GfK. Growth from Knowledge

Research on Suppliers to the UK Grocery Market

A Report for: **The Competition Commission**

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Contents

1 Research Summary

1.1 Background and Objectives

This research was commissioned by the Competition Commission as part of the investigation into the market for the supply of groceries by retailers in the UK.

The main objective of the research was to obtain information from suppliers about their relationships with their customers to determine whether any features in the supply of groceries distort competition.

1.2 Methodology

Interviews were conducted amongst suppliers providing grocery products to UK retailers. A total of 456 interviews were completed; 51 of which were conducted in-depth with the largest suppliers. Most interviews were conducted by telephone with the option to complete part of the interview online while the in-depth interviews were all conducted by telephone.

1.3 Main Findings

The report has been edited to remove information that might disadvantage particular parties but a fuller report was given to the Competition Commission. Below is a summary of the main findings.

Sample profile

- The sample profile was representative of the initial sample frame of suppliers provided by retailers
- Three-quarters of suppliers surveyed were selling branded goods, two-thirds own label and a quarter non-branded goods
- Suppliers of frozen food and unpreserved food were among the largest companies in terms of turnover, but they also made lower gross margins on their products (those supplying drinks also made lower gross margins)

Advantages / Disadvantages for smaller customers

- Suppliers generally agreed there were some benefits for small customers resulting from their dealings with larger customers, specifically in efficiency and process innovation

- Suppliers claimed that small customers can be affected by supply of products to some degree, particularly when there is a shortage or a large customer increases demand

- Over four-fifths of suppliers claimed they would <u>not</u> increase prices to smaller customers if a large customer had negotiated a lower price

Negotiations

- Quarterly price negotiations tended to be more common with other chain stores compared with the four largest supermarkets

- In general, suppliers were satisfied with the frequency of their negotiations
    - Suppliers were less satisfied if they were having daily or less than 6 monthly negotiations

- Approximately a third of suppliers claimed to have been asked to enter into an exclusivity agreement with any customer and a fifth had actually entered into a contract

- Only about one in ten suppliers felt they had a high level of bargaining power with any of the four largest supermarkets (score of 7 or more on a scale of 1-10)

Payments and Additional Services

- The most widespread type of payment made to customers by suppliers was as a contribution to marketing and promotions, mentioned as happening by two-thirds of suppliers

- The largest suppliers were most likely to be making payments of any kind to customers

- On balance, most customers felt that payments made to customers were reasonable, although there were mixed opinions amongst suppliers

- About a quarter of suppliers combined shipments of deliveries to customers with another supplier

Competitive Environment

- Two-thirds of suppliers claimed that gross margins had decreased over the last 5 years

- 84% of suppliers claimed that it would be difficult to replace the customers from whom they receive the lowest gross margins.

- None of the largest companies (£50m+ turnover) felt it would be easy to replace these customers

- Three in ten suppliers had ever tendered for business via auctions
    - Four-fifths of suppliers who had tendered for business via auctions claimed the gross margins were lower when business is won in this way

Code of Practice

- Obligatory contributions to marketing costs was the most common behaviour of the sort regulated by the Code of Practice which had happened to a supplier in the last 5 years (61% of suppliers)

- Suppliers were most likely to claim that customers requesting price reductions for products soon before or after delivery had happened to a greater extent in the last 12 months.

2 Main Report

2.1 Introduction and Background

The Office of Fair Trading (OFT) referred for investigation the market for the supply of groceries by retailers in the UK to the Competition Commission (CC) following an initial OFT study into the sector and a public consultation. The CC is also carrying out its own investigation to determine whether any aspects of the supply of groceries in the UK prevent, restrict or distort competition.

As part of its investigation, the CC commissioned GfK NOP to find out about the relationships grocery suppliers have with their retail customers. This document contains the findings from the research programme carried out by GfK NOP.

The grocery market has been looked at before by the CC, but only in the context of the large supermarkets. However, in the current inquiry, the reference is more widely drawn as it relates to all grocery retailing, including convenience stores. In this research, the sample was drawn from suppliers to supermarket retailers but questions related to their large and small retail customers.

2.2 Research Objectives

The key issue to be addressed by the research was to find out whether any features in the supply of groceries distort competition. To determine whether this was the case or not the research was required to provide the following information:

- a detailed description of suppliers' business activities
- an assessment of which suppliers' customers have buying power
- the way in which customers express their negotiating strength
- the effect, if any, of powerful customers' behaviours on suppliers' businesses.

2.3 Methodological Overview

Interviews were conducted amongst a sample of suppliers providing grocery products to retailers. The majority of interviews were conducted using a **mixed telephone/online self-completion** approach, with additional **in-depth interviews** conducted amongst some of the largest suppliers. An initial introductory letter from the CC was sent out to all potential respondents prior to the fieldwork taking place to assure respondents that the research was genuine and that their responses would be treated in the strictest confidence, with only GfK NOP having access to data attributable to suppliers.

All respondents interviewed for the **dual methodology approach** were initially contacted by telephone and after basic demographic information had been obtained about the company to check that it was eligible for interview and which of the quotas it qualified for, the opportunity to transfer to an online questionnaire was given. Respondents who did not want to complete the interview online continued with the interview by phone. Approximately one week was allowed for those requesting the online option to complete the survey. At the end of this time period, respondents were re-contacted by telephone and given the opportunity to complete the interview by phone. Two reminder e-mails were sent to all potential online respondents to prompt them of the need to complete the survey prior to them being re-contacted by phone.

A structured questionnaire was developed for this part of the research. Within the questionnaire, respondents were asked for their opinions on up to three of their customers, which were selected at random from all the customers the respondent dealt with directly. Respondents were asked to only answer about grocery products which they supplied within the UK market. For the purposes of clarification within the survey, these grocery products were defined as follows:

Main Category	**Individual Categories**
Frozen Foods	Frozen Foods
Unpreserved Foods	Dairy Non-dairy chilled foods Fresh produce such as fruit and vegetables Other fresh foods (meat, fish, poultry) Bakery/bread/cakes
Other Food	Packet dried foods Canned/bottled foods Confectionery Other foods
Drinks	Alcoholic drinks Non-alcoholic drinks
Non-Food Goods	Toiletries and healthcare products Household and fabric cleaning goods Small household goods (pots, pans, cutlery) Petfood and pet accessories

The average interview length amongst these respondents was 30 minutes.

For the **in-depth i**nterviews, the same basic structure was adopted for the questionnaire, but the interview included more open questions, where respondents were given the opportunity to expand on their response. The average interview length amongst these respondents was 1 hour 11 minutes.

All interviews were conducted with a person in the company who was responsible for negotiating with retail customers. Fieldwork was conducted between 9, October – 6, November 2006.

A summary of the questions asked in the survey can be found in the Appendix (section 3).

2.4 Sample

The CC initially asked supermarkets to provide contact details of suppliers they had used in the last financial year (2005). The retailers who provided details of suppliers, which were included in the research were as follows:

Asda, Co-op, Costcutter, Iceland, Marks and Spencer, Morrisons, Proudfoot, Sainsbury's, Somerfield, Tesco and Waitrose.

In some cases, details of suppliers provided by the retailers were incomplete. Where full company name and address details were provided, but no telephone number was given, a telephone matching exercise was conducted to attempt to locate the telephone number. However, some suppliers had to be excluded from the sample if there was insufficient contact information available.

The sample was then collated to form **one** list of suppliers, which was the main sampling frame for the survey. The sample was de-duplicated to ensure that suppliers only appeared once in the list. In addition, suppliers of non-grocery products and non-UK based suppliers were removed from the sample. Some of the largest suppliers were selected for the in-depth interviews and the remaining sample was used for the main structured interviews.

In total 456 interviews were conducted, as follows:

Structured Interviews

- 268 interviews conducted completely by telephone
- 137 interviews conducted via telephone initially and then online

In-depth Interviews

- 51 interviews conducted by telephone

The following table shows the breakdown of the sample, in terms of the main product categories, as identified in the initial sample.

Main Product category identified in sample	**Sampling Frame**		**Achieved Sample**		**Supplier Population**	
	Number	**%**	**Number**	**%**	**Number**	**%**
Frozen Foods	185	7	21	5	270	7
Unpreserved Food	905	32	153	34	1,170	31
Other Food	584	21	105	23	820	22
Drinks	459	16	74	16	660	17
Non-Food goods	657	24	103	23	880	23
Total	**2790**	**100**	**456**	**100**	**3,800**	**100**

The achieved sample was representative of the original sampling frame.

The Technical appendix (section 3.1) provides a more detailed breakdown in terms of response outcomes.

2.5 Interpreting the findings

The overall sample size achieved for the research was 456. This sample size provides results accurate to within about 5% so that if 50% of a sample of 456 gave a specific answer, we would say with 95% certainty that the true range is between 45% and 55%.

In general, where sample sizes are below 50 for any reporting segment, we would advise that the results are treated with caution as the sampling error is high.

Where a finding is statistically significant (at the 5 per cent level of significance) the report has indicated this in the commentary. For instance, suppliers of X food product were ***significantly*** more likely to agree with statement X.

Within the report, mention is made of the four largest supermarkets; this refers to Asda, Morrisons, Sainsbury's and Tesco.

2.6 Sample Profile

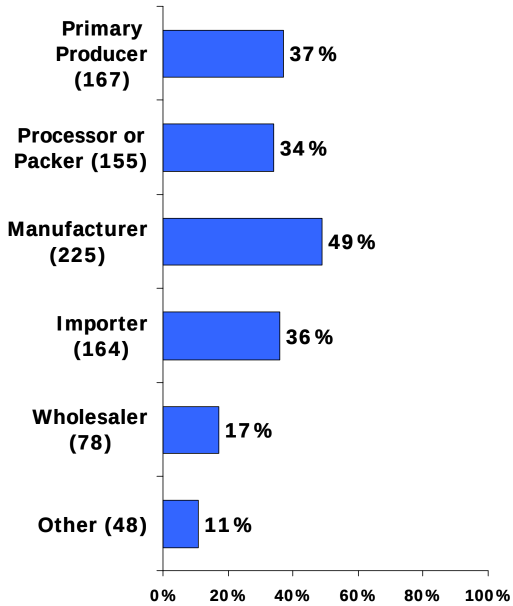
This section provides a profile of the suppliers interviewed for the study according to the responses given in the survey. This information is used to gain a better understanding of the types of suppliers interviewed for the survey and also to enable analysis to be conducted on other question areas by a breakdown of the type of supplier.

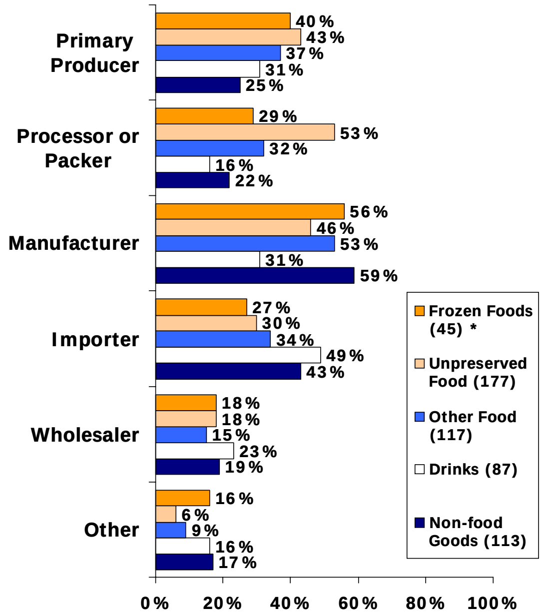
a) Type Of Business

Suppliers were asked to describe their company in terms of type of business from a pre-defined list. Respondents were asked to only identify their main business activities.

The responses to this question are shown in Chart 1 as a total of the whole sample and then broken down by main product category.

