per cent would indicate that assistance would probably be required at holiday times and in emergencies, while a figure over 100 per cent could well mean in addition that excessive overtime was being worked and that high stocks were being carried towards the end of the week.

RHM

1. In assessing the production capacity of bakery plant, it is necessary to take into account the effect of a variety of constraints upon production. These are that:

- (i) because bread stales, there is a limit on the period which can, acceptably elapse between its production and its becoming available for sale;
- (ii) demand for bread is spread unevenly over the week; it is estimated that on average in any week the demand for bread on Saturday represents about 25 per cent of the total demand for bread in that week. As a consequence of (i) production must follow closely the weekly cycle of demand . . .
- (iii) the mix of production affects throughput both in terms of the sackage which can be put through the oven during productive time and in terms of non-productive time occasioned by tin changes;
- (iv) limitations may be imposed on the hours available for Friday production by the distribution arrangements of the bakery;
- (v) in Scotland only, limitations are imposed by the pattern of Sunday shift working agreed with the unions; and
- (vi) in Northern Ireland, a 5-day production week operates. There is no production on Sunday and no distribution on Monday, and plant utilisation is therefore reduced by approximately one-third.

2. Against that background RHM Bakeries calculate the weekly production capacity of each bakery plant (except in Scotland) by (i) ascertaining the maximum potential Friday production of the plant, and (ii) grossing that up to a weekly figure by reference to the proportion which Friday production bears to a total weekly production at the relevant bakery.

3. Maximum potential Friday production is the product of the number of hours available for Friday production and the actual hourly throughput rate of the plant in question (taking account of the mix of production and the non-productive time associated with that mix of production).

4. In Scotland, to assess production capacity by reference to Friday production would overstate the capacity available since it would ignore the limitations on Sunday production imposed by the agreed pattern of Sunday shift working.

¹ At May 1976 this was raised to 80.

5. Overall demand for bread exhibits a well marked seasonal pattern, following a rising trend from a low point in March until September and then declining over the next six months. Within that pattern, the summer holiday period gives rise to substantial increases in demand, for a period of 8–10 weeks, upon bakeries in the areas of coastal resorts, and peaks of demand occur in the periods immediately preceding statutory public holidays.

6. In general RHM Bakeries aims to provide capacity which will enable it to fulfil average demand.

7. Production requirements for seasonal or Bank Holiday trade may exceed the calculated capacity of a given bakery. Beyond any extent to which those requirements can be met, in the case of seaside bakeries for example, by buying-in from another group bakery, they are provided by working overtime.

Spillers

1. The following factors have been taken into account in assessing capacity:

(i) Achievable hourly output in relation to the plant available and the particular product mix to be baked. Bread plants have a *nominal* capacity of 6, 9, 12, 15, etc sacks per hour indicating that the plant will process this quantity of flour per hour into standard 28 oz tin loaves. The practical capacity, however, will be less than this according to the product mix. For example, the tonnage output of standard 14 oz tin loaves is some 66 per cent of that for 28 oz tin loaves while in the case of 14 oz Farmhouse and 10 oz Slimcea loaves the figures are 50 per cent, and below 40 per cent, respectively.

(ii) The acceptable number of hours per week during which a plant can be operated normally and provide reasonable spare capacity to cover Bank Holidays and summer seasonal trade and also non-producing time when maintenance work can be carried out.

2. Ideally, we target for a maximum normal weekly operating time of 110 hours. This means that with Saturday's sales requirements being at least 25 per cent of total weekly needs, production for weekend sale will take up some 28 running hours.

3. An operating period of 110 hours per week fits in with a reasonable two-shift system for operatives of a 5-day 46-hour week (the basic pay week is 40 hours) with 6-day production coming from the use of additional staff. (In practice, because of labour shortage, most operatives in fact work a 6-day week with hours worked in excess of 50.)

4. Certain bakeries need to operate some plants for longer than 110 hours per week in order to meet sales requirements with the capacity available—these are the exception rather than the rule. When operating hours exceed the 120 per week level, three-shift working instead of two becomes economical.

