



# Proposal to close Nestle Fawdon

An in-depth analysis of the company's proposal and the economic and social implications for Nestle and its workforce at Fawdon.

**November 2021**

## **About Acuity Analysis**

Acuity Analysis was formed in 2017 and is an independent research organisation, created to serve the union movement and help rebalance power in the workplace. Unions from all sectors call upon our expertise and worker-focused analyses to provide additional leverage in negotiations and strengthen the influence of members in the workplace, the regions and nationally.

We provide unions with policy papers, employment and economic modelling, regional and industry-specific impact assessments. Our work gives unions a deeper and richer understanding of the context for corporate decisions and the impact on workers and communities.

Our close relationship to the movement and belief in its values are embedded in everything we do, and our long-standing partnership sets us apart from conventional research organisations. It means we instinctively understand the needs of our clients, and quickly capture the fundamentals of any brief, saving time and cost.

All our research is presented in an easy-to-use format and straightforward language, requiring no prior expertise, and our documents are designed for use by union officials, to promote and strengthen democracy at work.

## Executive summary

- Nestle are proposing to relocate the production of a number of well-known confectionary brands from its UK factory in Fawdon to a Nestle site in the Czech Republic (Sfinx), as well as others in Bulgaria and Poland.
- **The products currently produced at Fawdon remain in demand.** The launch of vegan Fruit Pastilles has hugely increased sales volumes of this product. Nestle plans to continue to produce five of the seven products currently made at Fawdon.
- **Wages and energy costs are significantly lower in the Czech Republic and will provide Nestle with substantial savings.**
- The UK is the largest market for many of the products made at Fawdon. **If the company transfers production, then over 800 lorries will need to travel a total of 812,552<sup>1</sup> additional miles simply to bring these products back to the UK from the Czech Republic, Bulgaria and Poland so that they can be sold.** The proposal will also involve hundreds of Dover-Calais ferry crossings which will contribute yet more pollutants into the atmosphere. **While all GHG emissions are harmful to human health, particulates emitted by road vehicles are widely regarded as among the most damaging.**
- **The closure of Fawdon is not inevitable.** It is not a consequence of poor performance or a response to changes in the confectionery market. The proposed closure is a strategic decision by Nestle, based on the central premise that capital needed for investment can only be realised through cost cutting.
- There are issues that need to be addressed at Fawdon: volumes have decreased, it occupies a large area of land and its floorspace is under-utilised. Unavoidably, the combination of these factors has produced an unfavourable trading environment. But this **situation is beyond the control of the Fawdon workforce, and the proposed closure is a strategic decision.** Nestle is midway through the implementation of a strategy that prohibits investment in its products without a corresponding level of savings, with the exception of its leading products and new launches. **It is this strategy that has moved the spotlight on Fawdon and which provides the context for Nestle's proposal.**

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<sup>1</sup> The number of miles here refers to the journeys between the Czech Republic, Poland, Bulgaria and the UK as set out in the company's proposal.

- Over the past five years the Fawdon workforce and local management have successfully implemented a number of measures to improve the performance of the site and reduce its fixed costs. **Performance has increased year on year and is still moving in the right direction, to such an extent that Nestle has commended the efforts of the workforce.**
- **A strategic plan is required for Fawdon which will examine the potential future requirements for Fawdon, in conjunction with detailed market research. The site could be of strategic importance to Nestle, if subject to a supportive environment of growth and expansion. The consequence of this would be a clear definition of the role of Fawdon, within both the market and Z-EMENA.**
- **Fawdon is a significant producer for Nestle and contributes almost 17 per cent of the company's entire UK sales, providing total revenues of £227m.**
- Decisions made out of scope of Fawdon management have created the situation in which the factory now finds itself. Ironically perhaps, the **levers required to transform Fawdon's performance are precisely those that remain beyond the control of its workforce, that has done everything asked of it.**
- **Maintaining Sugar production at Fawdon and introducing a new product, similar to Randoms, would provide Fawdon with an excellent opportunity to focus on the UK market and boost sales.** Fawdon already produces Sugar products for the largest market in Europe so adding a similar product to Randoms would not just provide a boost to volumes. Indeed, if Randoms were manufactured at Fawdon it would substantially reduce road kms and the associated emissions.
- Business strategies are simply methodologies for achieving a company's objectives through specific criterion, i.e. they are never inevitable but represent a response by the board and its largest shareholders.
- Given the following analysis of this approach for Nestle UK Confectionery, it remains within the power of the board to revise its proposal for Fawdon and maintain this vital resource for the future. Not only that, but **we believe there are a number of realistic alternatives for Fawdon that will provide Z-EMENA with growth opportunities in the future.**