Chart 1: Type of Business





Base: All suppliers (456)

*** Small base**

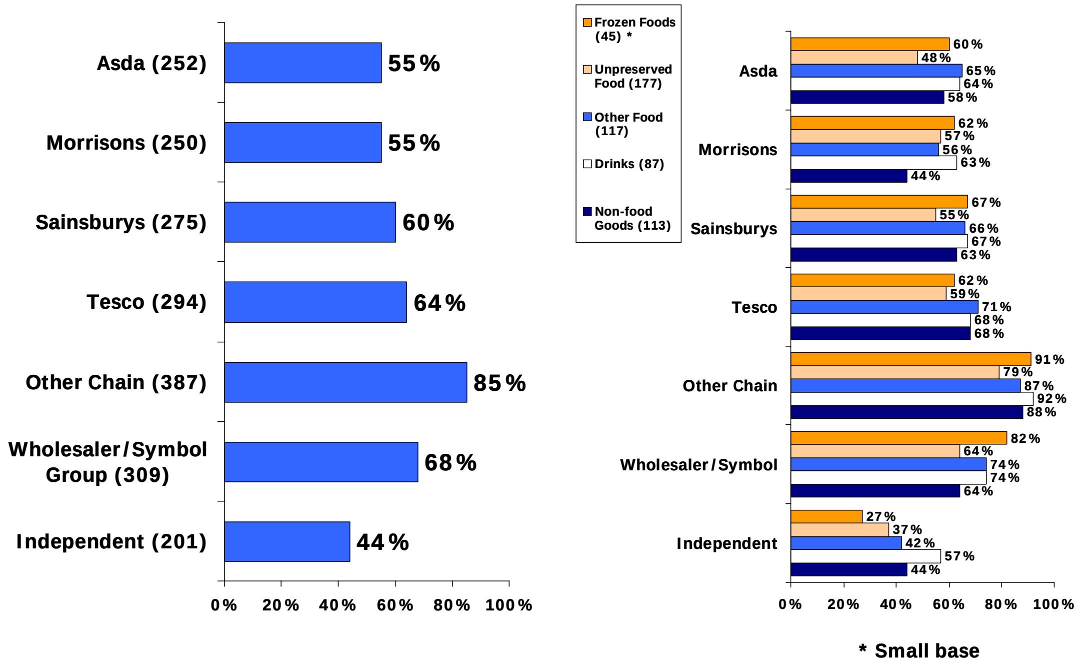
In total, approximately half of suppliers defined their companies as manufacturers (49%) and just over a third claimed to be primary producers (37%), importers (36%) or processors/packers (34%).

When comparing types of business by product category, those supplying unpreserved foods were *significantly* more likely to be processor or packers than any other type of supplier. In addition, companies supplying drinks were *significantly* more likely to be importers compared with suppliers of food products.

b) Customers Supplied

All suppliers were asked which UK customers they supplied grocery products to directly and the responses to this question are shown in Chart 2.

Chart 2: Customers Supplied



Base: All suppliers (456)

Around three-fifths of these suppliers supply to Asda, Morrisons, Sainsbury's or Tesco and 85% of suppliers provided grocery products to one of the other multiple retailers. Amongst the remaining multiple retailers, these suppliers were most likely to be providing goods to Waitrose, mentioned by a similar proportion as those supplying the four largest supermarkets (58%). This was followed by Co-op (43%), Somerfield (35%), EH Booth & Co. (30%), Netto (18%), Aldi (16%), Iceland (14%) and Marks and Spencer (13%). The distribution of responses reflects the retailers who contributed to the sampling frame.

Three in ten of these suppliers were supplying all of the four largest supermarkets and nearly a fifth (17%) were supplying at least three out of the four. Just 11% were not supplying products to any of the four largest supermarkets. There were virtually no suppliers who were only providing goods to just one of the four largest supermarkets.

Two-thirds of these suppliers supply grocery goods to a wholesaler or a member of a symbol group. The main companies mentioned were Musgrave UK (31%), Nisa (28%), Booker (25%), Makro (21%), Spar (20%), Costco (20%), AF Blakemore (19%) and Bestway (18%).

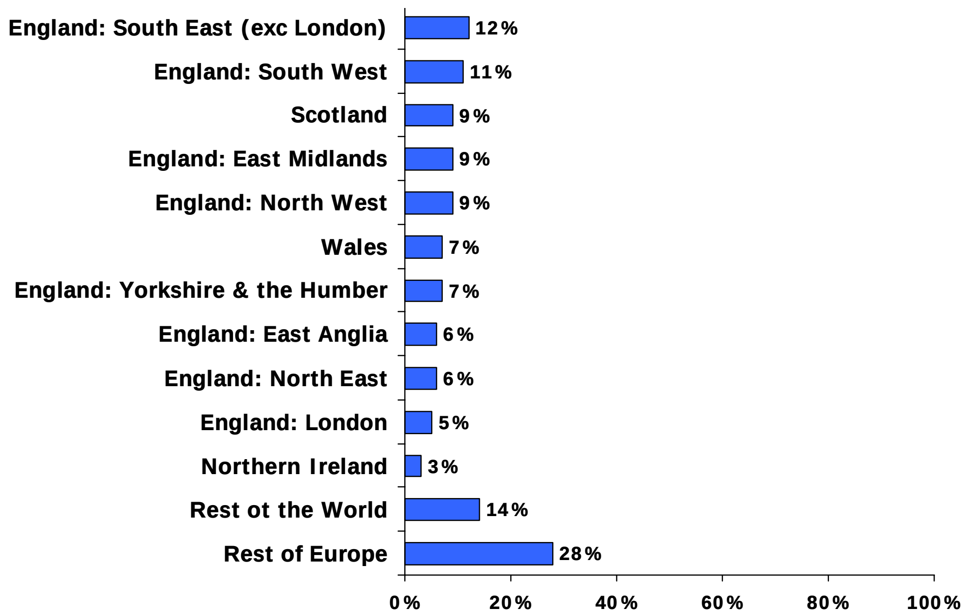
Just over two-fifths mentioned that they supplied independent retailers (defined in this study as any company with less than 5 stores). Of those suppliers who do provide goods to independent retailers, over half supply at least 50 independent retailers.

In terms of product category, there were few differences between suppliers and the range of customers they supply. However, suppliers of drinks were more likely to be providing their products to independents compared with other suppliers.

c) Location Of Production Facilities

Only UK-based suppliers were interviewed, and Chart 3 shows where their production facilities were based. In total, just under two-thirds of these suppliers are only based in the UK (64%) and a third only have production facilities outside the UK (32%).

Chart 3: Location of Production Facilities



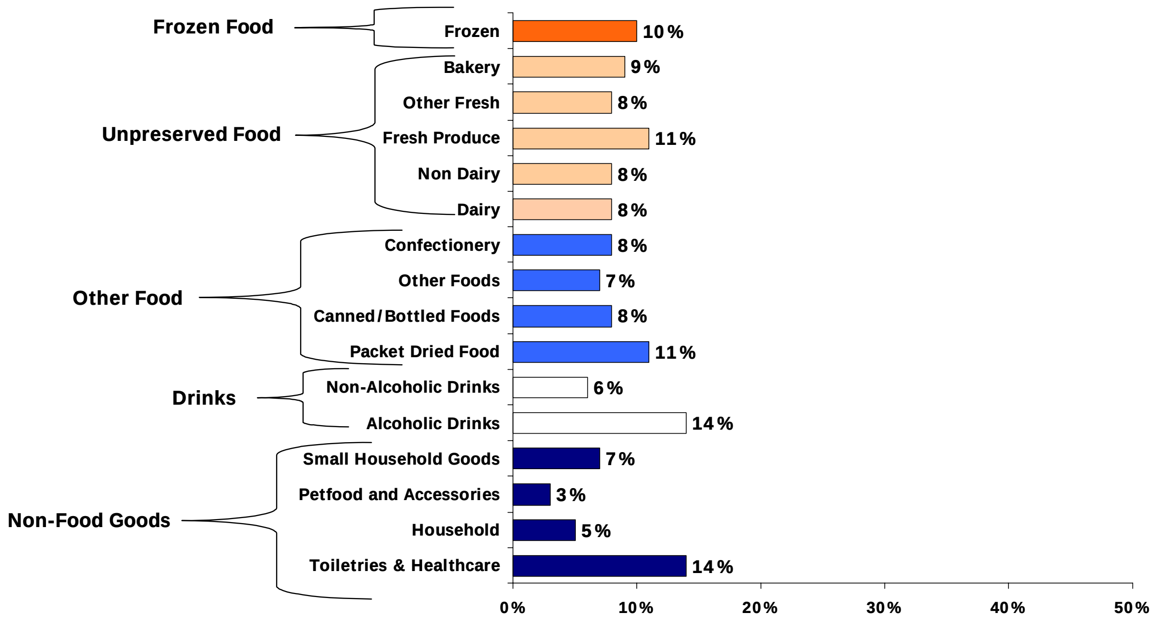
Base: All Suppliers (456)

There were some differences between types of supplier, in relation to the product category being supplied. Those providing frozen and unpreserved food were more likely to have production facilities in the UK compared with those supplying other types of goods and drinks suppliers mentioned production facilities in other countries to a higher degree than other types of supplier.

d) Product Categories Supplied

Suppliers were asked which products they supplied to the grocery trade. This was asked spontaneously and the actual product coded into the predefined list of products, as shown in Chart 4.

Chart 4: Product Categories Supplied



Base: All suppliers (456)

The proportion supplying each of the main product categories was as follows:

- Frozen Foods 10%
- Unpreserved foods 39%
- Other food 26%
- Drinks 19%
- Non-Food 25%

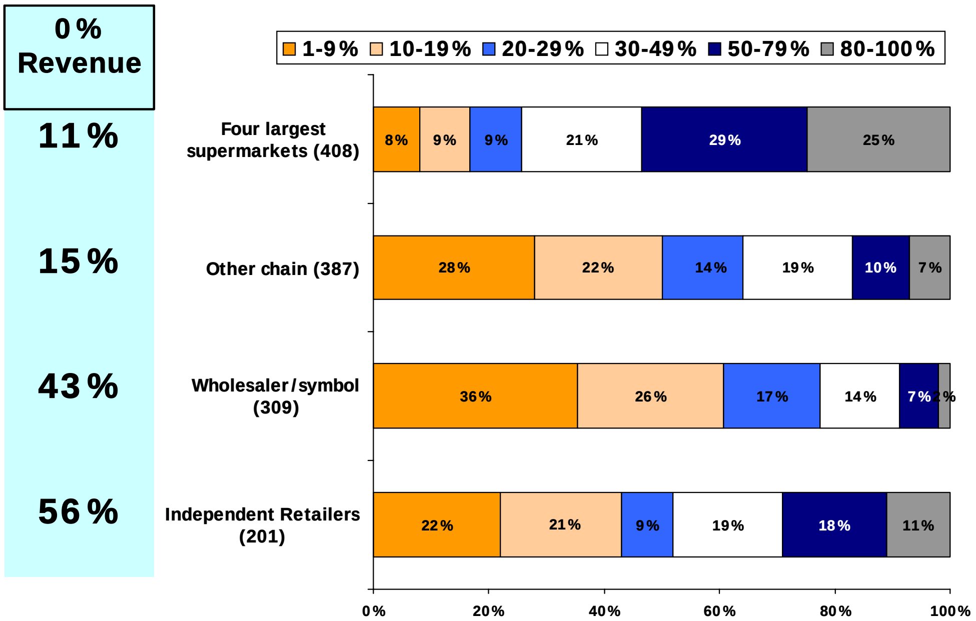
In general, most suppliers were only providing products within one main category. The exception is suppliers of frozen food, of whom 56% claimed to be supplying in another category, most likely to be unpreserved food mentioned by 36% of frozen food suppliers.