APPENDIX 6

(referred to in paragraph 218)

Major baking groups memorandum to the Ministry of Agriculture, Fisheries and Food on bread price negotiations

Introduction

1. This submission to the Ministry of Agriculture, Fisheries and Food ('the Ministry') is made on behalf of Allied Bakeries Limited, British Bakeries Limited, Co-operative Wholesale Society Limited, J Lyons & Co Limited and United Bakeries Limited ('the Groups').

2. As the Ministry is aware, in accordance with the mechanics established under the 'early warning system' (Cmnd 2808) of HM Government's Prices and Incomes Policy, the Groups' present procedure is to provide at least four weeks' notice to the Ministry of any proposed increase in the retail price of bread and such submissions, which are made individually, are accompanied by such information as is individually considered appropriate to demonstrate the fulfilment of the criteria for price increases set out in HM Government's White Paper—*Productivity, Prices and Incomes Policy in 1968 and 1969* (Cmnd 3590) HMSO.

3. The Groups have been and are now gravely concerned at the effects of the procedures at present in operation and at the bases adopted by the Ministry in determining the fulfilment or otherwise of the criteria for price increases such bases, in their view, giving rise to a continuing diminution of their margins and returns on capital employed. The advent of demonetisation and decimalisation of the currency will severely aggravate the position.

4. The Groups wish therefore to submit, for the Ministry's consideration, alternative procedures for the submission of information in support of proposed price increases and for the assessment by the Ministry of the validity of the cases so submitted; in their view the revised procedures and methods of assessment will serve to significantly reduce the damaging effects upon them of the existing procedures without departing from the principles or reducing the effectiveness of HM Government's Prices and Incomes Policy.

II The present system

5. In general terms the present procedures involve the submission to the Ministry by individual Groups of details of cost increases incurred since the previous price increase expressed in terms of pence per 28 oz loaf or in global terms on an annual basis; the cost increases so submitted are those falling within the criteria imposed by paragraph 16 of Cmnd 3590. Price increases are agreed or otherwise by reference to this information and are of course only effective from a date following that upon which the Ministry's sanction is granted.

6. The principal disadvantages to the Industry stemming from the operation of this system are:

- (i) Substantial delays occur between the increased costs being incurred and the submission of an application to the Ministry aggravated by further delays in the amplifications to the Ministry and in general negotiations with them. Thus these factors allied to the Ministry's insistence upon cost increases being expressed at a particular point in time and the effect of agreed price increases only being operative from some future time results in no cognisance being

taken of the cumulative 'build-up' of costs which are never recovered in price increases.

- (ii) No account is currently taken of the levels of return on capital employed when assessing the validity of claims for price increases; it is submitted that this constitutes an important criterion and it is recognised as such in all other areas in which HM Government attempts to assess or determine relative profitabilities and in the criteria set out in paragraph 16(iv) of Cmnd 3590. The return on capital employed within the Industry was recognised by the National Board for Prices and Incomes in 1965 as being well below the national average.
- (iii) Specifically identifiable increases in costs of raw materials, manufacturing expenses and certain administration and selling expenses are, it appears, taken into account by the Ministry but full recognition is not given to general overhead cost increases.
- (iv) No account is taken by the Ministry of the continual and gradual contraction in the overall UK market for bread.

III The Proposed System

7. The procedures now proposed by the Groups involve:

- (i) The adoption of Industry accounting dates of 30 September and 31 March.
- (ii) The submission, at semi-annual intervals, by each of the Groups direct to Peat, Marwick, Mitchell & Co of statements of actual sales, costs and profits on bread for their respective financial half-years ending immediately prior to the Industry accounting date, together with:
 - (a) a further statement adjusting the actual results for their respective financial half-years to reflect changes of a national character (for example—price increases, principal raw material costs, variations in wage rates) occurring during the related Industry half-year period, in order that the results will be shown on a common basis and when aggregated, will represent the Industry's results for the Industry half-year.
 - (b) a further statement showing, in respect of the full year following the relevant Industry date, sales, costs and profits on bread anticipated for that period after incorporating known or definitely predictable selling price and cost changes of a national character in that period.
- (iii) The submission annually by each of the Groups of statement of capital employed on bread arrived at on an historic cost basis and by reference to the average of the figures appearing at the opening and closing of the immediately preceding financial year.
- (iv) The aggregation and submission by Peat, Marwick, Mitchell & Co of the statements referred to at (ii)(a) and (b) and (iii) to the Ministry together with calculations of the returns on capital employed.
- (v) Price negotiations would thereafter be conducted on an Industry basis.

