

Summary of a hearing with Nigel Drew held on 4 April 2007

Background

1. Mr Drew told us that Hillhampton Salads was a leafy salad production business which initially supplied product to the wholesale market when it started trading over 30 years ago. It then secured an opportunity to start supplying the International Stores, which subsequently became Gateways, and latterly Somerfield Stores. The company then expanded to supply leafy salads directly to the supermarkets. He had experience of supplying all but one of the supermarkets. Mr Drew produced a significant percentage of the round lettuce grown in the U.K.

Relationships with Supermarkets

2. Mr Drew supplied his entire customer base directly until two years ago when the supermarkets adopted a policy to rationalise their supplier base. Increasingly his business was managed through intermediaries. The only customer that he supplied directly was Morrisons. Mr Drew's experiences with intermediaries were that they tended to be aligned with the supermarkets and appeared to play the role, formally undertaken by the supermarkets themselves: conducting retail price surveys, investigating promotional activity and new research and development. All of these costs had to be borne by the producers.
3. The huge difficulty suppliers now faced was the loss of contact between themselves and the supermarkets. The producer lost the opportunity to discuss new business, prices, quantities etc. This meant that if supermarkets said that they would buy at a certain price and achieve a certain margin, the price was accepted by the intermediary and passed back to the producer.
4. Mr Drew identified particular practices that he saw as distorting competition. Historically, promotional activity was negotiated on a weekly basis. That price was determined by supply and demand. Now, a price was stated and that was the price that was paid. The intermediaries would then extract their costs. This could mean that a supplier lost 15 to 20 per cent from its price and profit margin. The promotional activities were dictated, rather than discussed, over a 12 month period and included how they were to dovetail with other promotions
5. The supplier had been given a 'programme to supply' the supermarket, and as a consequence, on numerous occasions, Hillhampton Salads had to source product from other suppliers, often paying inflated prices and losing significant amounts of money.
6. Mr Drew had invested in innovation by hiring a Technical Director. He had also invested in product innovation by setting up a production base in the Channel Islands, to gain the advantage of not only the climate but it would have extended the production season. The buying power of the supermarkets meant that bills for analysing pesticide residues in products were sent to the suppliers.
7. One of the consequences of supplying through the intermediaries was that Hillhampton Salads was supplying at about 1p a box above the cost of production. Mr Drew was concerned that growers and producers were going to be forced out of business as a result. His business had suffered as a result of various practices, including being asked for a lump-sum payment for business and a retrospective

discount. The business ran at a loss for two consecutive years and it could no longer continue.

8. Hillhampton Salads had had two quality issues in the last 12 months of trade. Supermarkets rejected surplus products on their shelves under the guise of quality issues and suppliers were expected to replace these products within certain deadlines. Failure to do this would result in losing that order and being charged for loss of profit and administration costs. Somerfield had dispensed with having quality controllers within its distribution depots and had relied upon its supplier base to maintain quality.
9. In his 30 years of supplying Supermarkets Mr Drew had never had a contract, but only a programme to supply.
10. The tendering process was used to extract a lower price and contracts were awarded to marketing companies. As an example the price Mr Drew quoted for the total supply was rejected as not being competitive enough. His two competitors (which were already intermediaries) were then asked for quotes based on his original quote. Their quotes were accepted and Mr Drew was de-listed as a direct supplier. He believed that this was a mechanism to force prices down.
11. It was difficult to replace multiple retailers' as customers, and the loss of a supermarket customer almost certainly meant the end of a business. This was because producers often supplied only one or two customers.

Supply chain

12. Morrisons treated its producers better: it bought produce cheaply but with no hidden costs as there were no middle-men, no retrospective rebates and no lump sum payments. Mr Drew had no evidence of dealing with Waitrose, but understood from sources, that they paid a significantly higher price.

Supermarkets Code of Practice

13. Mr Drew had no direct experience regarding the Supermarkets Code of Practice (SCOP). His perception, however, was that it was being adopted in varying degrees by different supermarkets. In his opinion, Morrisons was the best supermarket to deal with in relation to SCOP.
14. Mr Drew's opinion was that it was necessary to protect British production. The balance was currently distorted in favour of the supermarkets. Effective mechanisms should be put in place to maintain a sensible price structure within the industry so that producers got a fair crack of the whip, which was not happening at present.