Around a fifth of suppliers of unpreserved food (19%), other food (21%) and drinks (17%) claimed to supply goods from more than one of the main product categories and 12% of suppliers of non-food products.

e) Proportion of Revenue supplied by each Customer

Suppliers were asked to say approximately what percentage of their grocery revenue was generated from each of their customers and their responses are charted below by type of customer.

Chart 5: Proportion of Grocery Revenue supplied from each customer



Base: All suppliers excluding don't knows

Nearly half of suppliers (45%) claimed that the four largest supermarkets accounted for at least 50% of their grocery revenue, 23% claimed they provided 75% or more their revenue and 5% all of their revenue. (N.B. in chart 5, the percentage not supplying each type of customer is shown to the left and the graphic to the right excludes those who do not supply that type of retailer).

Over half of those who do supply any of the four largest supermarkets claimed they accounted for at least 50% of their grocery revenue.

Just under a fifth of all suppliers (17%) relied on any one of the four largest supermarkets for at least 50% of their grocery revenue, 9% relied on any of these for 75% of their revenue and 3% received all their revenue from one of these supermarkets.

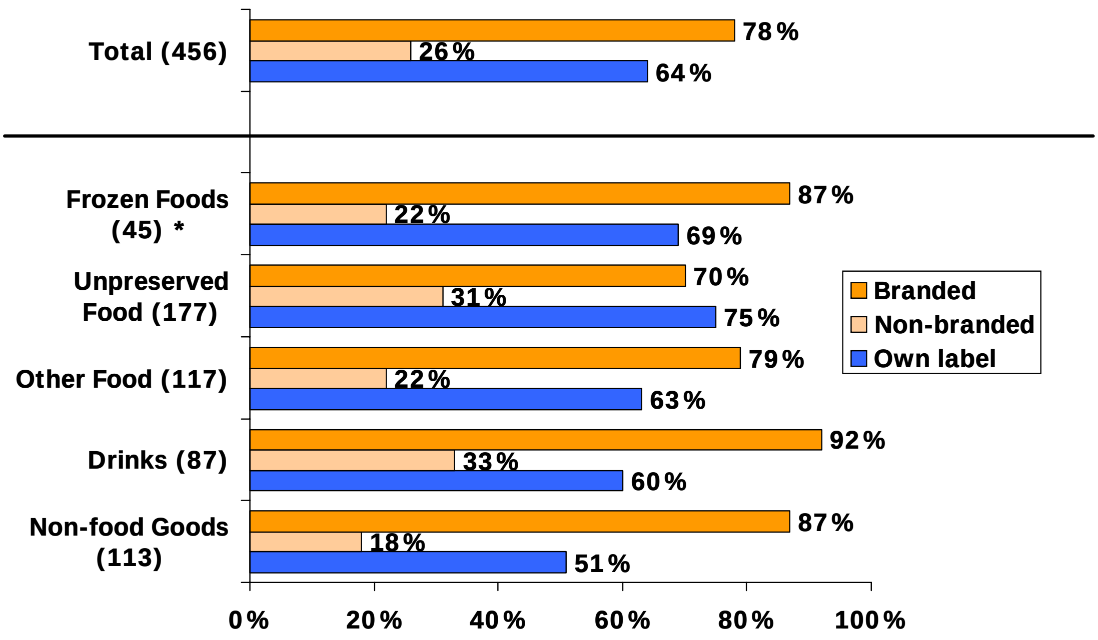
Some suppliers relied almost entirely on one major customer.

Approximately three in ten suppliers to independent retailers claimed these customers provided at least 50% of their grocery revenue.

f) Whether Products supplied are Branded/Non-Branded/Own Label Products

Chart 6 shows the responses from the survey when suppliers were asked what types of grocery products they sold in terms of whether they sell branded goods, non-branded goods or own label goods.

Chart 6: Branded/Non-Branded/Own label Products Supplied



Base: All suppliers (456) *** Small base**

In total, just over three-quarters of suppliers claimed to sell branded goods, about two-thirds own label goods and a quarter non-branded goods.

Companies supplying frozen foods, drinks and non-food goods were the most likely to be selling in the branded category. Those selling frozen and unpreserved food had the highest incidence of own label products.

A fifth of suppliers claimed to be only selling branded goods (20%), 10% were only selling own label products and just 4% were only selling non-branded goods.

The table below shows the average percentages sold as branded/non-branded and own-label goods by product category.

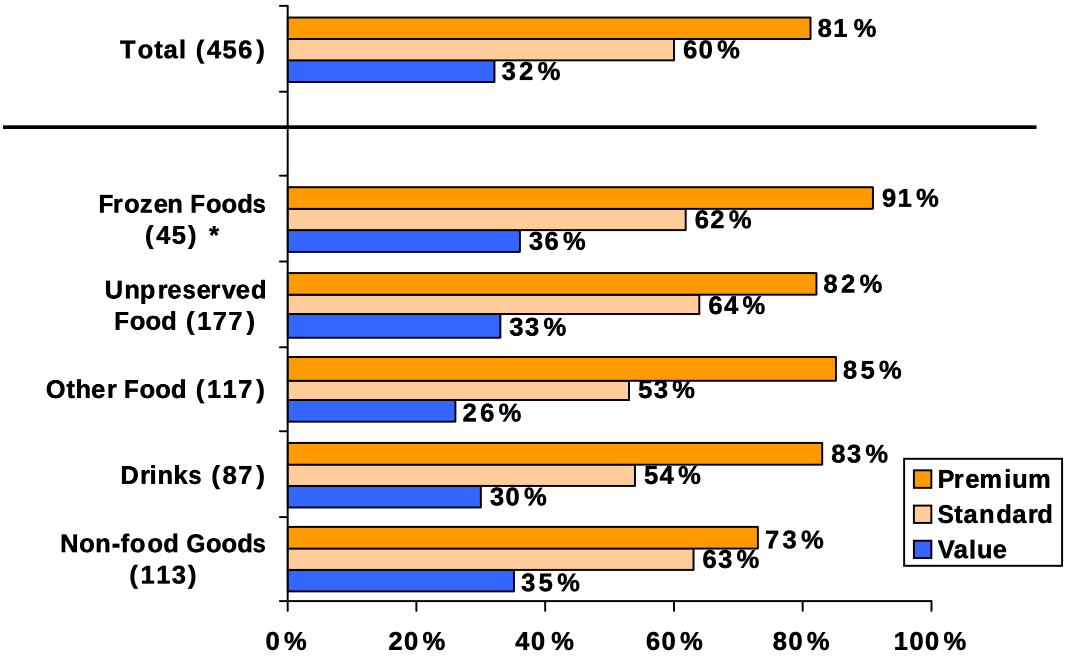
Average percentage sold as Branded/Non-Branded/Own Label type products	Branded	Non-Branded	Own Label
Total	48	10	34
Frozen	44	10	40
Unpreserved	37	13	41
Other Food	51	7	31
Drinks	60	8	26
Non-Food Goods	59	7	28

On average, suppliers claimed about half their products were sold as branded goods, 10% as non-branded and about a third as own-label. There were some differences between types of grocery product being sold. Suppliers selling drinks and non-food claimed to be selling a *significantly* higher proportion of their products as branded goods compared with all suppliers.

g) Whether Products supplied are Value/Standard/Premium Products

Suppliers were then asked to say whether they sell products as value, standard or premium products. Premium products were defined, for example as being niche or organic. Their perceptions of the types of products they sell in these categories are shown in chart 7.

Chart 7: Value/Standard/Premium Products Supplied



Base: All suppliers (456) * Small base

Overall, four-fifths of suppliers claimed to sell premium products, three-fifths standard products and a third value products.

There were few variations across sellers of different food categories, although those selling in the non-food category were less likely to claim to be selling products in the premium category.

A higher proportion of suppliers selling non-branded goods were selling value products compared with those selling branded goods.

Just 1% of suppliers claimed to be only selling value products and 9% were only selling standard products. However, a higher proportion claimed to be sole suppliers of premium goods (28%).

The table below shows the average percentages sold as value/standard/premium goods by product category.

Average percentage sold as Value/Standard/Premium products	Premium	Standard	Value
Total	45	38	8
Frozen	49	37	6
Unpreserved	42	43	6
Other Food	51	33	6
Drinks	54	28	10
Non-Food Goods	40	38	10

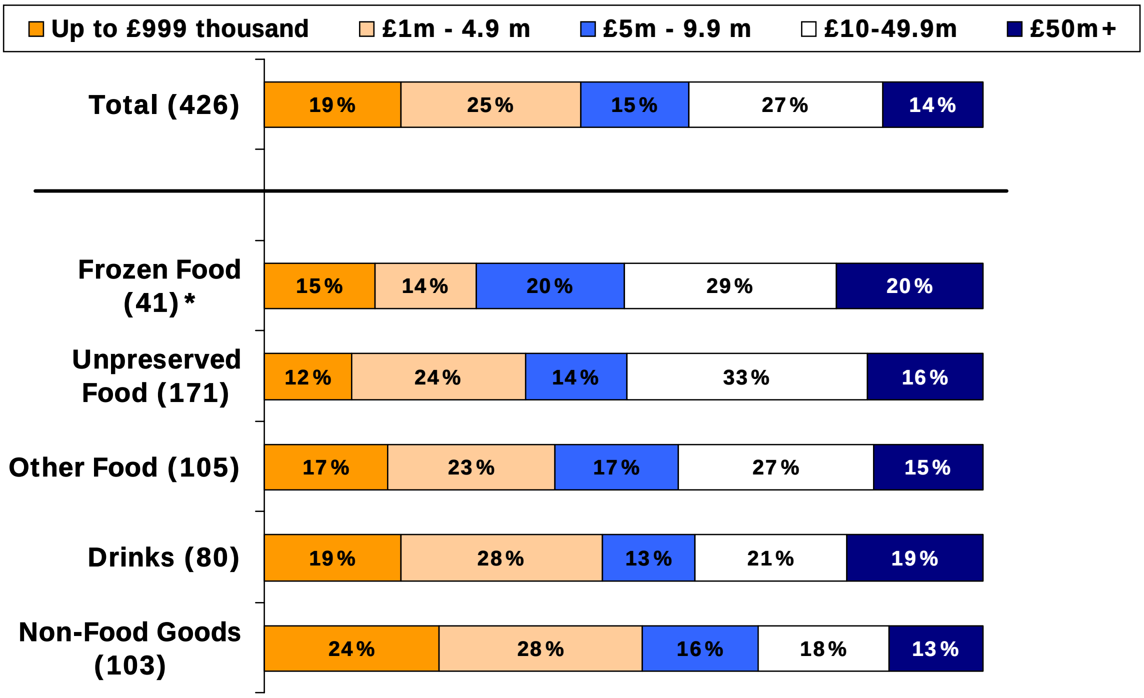
On average, suppliers claimed to be selling about half of their products as premium goods, two-fifths as standard products and just 8% as value goods. There were relatively few differences between suppliers in terms of the type of grocery product being sold.

h) Revenue from Grocery Products

Suppliers were asked to say how much their company turnover was from their grocery products for the last financial year. Chart 8 shows the responses to this question at the total level and broken down by each of the main product categories. The results exclude don't knows and refusals (30 suppliers).

Overall, a fifth of suppliers claimed their turnover from grocery products was less than £1 million and two-fifths had a large turnover of £10 million or more.

Chart 8: Revenue from Grocery Products



Base: All suppliers (426) excluding don't knows/refused *** Small base**

Companies with the largest grocery turnover in the sample, in terms of the types of products they sell, were those providing frozen and unpreserved food, in particular those selling 'fresh' food (fruit, vegetables, meat etc.). Over half of suppliers (55%) interviewed selling fresh food claimed to have a grocery turnover of £10 million or more, compared with just over two-fifths (42%) among those selling the remaining types of unpreserved food (dairy, non-dairy, bakery).

Suppliers of non-food products had a lower grocery turnover than other types of supplier, but they were more likely to have turnover from non-grocery products. In fact their combined turnover from grocery and non-grocery products, puts them more in line with the other types of supplier.