8. Drafts of the statements which it is envisaged should be sent to the Ministry are attached as Annexes I and II and the following points seem to merit specific reference:

- (i) the adjustments introduced into columns (1) and (2) of Annex I of the returns of bread sales and costs will only be those of a national character and general increases in overhead costs will be excluded.
- (ii) these statements will exclude all interest charges and all borrowings—regardless of their nature—will be regarded as capital employed.

- (iii) depreciation will be charged on the basis of historic cost and assets included in the statement of capital employed will be similarly stated at historic cost values.
- (iv) the definition of bread will be agreed both between the Groups and with the Ministry.

IV Conclusions

9. The Industry submits that the information presented in the proposed form to the Ministry would provide a more realistic basis for the negotiation—on an Industry basis—and enable the Ministry to verify the validity of the case for bread price adjustments, and in particular:

- (i) it would enable the Ministry to regularly review the Industry returns on capital employed and to assess the extent to which increases in costs and prices affected this return.
- (ii) it would enable the Ministry to view retrospectively the effect of price increases and, if thought appropriate, to suggest downward price adjustments, against the background of the Industry's return on capital employed.
- (iii) it will substantially reduce the administrative burden on both the Groups and the Ministry.
- (iv) from the Industry's standpoint it will enable the more rapid recovery of costs but will ensure that excessive price increases are not sanctioned—or if sanctioned—corrected in due course.

10. It is suggested therefore that the Groups are permitted to consider the above proposals with the Ministry as a matter of urgency. They also accept that they would require to obtain legal advice on the implications of the restrictive trade practices legislation, upon which, it is understood, the Ministry is prepared to assist the Industry.

PEAT, MARWICK, MITCHELL & Co.

27.10.1969.

ANNEX I

Statement of Sales, Costs and Profits on Bread Industry
half-year to (30 September 19—/31 March 19—)

	<i>Industry half-year to (30 September/ 31 March)</i> (1) £'000	<i>Industry Projection year to (30 September/ 31 March)</i> (2) £'000
Sales of bread	_____	_____
1. Production		
Flour		
Other materials		
Bakery wages		
Fuel and power		
Production overheads		
Depreciation	_____	_____
	_____	_____
2. Administration		
Wages and salaries		
Other expenses	_____	_____
	_____	_____
3. Selling and delivery		
Wages and salaries		
Other expenses	_____	_____
	_____	_____
4. Discounts	_____	_____
	_____	_____
5. Advertising and promotion	_____	_____
	_____	_____
Total costs	_____	_____
	_____	_____
Profit before taxation	_____	_____

Note:

The following adjustments have been made to the figures shown above for changes of a 'national' character.

ANNEX II

Statement of Capital Employed
Industry Year-end—31 March 19—

	<i>Beginning of year</i> £'000	<i>End of year</i> £'000
<i>Fixed assets, at net book value</i>		
1. Land	_____	_____
2. Buildings	_____	_____
3. Bakery plant and machinery	_____	_____
4. Motor vehicles	_____	_____
5. Other (give broad breakdown)	_____	_____
6. Goodwill at cost	_____	_____
<i>Current assets</i>		
7. Stock and work in progress	_____	_____
8. Debtors and prepayments	_____	_____
9. Bank and cash balances	_____	_____
<i>Current liabilities</i>		
10. Trade creditors and accruals	_____	_____
11. Current taxation	()	()
12. <i>Share of Group Head Office capital employed</i>	_____	_____
<i>Capital employed</i>	_____	_____
average		
Aggregate trading profits:	_____	_____
	£'000	
Industry half-year to 30 September 19—	_____	
Industry half-year to 31 March 19—	_____	
% on capital employed	_____	%

