

Sales negotiations, pricing and promotions

1. This appendix describes how negotiations on sales, pricing and promotions of the relevant products typically take place between manufacturers and their customers in the retail and food service sectors.

Retail sector

Supply contracts

2. It is the norm for manufacturers not to have formal contracts for the supply of the relevant products (or indeed most other grocery products) to grocery retailers such as supermarkets, wholesalers or groups of independent stores. Heinz told us that it sold to retailers on an 'order-by-order' basis and there were no supply agreements as such. However, suppliers in general, and Heinz in particular, develop joint annual sales and promotional plans with retailers, particularly the large retailers such as supermarkets (see paragraph 4).
3. The major retail customers negotiate with Heinz [REDACTED]¹ negotiations with wholesalers and groups of independent stores take place [REDACTED].

Sales and marketing planning

4. As manufacturers and retailers have a shared interest in attracting consumers' support and purchases, they normally develop joint sales and marketing plans. Plans are developed for each category of product covering both branded and own-label products, where these are offered. [REDACTED]²

¹[REDACTED]

²Definition of categories may differ between retailers.

5. Heinz told us that [REDACTED].³

6. Each retailer discusses with Heinz [REDACTED]. These discussions are based on assumptions regarding [REDACTED]. Different retailers may have different priorities, which will be reflected in the outcomes of planning negotiations. For example, Heinz told us that [REDACTED]. Promotional activities are also agreed in broad terms between retailers and manufacturers on an annual basis. These plans include the type of trade promotion and how the promotion will be funded. Lastly, annual sales and marketing plans cover supply chain issues such as the pattern for ordering and delivering, pallet sizes and packaging presentation.

Pricing

7. When a new product or a new SKU is launched, the manufacturer, through market research, determines the level of retail price which it believes consumers are willing to pay for the product and which optimizes the manufacturer's sales of the product. Heinz told us that, in common with other manufacturers and other products, it does not set the retail price for the products of interest but proposes 'recommended sale prices' (RSPs) to retailers.

8. Having determined an RSP for the product, the manufacturer derives a wholesale price. Both Heinz and HP told us that they did not publish lists of wholesale prices and that these were derived by negotiating discounts with retailers.

9. [REDACTED]

10. [REDACTED]

³In this appendix we define trade promotions as in-store promotions agreed between manufacturers and retailers.

11. [✂]

12. [✂]

Promotional activities

13. Manufacturers of branded products use promotional activities to maintain and build the value of the brand, among other things. Two main types of promotional activities are used by manufacturers of branded products in the reference market: above the line promotion and below the line promotion.

14. Above the line promotion is promotion that is carried out through independent media which enables a firm to reach a wide audience easily. Media channels might include newspapers and television. Below the line promotion is promotion over which the firm has direct control and includes methods like direct mailing and trade promotions.⁴

15. Above the line and below the line promotions represent different sides of brand awareness and customer targeting strategy. The former is synonymous with mass marketing and large scale advertising and it is focused on creating and strengthening brand awareness. The latter is more data driven and measurable, and it is focused on customer acquisition and retention.

16. Manufacturers and retailers plan trade promotions together for products, for example discounts or '3 for 2' offers. The frequency of trade promotions is an important element of brand and product management.

⁴Heinz told us that it accounted for media promotions below the line (ie below net sales) and for rebates, temporary price reductions, trade displays, placement fees and promotions above the line.

Manufacturers offer retailers discretionary spend (consisting of discounts and allowances) in relation to trade promotions. [REDACTED]

17. [REDACTED]Some retailers charge fixed fees for access to secondary display space (typically the end of an aisle known as a 'gondola end') in addition to the normal shelf space allocated to a product. Retailers may also have rules for the types of promotion offered if a product is to obtain secondary display space. This means that the total cost to a manufacturer of obtaining secondary display space is the fixed fee paid to the retailer plus the cost of the promotion on the product concerned, for example the cost of a 'buy one get one free' offer.

18. Heinz told us that, given the intense competition for secondary displays within and across categories, [REDACTED].

TABLE 1 **Cost to Heinz of a secondary display space for a four-week period**

<i>Major retailer</i>	<i>Financial year 2005 (£)</i>	<i>Financial year 2006 (£)</i>
*	[REDACTED]	[REDACTED]

Source: Heinz.

*Heinz did not provide further information on what types of products these fees applied to in [REDACTED].

Food service

Supply contracts

19. As for the retail sector, standard contracts of a determined length are not common in the food service sector. However, in addition to supply made on an ongoing basis, some supply contracts are entered into in this sector since some customers are large organizations in the commercial sector or government bodies. These contracts take

the shape of framework supply agreements⁵ or purchase contracts resulting from a procurement exercise, which may include suppliers bidding against each other to win contracts.

Pricing

20. HP and Heinz told us that they determined wholesale prices for the food service sector on the same basis as the wholesale price for the retail sector.

Promotional activities

21. The same type of promotional activities carried out in the retail sector to increase brand awareness and loyalty are used in the food service sector, namely above and below the line promotions. However, given the different dynamics of brand management and the different types of customers in the two sectors, the level of promotional activity can also be quite different. For example, in 2005 Heinz's advertising and promotional spend for the retail sector totalled over [REDACTED] while advertising and promotional spend for the food service sector was approximately [REDACTED].⁶
22. The funding of promotional activities may also differ slightly between the retail and food service sectors. Heinz told us that [REDACTED].

⁵According to the DTI's website, framework agreements are agreements to provide goods, works or services on specified terms. Framework agreements incorporate a contractual commitment to purchase a particular volume or value of goods or services.

⁶Heinz told us that, [REDACTED].