## **Lower wages and energy costs in Czech Republic**

- **Labour costs at Sfinx are 60 per cent lower than at Fawdon and energy costs are between 41 per cent and 31 per cent lower at Sfinx than at Fawdon.** With lower fixed costs Sfinx can produce the same for only 15 per cent of the fixed costs of Fawdon.
- Nestle are so determined to take advantage of the lower costs of labour and energy that **the company have readily accepted an additional spend of CHF 3,527,333 (£2.86 million) to bring its finished goods back to the UK to be sold.** Despite losing almost 25 per cent of any savings to additional transportation costs and increasing its carbon footprint, Nestle remains committed to closing Fawdon.
- **By shifting Sugar production so far from the UK, Nestle has reduced the overall potential savings of the move by more than a quarter (26.3 per cent).** Perhaps Nestle is willing to accept such a savings discount on the grounds that the ends justify the means, adding weight to the hypothesis that the company's objectives are to divest the Sugar business in the near future.

## Every company needs a Fawdon !

- New flavours were introduced into Nestle's Munchies biscuits in 2019. At the time, the **company praised the workforce at Fawdon for bringing the concept to market in a relatively short space of time.** In the same year, Fawdon began production of white and milk chocolate Milkybar mix-ups and Milkybar mini-eggs, previously produced elsewhere in Nestle.
- **Fawdon has a culture of innovation,** which ought to make it a central pillar in Nestle's ongoing strategy of innovating and '*keeping ahead of the competition*'. **Fawdon has flexible assets and production lines that no other UK site has the capacity to employ.**
- Beyond Fawdon, **Nestle apparently has no contingency if the company has a need for the support and expertise that is currently provided by the workforce at the site.**

### Letter from Nestle to its shareholders in June 2021

#### **'Boosting innovation to drive growth'**

***Our relentless dedication to innovation*** allows us to deliver on consumer preferences time and time again. We focus on exploring trends, ***rapidly converting ideas into products*** and testing their relevance with consumers and customers. We continued to enhance our speed ***and reduced our average time to market by a further 10%*** on our top priority projects in 2020.

- **Fawdon has provided expertise and capability to adapt with speed to introduce product variants for Nestle.** The ability to provide such support will disappear with Fawdon and there is a risk that Fawdon's closure will prevent Nestle from innovating and adapting products and bringing them to market quickly.