APPENDIX 7

(referred to in paragraphs 318, 430 and 482)

Report on flour milling costs

Thomson McLintock & Co, Chartered Accountants

PRIVATE AND CONFIDENTIAL

6 October 1975

E T J Hurle Esq
Secretary
National Association of British and Irish Millers Ltd
21 Arlington Street
London SW1

Dear Mr Hurle

Cost Enquiry

1. We have previously reported to you upon the results of enquiries we have made into the cost of flour milling. In 1971 and 1972 we performed updating exercises on our 1970 report, and in 1974 we made a further full enquiry into milling costs. This we reported to you on 30 September 1974.

2. The present enquiry is based on the year ended 31 March 1975 although we include 10 millers with other year ends between December 1974 and April 1975. The questionnaire which formed the basis of the enquiry largely followed that used in 1974, although we amended it slightly following comments from members.

3. The response to our questionnaire is still rather disappointing but it is better than in 1974. We sent out questionnaires to 39 millers (three said previously that they did not wish to participate) and to date we have received 22 replies, with two others indicating they did not feel able to participate. The members who replied to the questionnaire are a representative cross-section of the milling industry.

4. We have slightly amended the grouping of returns from our previous reports. We now report as follows:

	<i>Annual production in sacks</i>	<i>Number of returns</i>
Group 1	under 100,000	7
Group 2	100,000—200,000	4
Group 3	200,000—300,000	6
Group 4	over 300,000	5
		22

5. We give below a summary of the cost of production per sack for the year ended 31 March 1975, per group:

	<i>Group 1</i>	<i>Group 2</i>	<i>Group 3</i>	<i>Group 4</i>	<i>All groups</i>	<i>Your company</i>
	p	p	p	p	p	p
Manufacturing costs:						
Wages	56.2	32.2	36.7	38.4	38.4	
Repairs	19.5	16.1	12.1	20.1	19.5	
Depreciation	13.5	12.3	7.3	10.1	10.0	
Power costs	14.7	15.7	13.5	15.1	15.0	
Quality control	1.4	3.3	2.2	2.3	2.3	
Other	36.5	29.1	8.3	9.7	10.5	
	141.8	108.7	80.1	95.7	95.7	
Selling expenses	24.3	8.7	6.1	19.9	18.9	
Delivery expenses	46.2	49.5	31.2	36.7	36.9	
Discounts	27.7	22.3	23.3	18.2	18.8	
Administration	38.0	38.5	18.9	28.6	28.4	
	278.0	227.7	159.6	199.1	198.7	
Total before charging MMA levies	278.0	227.7	159.6	199.1	198.7	

6. The general pattern of weighted average results as between groups continues to show the same trend as disclosed in our earlier reports; ie as output gets larger, unit costs fall. In the largest group, costs rise again, largely due to higher selling and delivery expenses and administration costs.

7. The highest and lowest costs in each group are as follows:

	Group 1	Group 2	Group 3	Group 4	All groups
	p	p	p	p	p
Highest cost	347.0	303.0	182.0	217.2	347.0
Lowest cost	220.0	144.0	131.0	164.0	131.0
Weighted average	278.0	227.7	159.6	199.1	198.7
Sackage (000's)	367	651	1,500	22,960	25,479*

* Note by the Commission:

The 22 millers who participated in this enquiry appear to have accounted for over 85 per cent of total flour production in the year ended 31 March 1975.