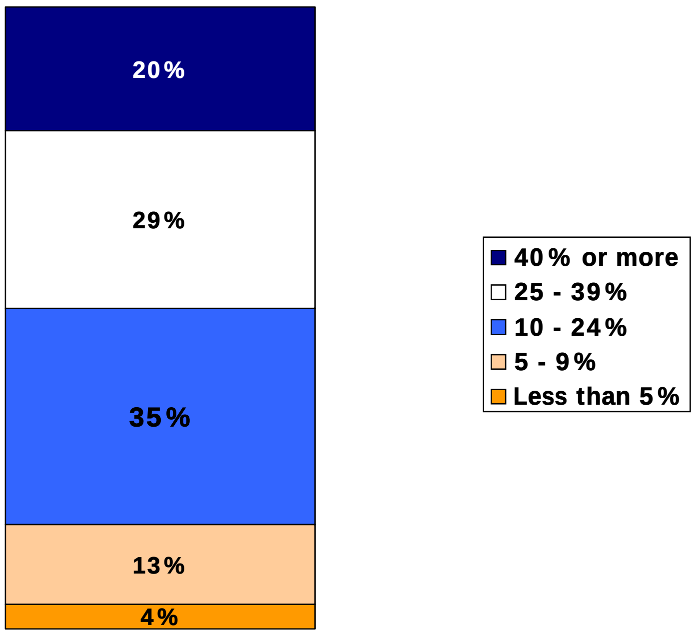
Suppliers who sell to independent retailers had a lower turnover than those who were only supplying to multiple supermarkets or wholesalers/symbol customers.

i) Gross Margins on Grocery Products

Suppliers were asked to provide an approximate percentage for the gross margin of their grocery products, as shown in chart 9, again excluding those suppliers who were unable or unwilling to answer the question.

In total, half of suppliers (49%) claimed to achieve a gross margin of 25% or more on their grocery products. Suppliers providing non-food goods claimed to be receiving higher gross margins from their grocery products than those supplying food, and those supplying unpreserved food and drinks had the lowest gross margins.

Chart 9: Gross margins on Grocery Products

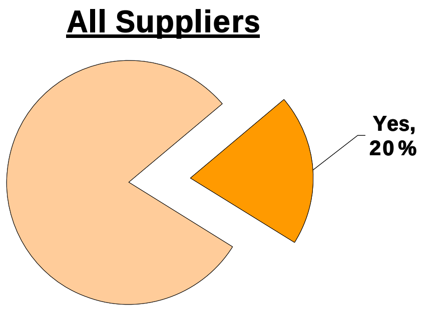


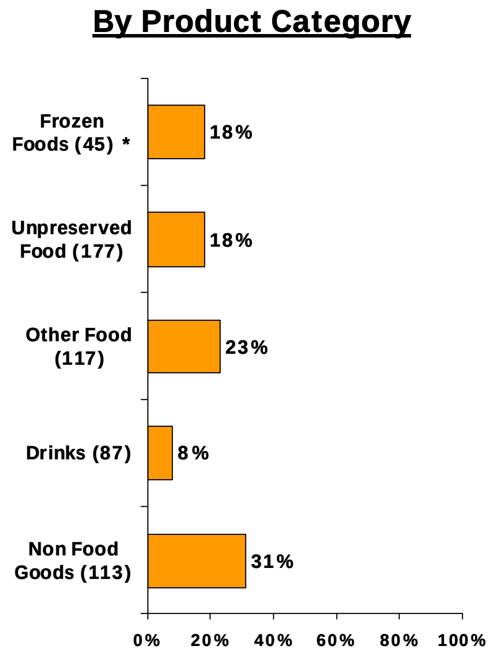
Base: All small/medium suppliers (310) excluding don't knows/refused

j) Whether Company sells Non-Grocery Products

Overall, a fifth of suppliers interviewed claimed to be selling non-grocery products in addition to their grocery products. As would be expected, those suppliers providing non-food goods were most likely to be providing non-grocery products, as shown in chart 10.

Chart 10: Whether supplier sells non-grocery products





Base: All Suppliers (456)

*** Small base**

k) In-depth Interviews

The in-depth interviews were conducted among 51 of the largest suppliers from the original sample.

In terms of their sample profile, they were a mix of companies, supplying various product types and with a range of different customers.

When comparing these companies with those interviewed with the structured questionnaire, the following differences were found:

- These companies were less likely to sell non-branded goods than other suppliers
- These companies were more likely to sell value and standard products than other suppliers, but equally as likely to sell premium goods
- The gross margins for their grocery products tended to be lower than other suppliers.

2.7 Advantages/Disadvantages for Small Customers

This section reports on the results from questions asked in the survey which were designed to determine whether suppliers perceived there to be advantages and/or disadvantages for their smaller customers as a result of their relationship with larger customers.

The questions were asked specifically in relation to **one** of their largest customers, which was selected at random from the customers they dealt with. The charts included in this section compare the four largest supermarkets with the total, which includes other supermarkets as well as the four largest.

a) Benefits to Smaller Customers

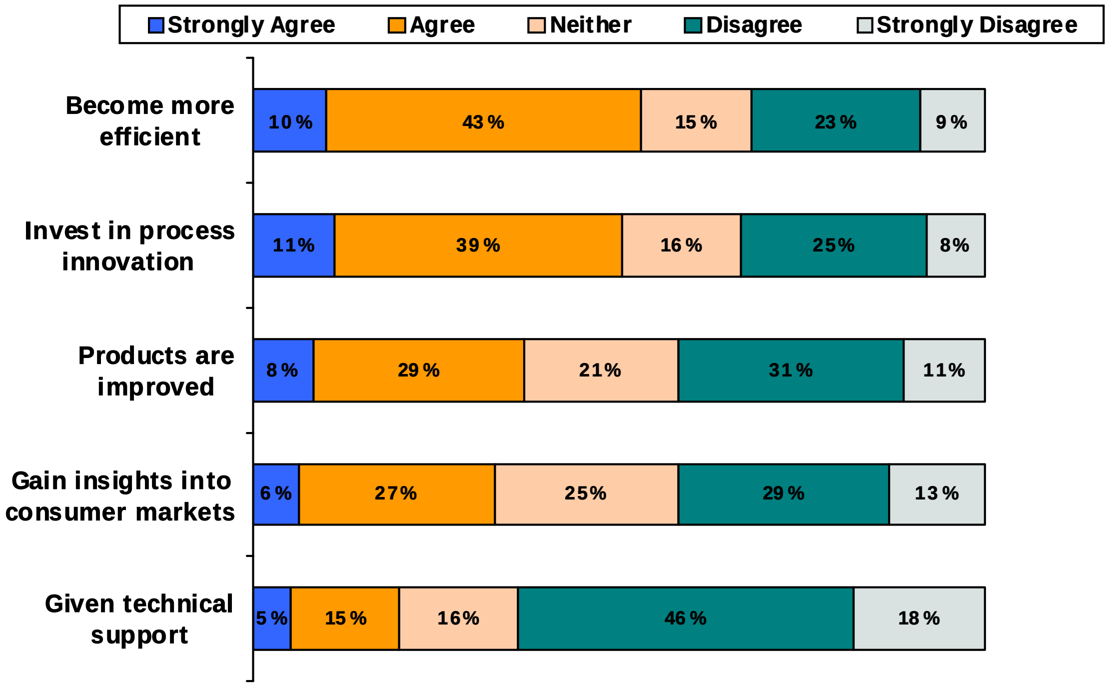
Suppliers were read out a list of rotated statements describing possible benefits for smaller customers, which could have resulted from their relationship with a specified larger customer. For each statement, suppliers were asked to agree or disagree (on a five point rating scale), according to their own opinion.

The statements read out to suppliers were as follows:

- We gain insights into consumers and the market
- We become more efficient suppliers
- We invest in process innovation
- Our products are improved
- We are given technical support which improves our overall offering

Chart 11 shows a summary of the results for all these statements.

Chart 11: Summary of Benefits to Smaller Customers



Base: All suppliers (371) supplying to more than 1 customer

Suppliers were most likely to agree that they become 'more efficient' and 'invest in process innovation' as a consequence of their dealing with large customers, with approximately half of suppliers agreeing with these statements.

Suppliers were more divided in their opinions as to whether their 'products are improved' and 'gaining insights into consumers and the market'.

The statement which suppliers were most likely to disagree with was in relation to being 'given technical support which improves their overall offering'. Nearly two-thirds of suppliers disagreed with this statement.

There were some differences between types of suppliers worth noting on this area of questioning. Suppliers providing drinks products had a higher level of disagreement with all of these statements compared with other suppliers. In addition, suppliers with the lowest grocery turnover were the least likely to agree with the majority of these statements, with the exception of gaining insights.

Each statement is now looked at in more detail with results broken down by the supermarket suppliers were asked to consider when answering the question.

(i) We gain insights into consumers and the market

Overall a third of suppliers agreed ‘we gain insights into consumers and the market’, but substantially more, two-fifths disagreed.

(ii) We become more efficient suppliers

‘We become more efficient suppliers’ was the statement which achieved the highest level of agreement amongst suppliers, with 53% in agreement, although a third of suppliers did disagree.

(iii) We invest in process innovation

Half of suppliers also agreed with the statement ‘we invest in process innovation’. The largest suppliers (£50m turnover or more) were the most likely to agree with this statement (58%), but still nearly half of the smallest suppliers were also in agreement (47%).

(iv) Our products are improved

Suppliers were equally divided in terms of agreement and disagreement levels on the statement ‘our products are improved’, with around two-fifths both agreeing and disagreeing.

(v) We are given technical support which improves our overall offering

The statement ‘we are given technical support which improves our overall offering’ generated the lowest levels of agreement.

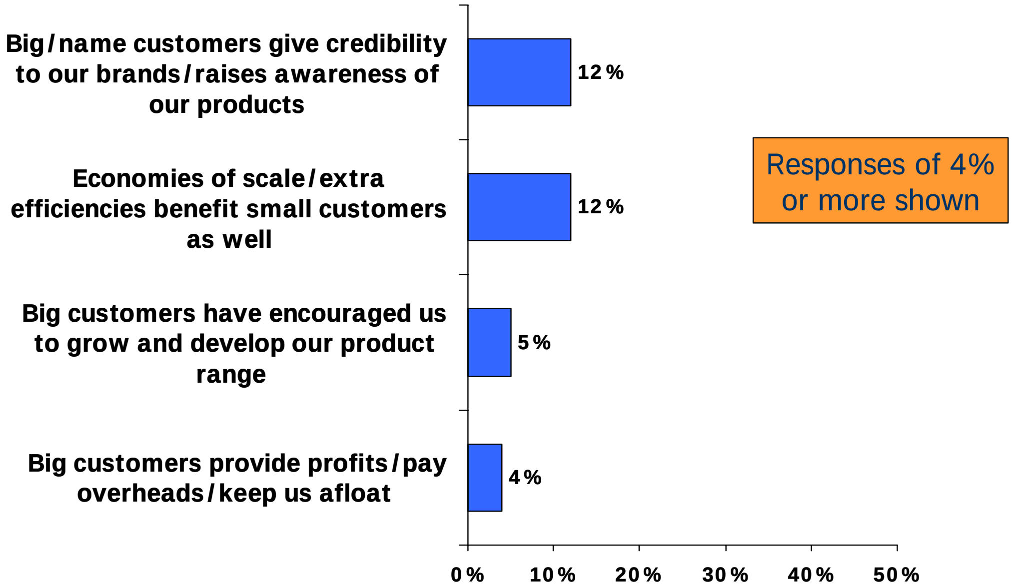
Interestingly, those suppliers selling at least some non-branded goods were the most likely to agree with this statement (31%), followed by those supplying own label products (23%) and then lastly those selling branded goods (17%).