## Impact of the proposal on the environment

- The **closure of Fawdon will result in products currently made at the site being produced hundreds of miles away, specifically for the UK market.** This will mean those products being transported across mainland Europe in heavy goods vehicles.
- While all GHG emissions are harmful to human health, **particulates emitted by road vehicles are widely regarded as among the most damaging.** This is because Europe's road network snakes through the region's urbanised areas in which the majority of the population resides. On the contrary, large production centres are often located on the outskirts of urban areas.
- As a consequence of shifting production to Sfinx, **products that were previously manufactured at Fawdon will now need to travel 762,602 miles<sup>2</sup>.** This represents a **net increase of 695,682.1 road miles, which equates to 1,6482 tonnes of CO<sub>2</sub> emissions,** purely as a direct consequence ceasing production at Fawdon and transferring production to **Sfinx in the Czech Republic.**
- **Each HGV vehicle that makes a return crossing using the Dover-Calais route will account for an additional 0.146 tonnes of CO<sub>2</sub>** in the atmosphere as a result of that journey. According to the proposal, a **total of 825 trailers will need to travel to the UK from overseas factories just to replicate the current flow of products from Fawdon.** The additional CO<sub>2</sub> emissions caused by these journeys will be substantial.
- Our calculations show that the CO<sub>2</sub> footprint of such journeys will account for the release of 120.6 tonnes of CO<sub>2</sub> into the atmosphere (road 2025t CO<sub>2</sub>e; ferry crossings 121t CO<sub>2</sub>e). Over the **next ten years this will equate to an additional 21,460 tonnes of CO<sub>2</sub>e being released into our cities and countryside by Nestle** – purely as a result of the transfer of work from Fawdon to the Czech Republic.

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<sup>2</sup> The number of miles here refers to the journeys between Sfinx (Czech Republic) and the UK, as set out in the company's proposal.

## **An historic lack of support for Fawdon**

- **Nestle currently spends below industry average of its turnover on marketing and media promotions (PFME).** The company readily accepts that the ideal spend on marketing and media promotions is five times its current levels. The company is candid about its underinvestment in this area and one of the consequences of the proposal is to free up cash and increase marketing and media spend on better selling brands.
- **Underspending over time in PFME could well be a contributing factor that has led to the current position at Fawdon.** In addition, decisions on PFME are beyond the control of Fawdon's management and, **despite the workforce doing everything within its power to reduce fixed costs, other significant levers were not pulled by Z-EMENA management that could have made a difference to Fawdon's position today.**
- It is perhaps obvious that a lack of investment in PFME for Fawdon's brands would only have one consequence - lower sales volumes. **It does appear that Nestle has neglected Fawdon's brands over the past decade.**
- It appears that Nestle has decided to sacrifice some products in the hope that its strategy will pay off and generate greater returns from its best-selling brands. Reducing the number of products within Nestle's brand portfolio may appear on the surface to allow Nestle to focus on developing its best sellers. However, this assumes that KitKat, Smarties, Aero and Quality Street will continue to provide sufficient revenue to replace the income lost.

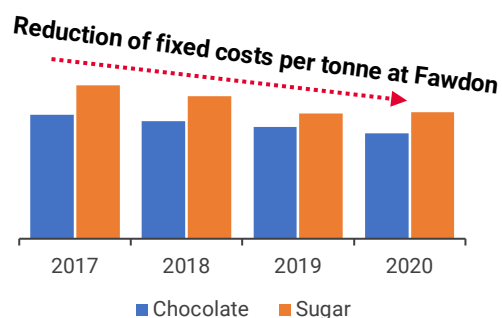
## **Sugar products are growing**

- **Growth in sugar products ought to strengthen Fawdon, not weaken the factory.** This increase may be solely a consequence of the move to vegan for Fruit Pastilles. **If so, the same can also be expected from the shift to vegan of Fruit Gums.** Nestle's UK marketing team is buoyant with vegan volume increases but consider this has not opened any new markets for the company and is a short-term consumer response.
- **Clearly Sugar is not of sufficient strategic importance for Nestle.** The company has emphasised that the closure of Fawdon does not mean the company is leaving the UK market. **This is rather odd because the UK provides Nestle with its biggest market in Europe for sugar-based snacks and Fawdon supplies the vast majority of these.**