8. A more interesting comparison is that of the costs for the year ended 31 March 1975 with those of 1974 and 1973. We give this below:

	Year ended 31 March		
	1973	1974	1975
Manufacturing costs:			
Wages	27.5	28.2	38.5
Repairs	12.3	12.2	19.5
Depreciation	7.1	7.8	10.0
Power costs	} 24.2	} 23.9	{ 15.0
Quality control			
Other			{ 10.5
	71.1	72.1	95.7
Selling expenses	10.9	11.4	18.9
Delivery expenses	27.7	30.1	36.9
Discounts	10.0	13.0	18.8
Administration	21.1	21.7	28.4
Total before charging MMA levies	140.8	148.3	198.7

9. It is clear from this comparison that all costs have increased substantially from 1974 to 1975 (by 34 per cent). It will be seen below (paragraph 11) that the gross margin per sack has increased by more than this proportion.

Gross margin

10. We asked millers to give an analysis of their gross margin per sack. We have summarised these as follows:

	Group 1	Group 2	Group 3	Group 4	All groups	Your company
	£	£	£	£	£	£
Sales proceeds per sack, before cash discounts	15.11	13.38	13.88	14.88	14.79	
Less material costs including packaging	13.79	12.98	13.56	13.81	13.77	
Deduct net proceeds from sale of wheatfeed	2.58	2.52	2.36	2.38	2.38	
Net cost of materials	11.21	10.46	11.20	11.43	11.39	
Gross margin per sack	£3.90	£2.92	£2.68	£3.45	£3.40	£

11. In order to place in perspective the apparently large increase of 55 per cent in gross margin from 1974 to 1975, we give below a comparison of the gross margins in 1969 and in each year from 1973 to 1975. This table should be viewed with caution, but it shows that increases up to 1974 were relatively small, especially when considered in conjunction with the movement in the retail price index during this period. There was also in 1973 and 1974 some restriction of margins under the prices legislation; this was relaxed in 1974-75.

A comparison of gross margins over the last few years is as follows:

	1969	1973	1974	1975
	£	£	£	£
Group 1	1.63	2.25	2.82	3.90
Group 2	1.47	1.44	1.75	2.92
Group 3	1.41	1.77	1.82	2.68
Group 4	1.78	2.01	2.21	3.45
All groups	1.73	2.00	2.19	3.40
Retail price index (1969 = 100)	100	136	158	186

Analysis of sales

12. We give the proportion of bagged sales to bulk during the year ended 31 March 1975:

	Group 1	Group 2	Group 3	Group 4	All groups	Your company
Bagged sales	75	61	43	44	45	
Bulk sales	25	39	57	56	55	
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

13. We asked members to indicate the level of sales to related companies and we summarise these thus:

Group 1	2.1%
Group 2	nil
Group 3	19.6%
Group 4	62.0%
All groups	57.3%

This is a statistic of relevance only to the biggest millers.

Return on capital employed

14. We lastly consider the question of return on capital employed. We defined capital employed as 'fixed assets plus current assets, less current liabilities including proposed dividends and bank overdrafts. Debentures, long-term loans, bank and other loans and future taxation should not be treated as current liabilities and should be ignored as should goodwill and trade investments'.

15. Notional capital employed is arrived at as above but substituting an estimate of replacement cost for milling buildings and plant and machinery.

16. We set out these figures thus:

	<i>Group 1</i>	<i>Group 2</i>	<i>Group 3</i>	<i>Group 4</i>	<i>All groups</i>	<i>Your company</i>
Capital employed (£'000s)	<u>1,521</u>	<u>1,606</u>	<u>4,653</u>	<u>90,181</u>	<u>97,961</u>	<u> </u>
Notional capital employed (£'000s)	<u>4,534</u>	<u>5,763</u>	<u>14,221</u>	<u>249,900</u>	<u>274,418</u>	<u> </u>
Profit per sack before tax	<u>113p</u>	<u>68p</u>	<u>108p</u>	<u>146p</u>	<u>142p</u>	<u> </u>
% return on capital employed	<u>27.2</u>	<u>27.5</u>	<u>34.8</u>	<u>37.3</u>	<u>36.8</u>	<u> </u>
% return on notional capital employed	<u>9.1</u>	<u>7.7</u>	<u>11.4</u>	<u>13.5</u>	<u>13.1</u>	<u> </u>

17. In a large number of cases it is clear that the milling business is carried on in conjunction with other activities. In these cases it has sometimes proved difficult for capital employed to be split between the activities carried on. Accordingly we suggest that the foregoing figures of return on capital employed, which take no account of the true effects of inflation on profits, be viewed with caution.