(vi) Other aspects of dealing with large customers which have a positive effect on smaller customers

Suppliers were asked if there were any other aspects of their dealings with their largest customers which had a positive effect on their relationship with smaller customers. This question was asked spontaneously and then similar results were collated to provide an overall analysis.

All responses of 4% or more are shown in chart 12. The top two responses, mentioned by 12% of respondents were firstly, that by having their products on the shelves of the large supermarkets their profile is raised and therefore smaller customers are more willing to purchase the products. Secondly, suppliers mentioned that economies of scale provides benefits for the smaller customer.

Chart 12: Other aspects which benefit smaller customers



Base: All suppliers (371) supplying to more than 1 customer

Responses of less than 4% were as follows:

- Big customers have encouraged us to find better products (2%)
- Dealing with big customers provides us with insight (2%)
- We have to produce special packaging which smaller customers also get (1%)
- Big customers encourage ethical/environmental good practice (1%).

All other responses were from less than 1% of suppliers.

b) Disadvantages for Smaller Customers

Suppliers were then read out a list of rotated statements describing possible disadvantages for smaller customers, which could have resulted from their relationship with a specified larger customer. For each statement, suppliers were asked to agree or disagree (on a five point rating scale), according to their own opinion.

The statements read out to suppliers were as follows:

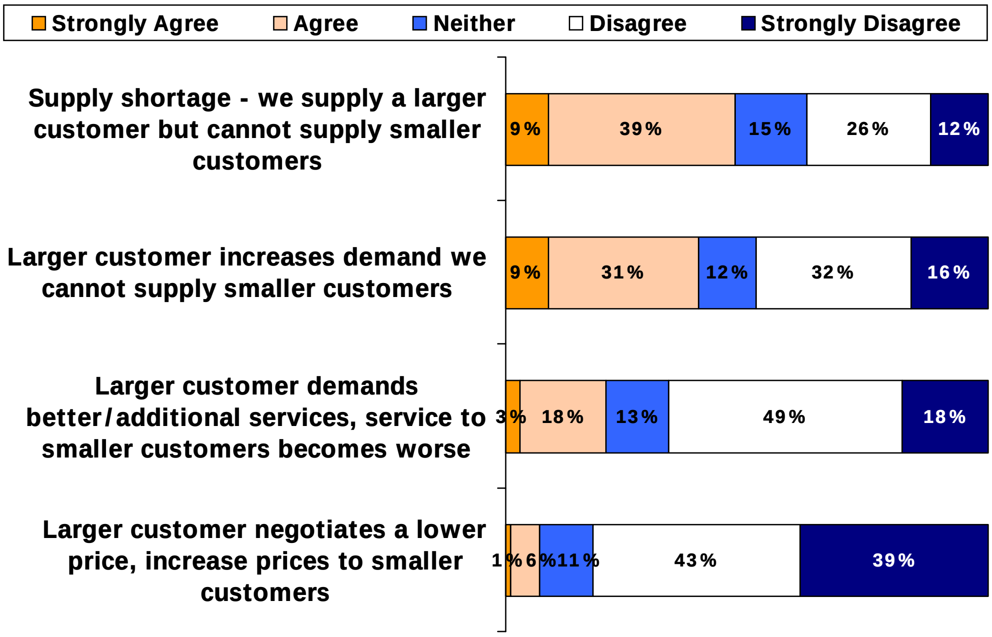
- If a larger customer negotiates a lower price, we increase prices to smaller customers
- If a larger customer increases demand at short notice we cannot supply smaller customers
- If there is a supply shortage we supply a larger customer, but cannot supply smaller customers
- If a larger customer demands better/additional services, services to smaller customers becomes worse

Chart 13 shows a summary of the results for all these statements.

The only statement which suppliers were more likely to agree with as opposed to disagree with was ‘if there is a supply shortage, we supply a larger customer, but cannot supply smaller customers’. Nearly half of suppliers agreed with this statement compared with 38% who disagreed.

The next highest level of agreement for any of these statements was also related to supply of product, namely ‘if a larger customer increases demand we cannot supply smaller customers’, with two-fifths of suppliers in agreement.

Chart 13: Summary of disadvantages to smaller customers



Base: All suppliers (371) supplying to more than 1 customer

Approximately a fifth of suppliers agreed that 'If a larger customer demands better/additional services, services to smaller customers becomes worse', but two-thirds disagreed.

Suppliers were least likely to consider that they increased prices to smaller customers if a larger customer negotiates a lower price. Just 7% of suppliers were in agreement with this statement.

Each statement is now looked at in more detail with results broken down by the supermarket suppliers were asked to consider about when answering the question.

(i) If a larger customer negotiates a lower price, we increase prices to smaller customers

This statement generated the lowest level of agreement of any of the possible disadvantages read out to suppliers. Over four-fifths of suppliers disagreed that they increased their prices to smaller customers as a result of their dealings with larger customers.

Interestingly, none of the suppliers with a grocery turnover of £50 million or more agreed with this statement, but amongst those with a turnover of less than £5 million, 9% did agree.

(ii) If a larger customer increases demand at short notice we cannot supply smaller customers

Overall two-fifths of suppliers agreed that supply to small customers can be affected if a larger customer increases demand at short notice, although a slightly higher percentage disagreed.

Half of suppliers with the largest grocery turnover (£50m or more) agreed that supply to smaller customers can be affected due to increases in demand, whereas the equivalent percentage for smaller suppliers (£5m or less grocery turnover) was less at 35%.

(iii) If there is a supply shortage we supply a larger customer, but cannot supply smaller customers

Suppliers were most likely to agree with the statement ‘if there is a supply shortage we supply a larger customer, but cannot supply smaller customers’. Nearly half of suppliers (48%) agreed with this statement, but also a fairly high percentage 38% disagreed.

As with the previous statement, the suppliers with the largest grocery turnover had the highest level of agreement. Three-fifths of suppliers with a grocery turnover of £50m or more agreed with this statement compared with 41% of those with a turnover of less than £5m and this was statistically ***significant***.

(iv) If a larger customer demands better/additional services, services to smaller customers becomes worse

Two-thirds of suppliers disagreed that their service to smaller customers would be affected negatively if they had to provide additional or better services to larger customers.

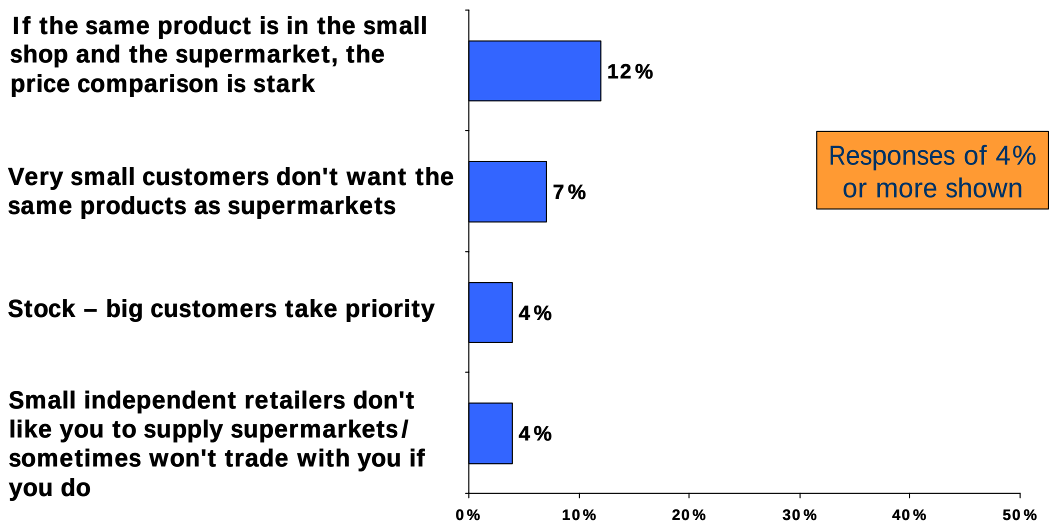
Again, the larger the turnover the supplier received for groceries, the more likely they were to agree with this statement.

(v) Other aspects of dealing with large customers which have a negative effect on smaller customers

Suppliers were then also asked to consider whether there were any other negative aspects for smaller customers, which resulted from their dealings with larger customers. This was a spontaneous question and the responses were then grouped into similar categories for analysis. Suppliers were most likely to mention the price comparison between large supermarkets and small shops in so much as the latter are unable to offer products at such low prices (12%).

Other mentions, as shown in Chart 14 were that some small customers don't want the same products as the supermarkets (7%), big customers take priority on stock (4%) and that some small customers do not want you to supply the large supermarkets (4%).

Chart 14: Other aspects which have a negative effect



Base: All suppliers (371) supplying to more than 1 customer

Other mentions of less than 4% were as follows:

- Big customers take up all/most of our time (3%)
- Big customers can negotiate better prices (2%)

All other responses were from less than 1% of suppliers.

c) In-depth Interviews

Suppliers interviewed in the in-depth interviews generally gave similar responses to other suppliers when asked about the benefits smaller customers may receive from their dealings with larger customers.

However, these companies were **more likely to agree that they gain insights into consumers and the market** than other suppliers. Some of the verbatim responses made by these suppliers were as follows:

> *"The main one is that we get an insight into our consumer which allows us to tailor our range to our consumers more appropriately"*

> *"Consumer insight into trends, potentially sets you up to benefit the smaller player"*

They were less likely to agree 'our products have improved' when compared with other suppliers.

The main other advantages mentioned by these suppliers were the **economies of scale**:

> *"The pure volume that we put through these accounts leads to process efficiencies which is therefore driving costs down"*

> *"The only answer I can give positively is volume of scale … allows us to sell to smaller retailers at a slightly better cost"*

and the benefit of **increased product awareness** from having larger customers put the product on their shelves:

> *"You get credibility and reputation from the product being available in XXXX"*

> *"I would say that the exposure of the brand to a wider audience makes our product more relevant in smaller stores"*

In terms of disadvantages for smaller customers, these suppliers were less likely to **strongly** agree with all the statements read out to them regarding possible disadvantages than other suppliers, but otherwise their levels of overall agreement were similar.

The only disadvantage mentioned to any extent was that smaller customers are unable to compete on price and some suppliers did mention that larger customers get a better price due to volumes. Some of the verbatim responses made were as follows:

> *"Only the price that they sell their products for. …….we can't get involved in retail prices"*

> *"I think the one that does have a negative effect is price. If our larger customers are selling the product at price X then it is difficult for the smaller customers to sell at a higher price than that"*

> *"It's always fairly difficult for the smaller retailers, because they're not buying the same volume, therefore some of the smaller retailers would find it more difficult, in my opinion to get the exact same deals, simply because they're not buying the same volume"*

2.8 Supply of Product and Negotiation

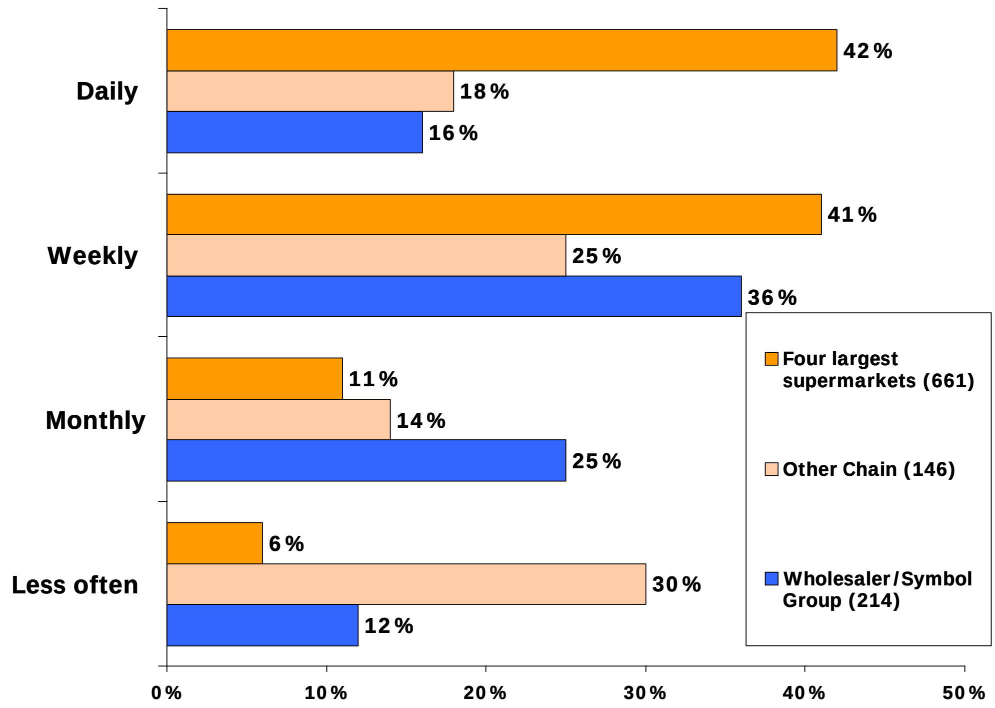
This section of the report focuses on supplier's dealings with specific customers, in terms of supplying product and negotiation. All suppliers were asked to answer about up to three of their customers, selected at random from all their customers. Responses were collated by customer and the bases for the questions in this section are the total responses for each customer, rather than total suppliers.