## Fawdon workforce has reduced costs – as Nestle demanded

- **As volumes increased at Fawdon from late 2018, so fixed costs fell.** The total cost of production (buildings, machinery etc.) is calculated per unit of production (per tonne). The impact of fixed costs is spread across the volumes of output. So, the more Fawdon produces, the lower fixed costs per tonne.
- **Management and the Fawdon workforce have worked to tackle the site's increase in fixed costs.** In 2016 Fawdon launched an extensive initiative to bring costs down and since 2017 total fixed costs per tonne have dropped by £100.
- This represents a **decrease of over 16 per cent in just three years.** Overall, fixed manufacturing costs have fallen by almost £1.2m at Fawdon since 2012 and has been achieved by a smaller workforce at the site. **The Fawdon workforce have been doing more with less.**



## Is Nestle preparing to sell or spin-off Sugar?

- **Nestle has made it clear that its Sugar business is not a strategic part of its ambitions.** The company states that is the result of a change in consumer behaviour that considers sugar-based snacks less desirable. This attitude is also illustrated by the company's move into so-called healthier snacking products.
- However, the launch of vegan Fruit Pastilles has increased sales in the UK substantially over the past 12 months, and Nestle's planned launch of vegan Fruit Gums and perhaps vegan KitKat is also likely to provide a significant boost in sales. **By relocating all of the company's Sugar product manufacturing in a single factory, it will be easier to sell this part of the business, given Nestle's lack of commitment to sugar.**
- Nestle may choose to spin-off its Sugar business. This will allow the company to retain control and simultaneously grow the business – all without fear of its shareholders (it will be an entirely different company) and the market's influence on Nestle's share price. A spin-off also confers some advantages that might interest Nestle: it may unlock shareholder interest in the Sugar business; it may improve the performance of the remaining Nestle group (by removing unpopular Sugar from its portfolio); and there are **various tax incentives.**

## A chronic shortage of HGV drivers exists across Europe

- According to research by [Transport Intelligence](#) shows that the **shortage of HGV drivers is pan-European and increases the risks associated with the Fawdon proposal**. The table replicates the findings of the research and shows the estimated shortage in HGV drivers across a number of countries.

Driver Shortages in European Logistics		
Country	Scale of shortage	Last reported data
Poland	123,842	2020
United Kingdom	60,000 - 76,000	2020
Germany	45,000 - 60,000	2020
France	43,000	2019
Spain	15,340	2020
Italy	15,000	2019
Sweden	5,000	2017
Belarus	4,500	2019
Norway	3,000	2017
Denmark	2,500	2017
Ukraine	12,000 - 120,000	2019

- If a Nestle customer places an order on a Friday for delivery the following Monday, will the company be able to react in time when it will be so reliant on storage? There are other issues such as increased paperwork and delays at the UK border. Finally, there is the impact that inventory sitting idle in a warehouse has on company performance and its cash flow.

## Impact on the Fawdon workforce

- Overall, the **outlook for Fawdon workers seeking alternative employment is not good.** Although close to a third of the Fawdon workforce may be in a position to be able to retire if the site closes, the **majority of the workforce will need to find work elsewhere.** Unemployment in the north-east of England is higher than the national average, which will make finding alternative employment more difficult for ex-Fawdon employees. **Unemployment in the region is particularly higher than the national average for men.**
- **More than 65 per cent of the Fawdon workforce has less than 10 years' service** so will not receive a significant payment for being made redundant. In addition, nearly **40 per cent of the Fawdon workforce is under 40 years of age** and this large group will need to find alternative, regular and well-paid employment post-Fawdon.
- The average wage in the north-east is relatively low compared to other England regions. **Average weekly wages in the north east range from £432 (Easington) to £579 (Newcastle central), providing a significant difference between the highest and lowest wage brackets (nearly £150 per week).**
- Fawdon employees considering remaining within manufacturing post-Fawdon will need to travel to Gateshead, South Tyneside or Sunderland as these areas employ a higher than national average share of workers in this sector. The occupations that have seen the largest decrease in employment since 2014 are those based in administrative functions, skilled metal and electronic positions and process plant and machine operatives.

## **An Acuity Analysis for the GMB and Unite the union**