18. We should be glad to discuss this report with you or your members and to let you have any further information you may require.

Yours faithfully

THOMSON McLINTOCK & Co

APPENDIX 8

(referred to in paragraph 430)

RHM Flour Mills Limited

RHM Centre, PO Box 551, 152 Grosvenor Road, London SW1V 3JL

11 November 1976

W McKeown Esq
Monopolies and Mergers Commission
48 Carey Street
London WC2

Dear Mr McKeown

NABIM Cost Enquiry Reports

After discussion of these reports at the Public Interest Hearing we were invited to submit any further comments that we thought might be useful to you in your consideration of these reports as a means of inter-company cost comparisons.

Our principal comment is that NABIM cost enquiry figures tell one nothing about mill efficiencies or comparative costs for the different types or sizes of mills. Other comments on more detailed matters are given below.

1. Number of Participants

The number of millers who responded to the five most recent reports, listed by annual volume of production size, was:

<i>Date of Report</i>	<i>Size of Miller</i>					<i>Total</i>
	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	
31/3/75	—	7	4	6	5	22
31/3/74	3	3	3	4	6	19
31/3/72	1	1	1	1	4	8
30/11/70	1	1	1	1	4	8
15/5/69	13	6	6	8	10	43

The difference in the number of participating companies over the period of six years vitiates any attempt to derive sensible economic conclusions.

2. Size Classification

The classification by annual volume is not constant throughout the five enquiries, the various capacity categories being:

<i>Date of Report</i>	<i>Class size in '000 of Sacks</i>				
	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
31/3/75		Up to 100	100 200	200 300	Over 300
31/3/74	Up to 60	60 120	120 220	220 320	Over 320
31/3/72	Up to 100	100 200	200 300	300 400	Over 400
30/11/70	Up to 100	100 200	200 300	300 400	Over 400
15/5/69	Up to 60	60 120	120 180	180 300	Over 300

3. Distribution of Minimum Cost

The total comparative costs per 280 lb sack of flour yielded by the enquiries, with the minimum figure given in italics were:

<i>Date of Report</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>Total</i>
	<i>Pence</i>	<i>Pence</i>	<i>Pence</i>	<i>Pence</i>	<i>Pence</i>	<i>Pence</i>
31/3/75	—	278·0	227·7	159·6	199·1	198·7
31/3/74	224·4	233·8	132·1	137·1	148·2	148·3
31/3/72	200·1	169·9	154·4	138·5	145·2	145·5
30/11/70	178·9	125·3	131·5	137·3	132·6	132·7
15/9/69	151·2	123·1	110·7	106·4	115·5	115·5

The minimum cost figures occurred in the capacity categories having the following annual production in sacks:

1975	200,000 to 300,000
1974	120,000 to 220,000
1972	300,000 to 400,000
1970	100,000 to 200,000
1969	180,000 to 300,000

As you can see the capacity showing minimum cost is significantly different from one year to the next and tells one little about the relative costs of different capacities in general.

4. Discount Costs

We have not been able to interpret the various figures reported in the NABIM reports for discounts.

Our understanding was that the figures should represent only cash discount which is given for prompt payment of flour invoices. The standard terms for this discount are 2 per cent in 10 days or 1 per cent in 20 days.

The report for 1975 gave the figures for discount as follows:

	<i>Flour Sales</i>	<i>2%</i>	<i>Discount cost Reported</i>
	<i>£ per sack</i>	<i>£</i>	<i>£</i>
TOTAL	14·79	0·29	0·19
Group 4	14·88	0·30	0·18
Group 3	13·88	0·28	0·23
Group 2	13·38	0·27	0·22
Group 1	15·11	0·30	0·28

RHM's average discount was 28·1 pence per sack equal to 1·93 per cent of the sales price. The average of Group 4 figures was 18 pence. The other figures submitted by other companies within this group must therefore be significantly lower than the RHM figures and we do not understand the reason.