Questions were also specifically asked about suppliers' top products in terms of revenue.

a) Frequency of Supplying Products

Suppliers were initially asked how often they supply a particular customer with their top product and chart 15 shows the responses received broken down by each type of customer.

Chart 15: Frequency of supplying products



Base: All responses (1021)
Respondents could answer about more than one customer

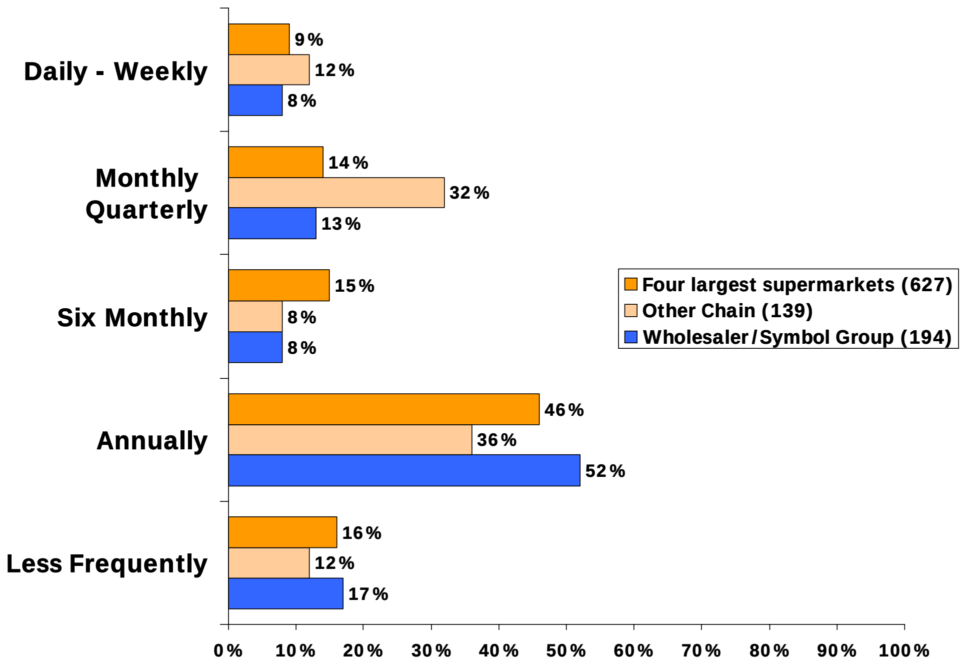
Suppliers supply their top products more frequently to the four largest supermarkets than to other customers. This was not explained by differences in the products supplied. However, the frequency of delivery does depend upon the type of product: those supplying unpreserved food are more likely to deliver daily (mentioned by 69% of these suppliers) compared with suppliers of other products.

b) Frequency of Price Negotiations

Suppliers were then asked to say how frequent their price negotiations with a specific customer were for their top grocery product. Chart 16 shows the results to this question.

Quarterly price negotiations tended to be more common with customers that were chain stores other than the four largest supermarkets. Over two-fifths of suppliers answering about an 'other chain' store claimed to have quarterly or more frequent price negotiations. The equivalent percentage for the four largest supermarkets was about a fifth.

Chart 16: Frequency of price negotiations



Base: All responses (960) excluding those who do not supply to this customer

Respondents could answer about more than one customer

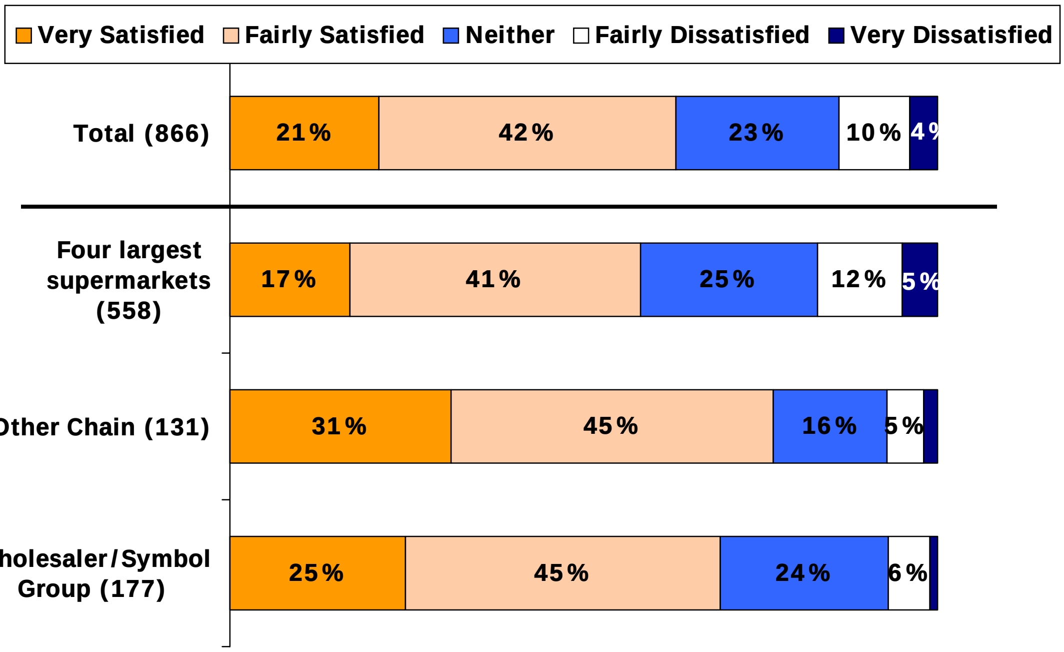
As for supply of product, those supplying unpreserved food had more frequent price negotiations than those supplying other types of product. A fifth of suppliers of unpreserved food had weekly negotiations, compared with only 2-3% of suppliers of other products.

c) Satisfaction with Frequency of Price Negotiations

Suppliers were asked to say how satisfied or dissatisfied they were with the frequency of the price negotiations that they had reported.

Overall, the majority of suppliers claimed to be satisfied, with over three-fifths giving a positive response. Only 14% claimed to be dissatisfied.

Chart 17: Satisfaction with price negotiations by customer type



Base: All responses (866)
Respondents could answer about more than one customer

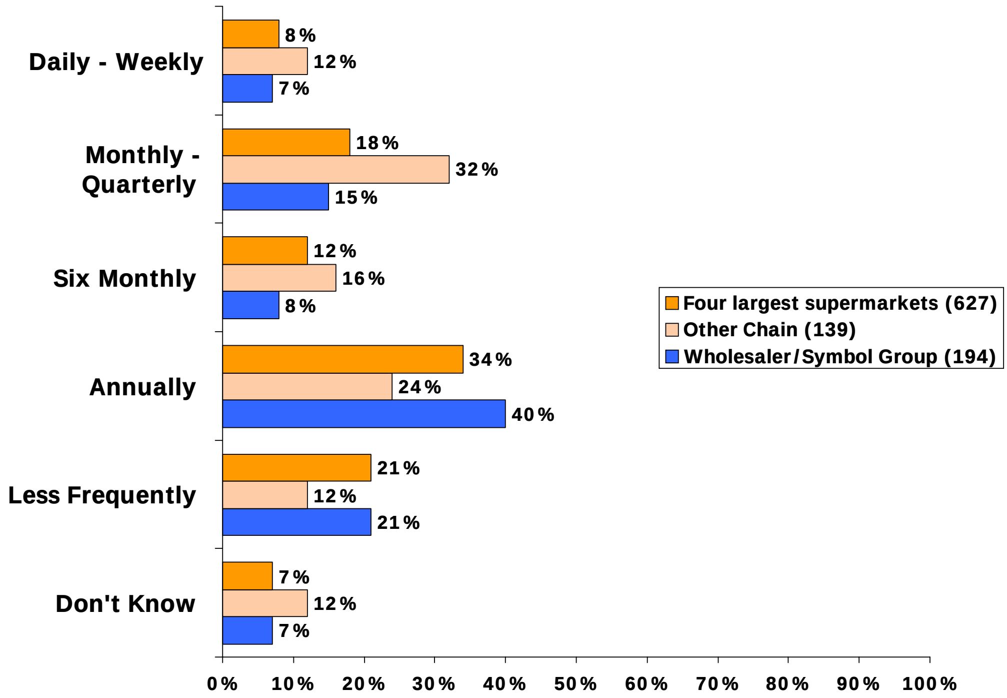
Suppliers answering about chain supermarkets other than the four largest supermarkets and wholesaler/symbol group customers were ***significantly*** more likely to say they were satisfied with the frequency of price negotiations than those answering about Asda, Morrisons, Sainsbury's and Tesco.

d) Frequency of Volume Negotiations

Suppliers were then asked to say how frequent their volume negotiations with a specific customer were for their top grocery product. Chart 18 shows the results to this question and the responses were similar to those for price negotiations.

Suppliers who were answering about one of the chain supermarkets other than the four largest were significantly more likely to say they had at least quarterly volume negotiations (44% compared with about a quarter for other customers).

