

Summary of a hearing with Supplier 7

Background

1. [X].
2. The company used to be a [X] in Northern Ireland but had expanded the business [X] by dealing with the supermarket multiples and now sold products throughout the UK. It now exported to the Republic of Ireland, and also did some food service business into Spain and Italy.
3. Supplier 7 had a diverse customer base and supplied the supermarket multiples in Northern Ireland and Great Britain, i.e. Tesco, Sainsbury's, Asda, Morrisons, Waitrose and Somerfield. It also supplied symbol groups and the local independents in Northern Ireland.
4. Sales outside Northern Ireland comprised [X] per cent of its turnover. In the multiple sector Supplier 7's turnover was split evenly between Great Britain and Northern Ireland. Tesco was the largest account and the biggest grocery retailer in the market. Its trade was split between Northern Ireland, Great Britain and the Republic of Ireland. Supplier 7 supplied Tesco Northern Ireland with [X] products. [X]. It had fewer lines in the Republic of Ireland, and in the UK it had [X].

Local competition

5. [X].
6. The retail multiples had expanded into Northern Ireland and their market share had increased against that of the independents. [X]
7. Supplier 7 supplied own-label [X] to Asda and [X] to Tesco and Sainsburys. [X] per cent of its products were branded. The company had not pursued own label for strategic reasons, although it provided the facility to grow volume, contributed to the overheads and helped distribution costs.
8. The price supplier 7 charged its customers varied according to volume, method of delivery and service. The multiples took larger volumes but the cost and method of distribution and servicing was also different. It was cheaper to deliver to Tesco than to Spar because deliveries to the latter entailed frequent small drops. Costs in Northern Ireland were more expensive than on the mainland and plants in the UK had double the output. However, because of the national buying price from the national groups, it ended up invoicing the same price. The multiples and others had some buyer power. Supplier 7's sales people tried to negotiate but often had to accept a lower price.
9. The [X] industry was not the most profitable in the food industry, in [X] major plants in the UK had gone out of business. It was necessary to invest in order to improve efficiency and grow volume, which supplier 7 had done. Its gross margins had decreased since it started supplying the multiple retailers and it had experienced a couple of difficult years. It was competing with highly competitive multinational manufacturers so the only way to increase profitability was to increase prices, offer different [X] products and expand into the UK. [X].
10. [X] per cent of supplier 7's output was supplied direct to multiple retailers such as Tesco. It also supplied products to wholesalers (for example Supervalu, Spar and

Mace) and to the food service sector (through a third party wholesaler such as Brake Brothers).

11. [X]

Relationship with UK multiples

12. Supplier 7 told us that it had been able to grow its business through the strength of the multiples because they encouraged it to implement better procedures and systems. A certain standard had to be achieved before it could supply the multiple retailers. The supermarkets insisted on a British Retail Consortium (BRC) accreditation which meant that the premises had to be audited by an outside valuer [X], and the plant and systems graded. The fact that supplier 7 was a supplier gave it credibility which enabled it to produce own-label products and export on the gold food service.

13. The company [X] wanted to extend its brand into a few food products. Supplier 7 had launched [X] into the UK market which was going on sale in [X]. Without the multiples, this would not have happened because it would not have had the volume and credibility to launch it.

14. It would not have survived the pressures of the food market if it had concentrated on the Northern Ireland market alone. The multiples gave it a route to the UK market with their numerous stores. Even though each store might only carry a small number of items, the fact that they were being stocked in 1,000 stores represented a considerable amount of business.

15. The multiple supermarkets challenged supplier 7 to deliver something different, giving the consumer an improved range and choice at competitive prices.

Supply chain

16. Efficiencies in the supply chain could open up the market for manufacturers. Supplier 7 believed that it would be cheaper to supply stores in Great Britain using the central distribution systems available than delivering to convenience stores in Northern Ireland.

17. The type of service supplier 7 gave the symbol groups and local independents was different from that of the supermarket multiples. The local independents were serviced in the traditional way with [X] operating on advance sales delivery service. Products were ordered on a sale or return basis, a system which had probably gone out of existence in the UK. The symbol sector was very demanding because its position had been eroded, it saw [X] as a key part of its portfolio. In Northern Ireland the convenience sector comprised about 35 per cent of the market, but only 10 per cent on the mainland. One reason for this was that convenience outlets in Northern Ireland offered a wider range and more fresh food.

18. Supplier 7 told us that it ran consumer promotions and competitions on [X], and offered some minor price reductions. [X] it preferred to keep its portfolio promotions on a local basis, or across a brand.

19. If supplier 7 was offering money off it would fund the promotion and generally reduce the margin on the product, so if it wanted to reduce a product by [X] it might reduce the selling price by [X]. It might then be asked to support the product at the point of

sale in store, and there were rate cards to do that. It had to make consumers aware of the promotion in order to obtain an increase in volume.

20. [X]. Supplier 7 therefore preferred to run consumer competitions and pay for sampling opportunities to let consumers try the product.
21. Grocery retailers had not asked supplier 7 to pay money directly for category captaincy initiatives. Supplier 7 had undertaken some category work and incurred some resource costs such as obtaining software and a category manager. It had sponsored a fixture with [X], which had been good.
22. Supplier 7 said that it had [X] product lines that it was trying to persuade [X] to take in addition to the [X] it already had in [X] stores. [X].
23. [X] That information could be bought but was expensive for a small company. Supplier 7 did use [X] system to find out about products going into the depots. It also used [X] system as part of its business with the company. There was a retail link, and the rate of sale and other things could be seen.
24. Supplier 7 had not used the Supermarket Code of Practice which regulated the behaviour of retailers towards their suppliers. Currently supplier 7 was unsure about shelf-ready packaging, [X]. Discussions had not yet taken place but if [X] did not offer extra business to help bear the cost, supplier 7 would feel aggrieved.
25. Supplier 7 told us that if [X] were to set up in Northern Ireland, it would supply the company. However, the invoice price would be different from that of [X], which constituted [X] per cent of supplier 7's business, because the volume would be much lower.