Yours sincerely

H W ROBERTS

Director

APPENDIX 9

(referred to in paragraph 386)

Sales, profits and capital employed—flour milling and bread baking

	ABF			RHM			Spillers		
	Flour milling £'000	Bread baking £'000	Total £'000	Flour milling £'000	Bread baking £'000	Total £'000	Flour milling £'000	Bread baking £'000	Total £'000
	1971			1971			1971		
	Year ended 1 April 1972			Year ended 4 September 1971			Year ended 29 January 1972		
Sales	38,050	76,468	114,518	68,390	79,587	147,977			
Profit/(loss) before interest and tax	4,616	2,284	6,900	5,827	4,413	10,240			
Average capital employed	12,505	22,810	35,315	33,139	28,166	61,305	Not available		
Return on sales	12.1%	3.0%	6.0%	8.5%	5.5%	6.9%			
Return on capital employed	36.9%	10.0%	19.5%	17.6%	15.7%	16.7%			
	1972			1972			1972		
	Year ended 31 March 1973			Year ended 2 September 1972			Year ended 3 February 1973		
Sales	43,918	81,650	125,568	69,829	84,409	154,238	61,520	57,435	118,955
Profit/(loss) before interest and tax	4,984	1,725	6,709	4,760	4,683	9,443	3,627	(1,491)	2,136
Average capital employed	13,044	25,011	38,055	33,058	28,035	61,093	27,981	24,973	52,954
Return on sales	11.3%	2.1%	5.3%	6.8%	5.5%	6.1%	5.9%	(2.6%)	1.8%
Return on capital employed	38.2%	6.9%	17.6%	14.4%	16.7%	15.5%	13.0%	loss	4.0%
	1973			1973			1973		
	Year ended 30 March 1974			Year ended 1 September 1973			Year ended 2 February 1974		
Sales	71,470	100,588	172,058	82,230	90,081	172,311	81,301	59,348	140,649
Profit/(loss) before interest and tax	5,292	(2,389)	2,903	8,102	1,725	9,827	5,214	(4,740)	474
Average capital employed	17,848	31,760	49,608	34,113	27,967	62,080	28,737	25,398	54,135
Return on sales	7.4%	(2.4%)	1.7%	9.9%	1.9%	5.7%	6.4%	(8.0%)	0.3%
Return on capital employed	29.7%	loss	5.9%	23.8%	6.2%	15.8%	18.1%	loss	0.9%
	1974			1974			1974		
	Year ended 29 March 1975			Year ended 31 August 1974			Year ended 1 February 1975		
Sales	116,778	138,790	255,568	137,571	111,457	249,028	131,626	81,817	213,443
Profit/(loss) before interest and tax	12,208	(5,214)	6,994	10,657	(2,559)	8,098	9,007	(5,229)	3,778
Average capital employed	23,041	39,414	62,455	41,066	29,082	70,148	32,431	26,557	58,988
Return on sales	10.5%	(3.8%)	2.7%	7.7%	(2.3%)	3.3%	6.8%	(6.4%)	1.8%
Return on capital employed	53.0%	loss	11.2%	26.0%	loss	11.5%	27.8%	loss	6.4%
	1975			1975			1975		
	Year ended 3 April 1976			Year ended 30 August 1975			Year ended 31 January 1976		
Sales	121,035	168,041	289,076	158,317	134,556	292,873	134,531	95,625	230,156
Profit/(loss) before interest and tax	14,657	(763)	13,894	15,046	(1,946)	13,100	11,542	(621)	10,921
Average capital employed	26,053	43,879	69,932	46,457	29,644	76,101	35,846	24,314	60,160
Return on sales	12.1%	(0.5%)	4.8%	9.5%	(1.4%)	4.5%	8.6%	(0.6%)	4.7%
Return on capital employed	56.3%	loss	19.9%	32.4%	loss	17.2%	22.2%	loss	12.7%

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