Chart 18: Frequency of Volume negotiations



Base: All responses (960) excluding those who do not supply to this customer

Respondents could answer about more than one customer

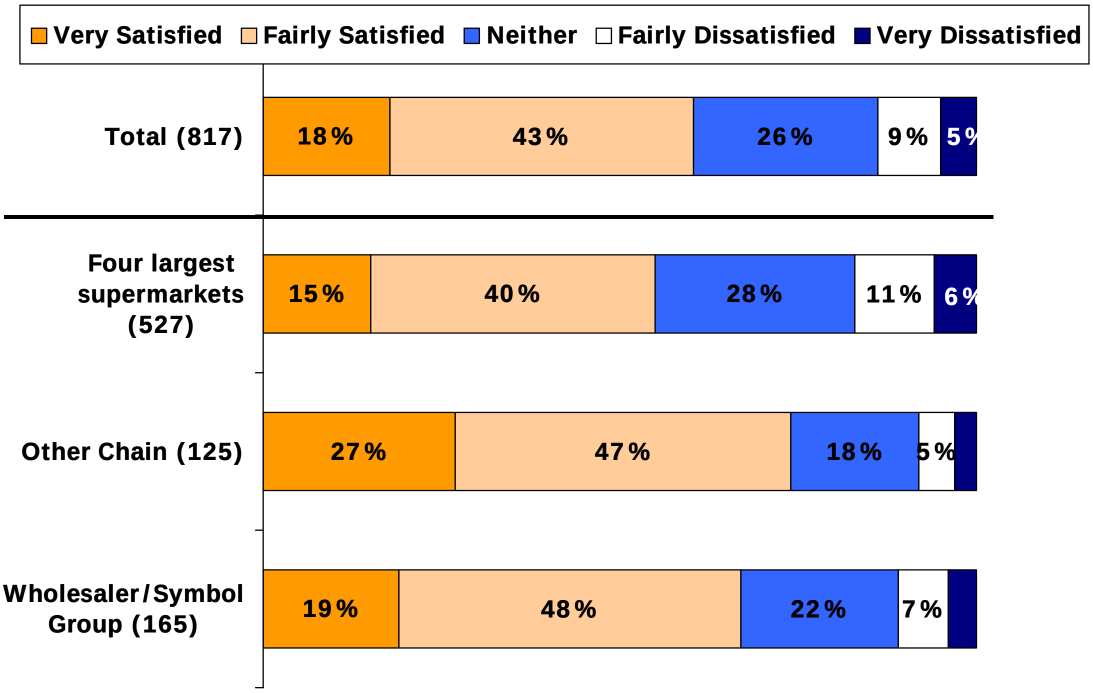
There were some differences amongst suppliers in terms of product category. Amongst suppliers providing unpreserved food, a fifth had volume negotiations at least weekly. Interestingly, those suppliers selling drinks claimed to have weekly negotiations to a greater extent than other suppliers, with the exception of suppliers providing unpreserved food.

e) Satisfaction with Frequency of Volume Negotiations

As was found with price negotiations, when suppliers were asked how satisfied or dissatisfied they were with the frequency of volume negotiations, the majority claimed to be satisfied. In total, three-fifths claimed to be very or fairly satisfied and just 14% were dissatisfied.

However, suppliers were the least satisfied with their dealings with the four largest supermarkets, as can be seen in chart 19 below.

Chart 19: Satisfaction with frequency of Volume negotiations



Base: All responses (817), excluding don't knows

Respondents could answer about more than one customer

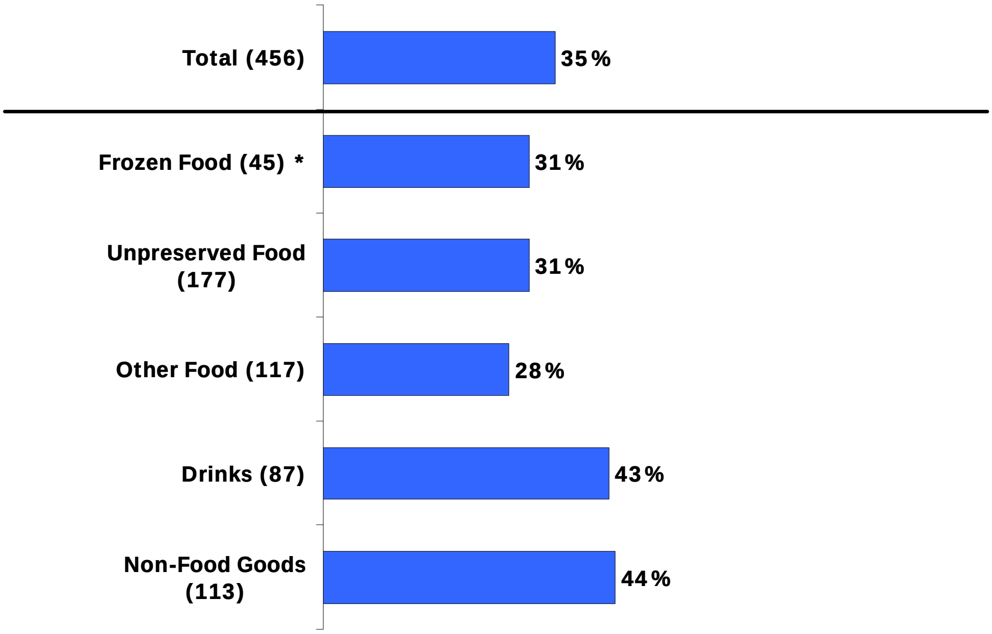
When comparing satisfaction with frequency of negotiations, it was found that suppliers having daily or less than annual negotiations were slightly less satisfied than suppliers having other frequencies of negotiation.

f) Whether Supplier has ever been asked to enter into an Exclusivity Agreement

All suppliers were asked whether they had ever been asked to enter into an exclusivity agreement with any of their retail customers.

In total, approximately a third of suppliers (35%) claimed that they had been asked. The largest companies in terms of grocery turnover were the most likely to say this had happened compared with the smallest companies. (46% compared with 30%). Chart 20 below also shows the percentages of suppliers who had been asked to enter into exclusivity agreements by product category. Interestingly, suppliers of food products were ***significantly*** less likely to claim they had been asked in comparison with suppliers of non-food products and those selling drinks. In particular, those selling fresh food (fruit, veg, meat etc.) had the lowest level of requests made for exclusivity agreements from customers (25%).

Chart 20: Ever been asked to enter into an exclusivity agreement



Base: All suppliers (456) *** Small base**

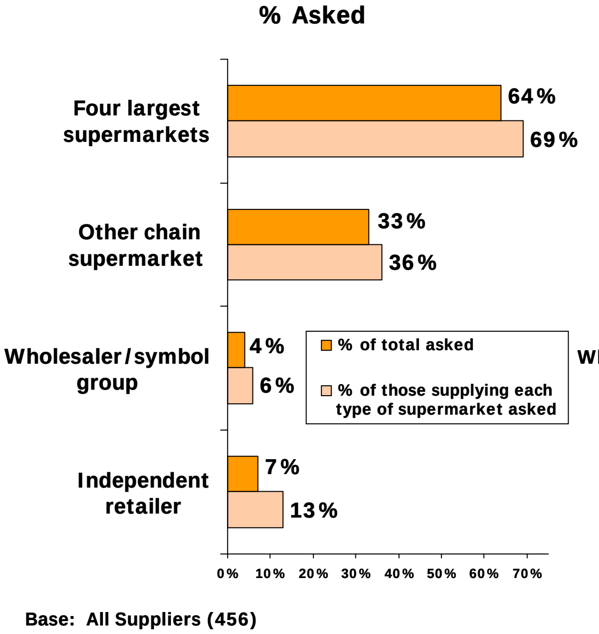
Interestingly, suppliers selling 90% or more goods as branded products were more likely to claim to have been asked to enter into an agreement than those selling at least 90% of their goods as own-label (34% compared with 24%).

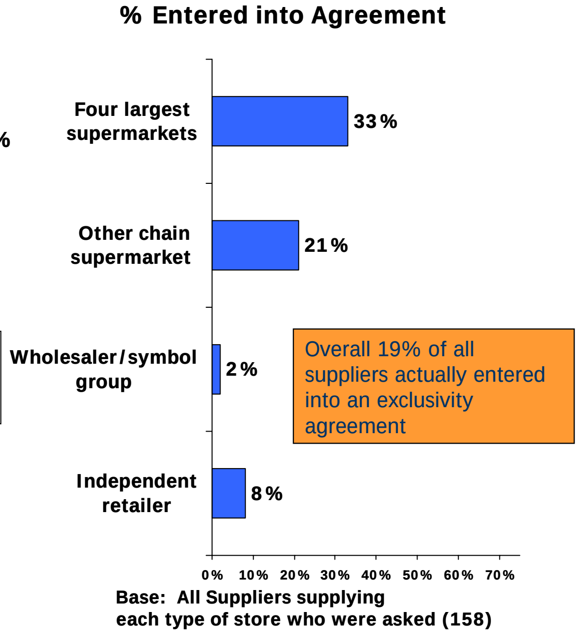
g) Whether Customers Requested/Entered into Exclusivity Agreements

Suppliers who claimed they had been asked to enter into an exclusivity agreement, were then asked which customers had requested the agreement and which, if any customers they had then gone on to enter into an agreement.

The chart below shows the overall results for suppliers by customer type. Overall, two-thirds of suppliers claimed that one of the four largest supermarkets had requested an exclusivity agreement and a third mentioned one of the other chain stores.

Chart 21: Whether customers requested/entered into exclusivity agreements





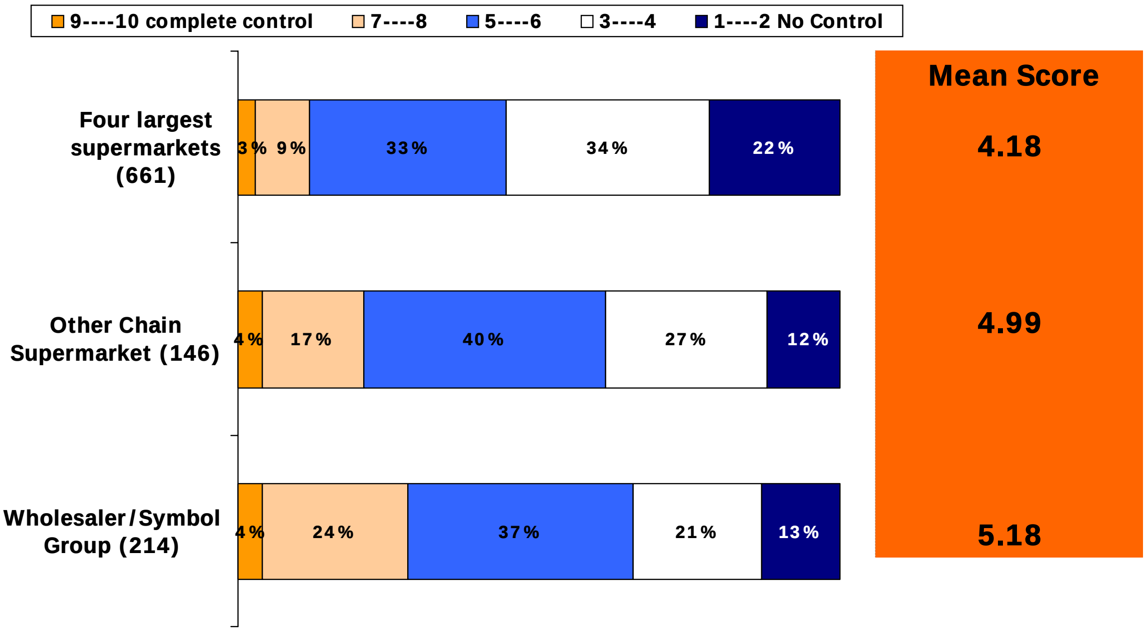
Amongst those suppliers who had been asked to enter into an exclusivity agreement, a third claimed they did go on to enter into an agreement with one of the four largest supermarkets and a fifth with one of the other chain stores.

h) Perceived Negotiating Power with Customers

Suppliers were asked for their opinion on the level of negotiating power they felt they had with up to three specified retail customers. They were asked to answer on a scale of 1 to 10 where 1 meant they had no control over negotiations and 10 was complete control.

The responses to this question broken down by customer type are shown in chart 22.

Chart 22: Perceived level of bargaining power of suppliers with customers



Base: All responses (1021)

Respondents could answer about more than one customer

Suppliers tended to feel they had more negotiating power with the chain supermarkets other than the four largest and wholesalers/symbol group companies. A fifth of suppliers rating other chain supermarkets gave a rating of 7-10 and 28% gave this rating for wholesalers/symbol group companies, compared with 12% for any of the four largest supermarkets.

Suppliers selling drinks tended to feel they had less bargaining power than suppliers of other products. Also those selling 'fresh' food (fruit, veg, meat etc.) were more likely to think they had no control over supermarkets than suppliers of other unpreserved food (18% of fresh food suppliers gave a rating of 1-2 for supermarkets).

In addition, the smallest suppliers felt they had less power than the largest suppliers. A quarter of those with a grocery turnover of less than £5 million gave a rating of 1 or 2 (no control) compared with 13% of companies with a grocery turnover of £50 million or more.

