

## **Summary of the hearing with Scottish Grocers Federation held on 5 September 2006**

1. The Scottish Grocers Federation (SGF) represents about 2,500 convenience stores throughout Scotland. Its membership includes Spar, the Scottish Co-ops, Somerfield, Nisa-Today's and Costcutter. It also represents suppliers and comprises a small buying group called the Professional Grocers Merchandising Association. The SGF's members employ 18,000 staff and account for about 72 per cent of the convenience market by turnover. The SGF has a good working relationship with the Scottish Wholesale Association and other trade bodies.
2. The SGF said that convenience stores were typically regarded as being less than 279 square metres (3,000 square feet) in size. Customers tended to be local, with two out of every three travelling less than 1 mile, although many stores did have passing trade which was predominantly foot traffic. Stores were open in excess of 100 hours a week. The average basket size was £4.

### **The market**

3. In the SGF's view the grocery market should be defined as one market and not subdivided into different sectors. The Scottish market, however, differed from that in England and Wales because the opening hours of the multiples were restricted south of the border, the demographics were different in Scotland, and there were certain products which sold well in Scotland but which could not be found south of the border.
4. The grocery market in Scotland was competitive but it was increasingly difficult for the convenience sector to flourish. That the convenience store sector was increasing its share of the market was partly due to the entry of multiples such as Tesco, but also as a result of the increased investment that SGF members were injecting into their stores (in response to competition from the multiples but also as a commitment to the standards consumers requested and demanded).
5. The SGF told us that it welcomed fair competition and accepted that larger businesses would naturally have a competitive advantage but was concerned that multiple grocery retailers were using their negotiating power to dictate terms to suppliers to the detriment of smaller competitors. Multiples also mixed and matched contracts with suppliers to prevent them from gaining market share, so that the supplier did not gain negotiating power with the multiples. The SGF queried whether the multiples suppliers would be able to make a profit in the future in the face of lower prices from the multiples and rising costs. Although consumers were receiving cheaper prices, these were being subsidized by suppliers.
6. The SGF told us that suppliers had indicated that they were under increasing pressure but were reluctant to complain (even those with branded products because of the fear that the multiple may take retribution against its other products) about the activities of any of the supermarket multiples because of the risk of having their products de-listed. The SGF said that the multiples had the ability to make or break a supplier and their practices needed to be controlled. It believed the Supermarket Code of Practice (SCOP) should be strengthened, incorporating an element of anonymity for suppliers, and be actively enforced.
7. The SGF said that independent trade wholesalers and retailers were being placed at a disadvantage, and competition was being distorted, by a number of practices operated by the supermarket multiples. These included:

- discounting by multiples to support the opening of new stores (eg Tesco offered consumers in Castle Douglas vouchers worth £10 provided they spent £30 in store);
  - the move to factory gate pricing which removed the need for suppliers to own lorries which had implications for the economy and the individuals that worked for the company; and
  - the abuse of buyer power and predatory pricing. The use of loss leaders (such as the sale of beer and lager at prices below cost, eg Sainsbury's offered three cases of Stella Artois for £20 during the summer) was subsidized by suppliers to gain distribution. This affected the level of investment (eg promotions and marketing) suppliers could make in other areas of the trade such as the convenience sector. This was an aggressive tactic and was designed to wreck the market by removing the convenience stores' economies of scale. Convenience stores needed a whole package of products in order to remain open.
8. The SGF said that the effects of the multiples' buyer power and predatory pricing was compounded by the planning regime, which it considered was unfair and flawed. It cited the case of Dunbar, where the decision to block a new 3,252 square metre (35,000 square feet) Asda complex—where local retailers, including an SGF member, had spent significant sums refurbishing their businesses in line with the local development plan—had ultimately been overturned by ministers. The SGF told us of another example in Huntly, where Tesco and Asda had recently opened new stores, as an instance where the authorities had not adhered to planning policy. The SGF believed that planning gains, allied to the potential cost to local authorities of fighting an application by the supermarket multiples, were important factors in many cases.
  9. In contrast there had been occasions when SGF members had experienced difficulty in obtaining planning permission but did not have the financial resources to challenge the planning system. The erosion of confidence in the planning system (and the ability to plan long term) was affecting investment in the convenience sector. The SGF maintained that while the stores operated by the multiples would give consumers what they wanted in the short term, they would ultimately put local businesses out of business, wreck the economy and destroy the local community. Once the competition had been removed, the multiples would then be free to manipulate their pricing, the effects of which would be far reaching and would be felt from islands to the north of Scotland down to the borders. The SGF believed that consideration should be given to the amount of retail space required by any given population as part of the planning process.
  10. The SGF considered that there should be a restriction on the number of stores grocery retailers were allowed to own in any particular catchment area so that other retailers were not denied the opportunity to open in that particular area. Land banks were acquired by the supermarket multiples for the same purpose (ie to keep out competition). This behaviour restricted consumer choice and might result in higher prices in the longer term. The SGF said that Tesco had acquired a plot of land opposite one of its stores in Rousay Drive, Summerhill, Aberdeen, 15 years ago but had not developed it.

## **Supermarket Code of Practice**

11. The SGF said that its members were aware of the SCOP but had not used it to date.