Those selling at least 90% of their products as own-label were less likely to consider their bargaining power to be as high with their supermarket customers as those selling virtually all branded goods (90%+). There was even more differentiation on the ratings for just the four largest supermarkets amongst these suppliers. Just 5% of those selling mainly own label goods (90%+) gave a rating of 7-10 for any of the four largest supermarkets compared with 16% for those selling mainly branded goods (90%+).

2.9 Payments

Within this section, the report focuses on the results from the survey on questions asked to suppliers about the types of payments made to customers.

a) Summary of Payments made to Customers

Suppliers were read out a list of payment types, which might be made to customers and asked to say whether these happened regularly, occasionally or never with their dealings with specific customers. As for previous questions, suppliers were asked to answer about up to three of their customers.

The types of payments read out to suppliers were as follows:

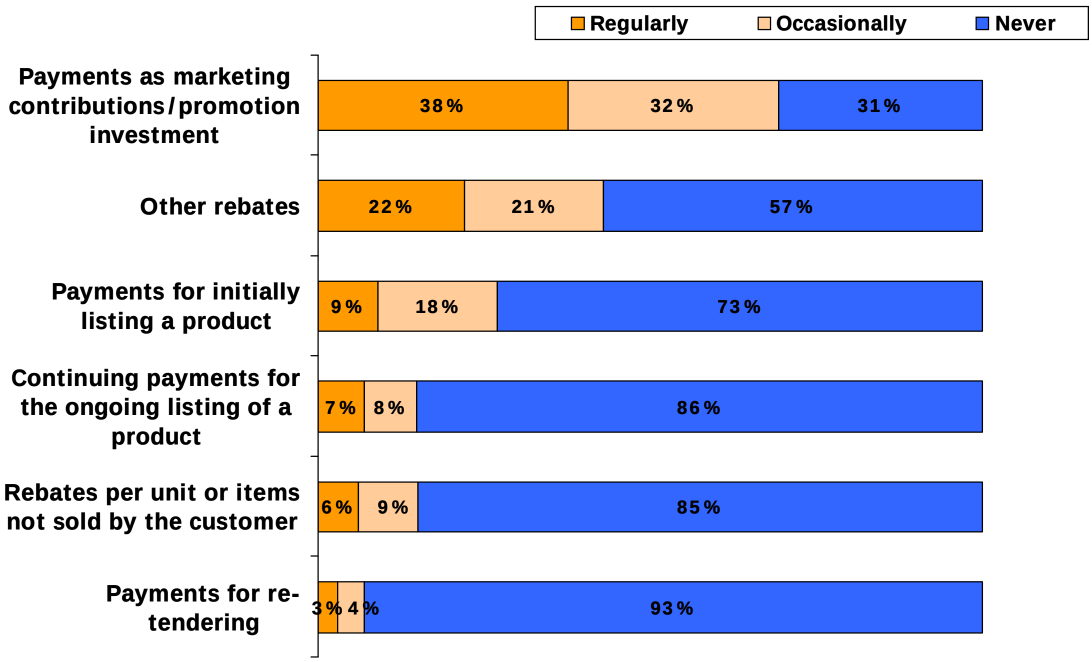
- We make continuing payments to the customer for the ongoing listing of a product
- We make payments to customers for initially listing a product
- We provide rebates per unit or items not sold by the customer
- We make payments to the customers as marketing contributions /promotion investment
- We make payments for re-tendering
- We provide other rebates to customers

Chart 23 shows a summary of the overall responses to this question.

The most common type of payment suppliers claimed to be making to customers was as marketing contributions/promotion investments. Two-fifths of responses from suppliers were that this payment happened regularly and a further third were that this happened occasionally.

Following this, suppliers were most likely to mention 'other rebates'; a third of all the responses from suppliers were that they made this type of payment either regularly or occasionally. Just over a quarter of responses were that payments for initially listing a product were ever made and 15% for either making continuing payments for the ongoing listing of a product or rebates for units or items not sold.

Chart 23: Summary of payments made to customers



Base: All responses (1021)

Respondents could answer about more than one customer

The type of payment, which was the least likely to be paid by suppliers to customers was for re-tendering. Only 7% of all responses from suppliers were that this ever happened.

All of these types of payments were more likely to being made by suppliers with the largest turnover in terms of their grocery products.

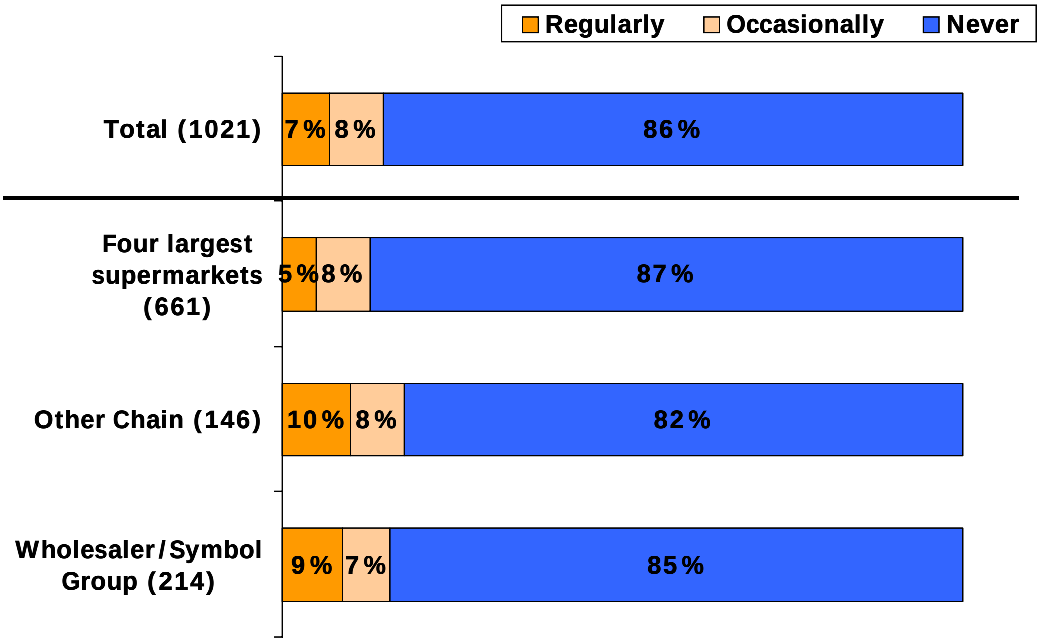
Each of these types of payments is now reported on individually, analysed by customer type.

b) We make continuing payments to the customer for the ongoing listing of a product

The majority of suppliers (86%) said that they did not make payments to the customer for the ongoing listing of a product, but 8% said that they did occasionally and 7% said they did regularly.

These types of payments were equally likely to be happening with other chain supermarkets and wholesalers/symbol group companies as the largest multiples.

Chart 24: We make continuing payments to the customer for the ongoing listing of a product



Base: All responses (1021)

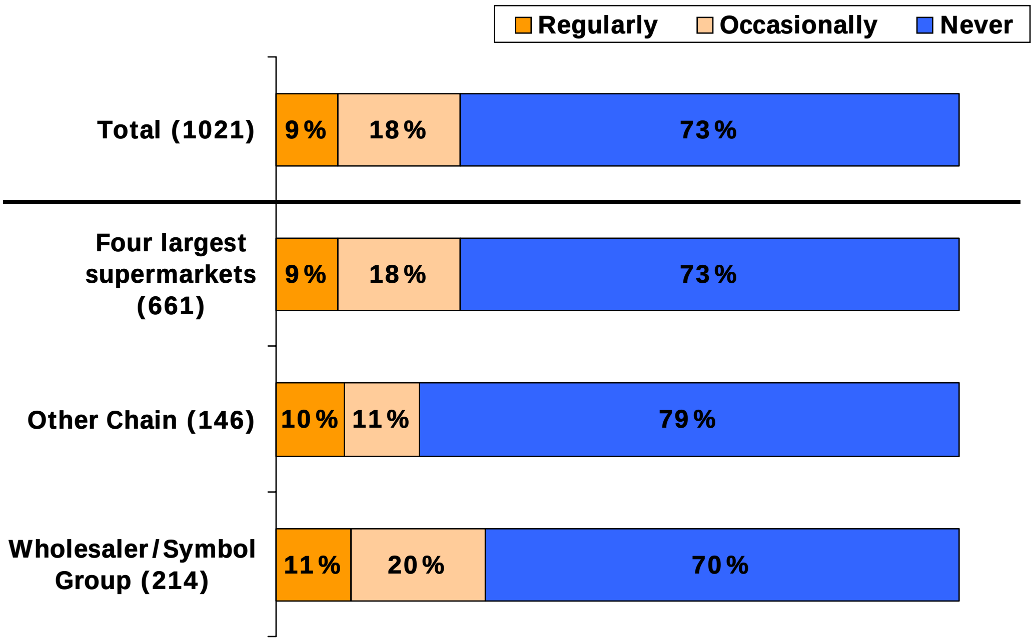
Respondents could answer about more than one customer

Suppliers of drinks were ***significantly*** more likely to say this type of payment occurred than suppliers overall (24% compared with 15%).

c) We make payments to the customer for initially listing a product

Just over a quarter of all responses from suppliers were that payments for initially listing a product happened either regularly or occasionally.

Chart 25: We make payments to the customer for initially listing a product



Base: All responses (1021)

Respondents could answer about more than one customer

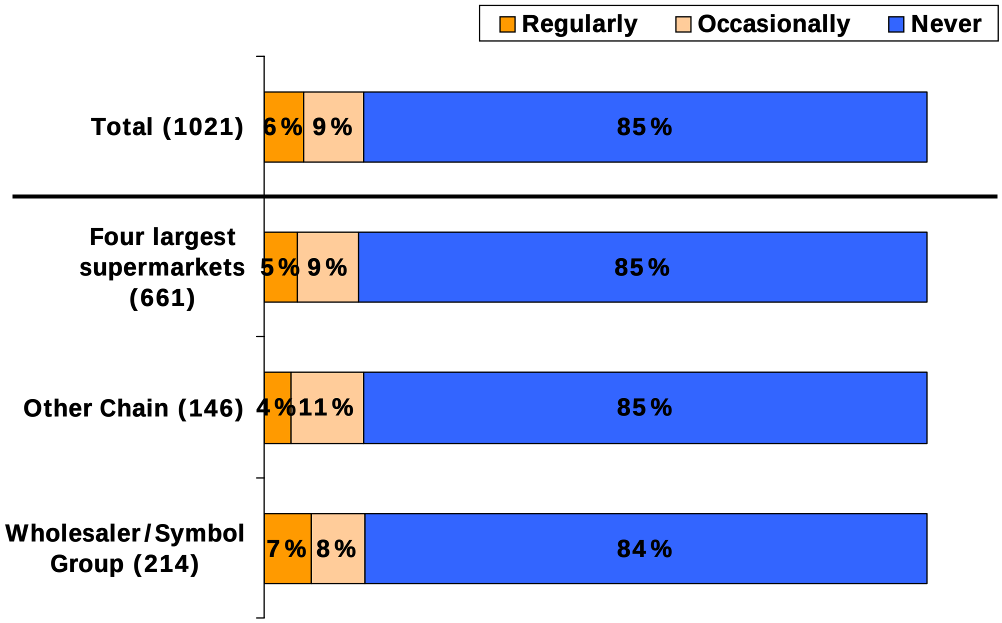
Suppliers of drinks products and ‘other food’ products were the most likely to say this payment happened when comparing suppliers of different grocery products.

d) We provide rebates per unit or items not sold by the customer

Providing rebates to customers for units or items not sold was not widespread according to suppliers, with just 15% of all responses from suppliers claiming this ever happened.

This type of payment was being made to a similar degree across all types of customer.

Chart 26: We provide rebates per unit or items not sold by the customer



Base: All responses (1021)

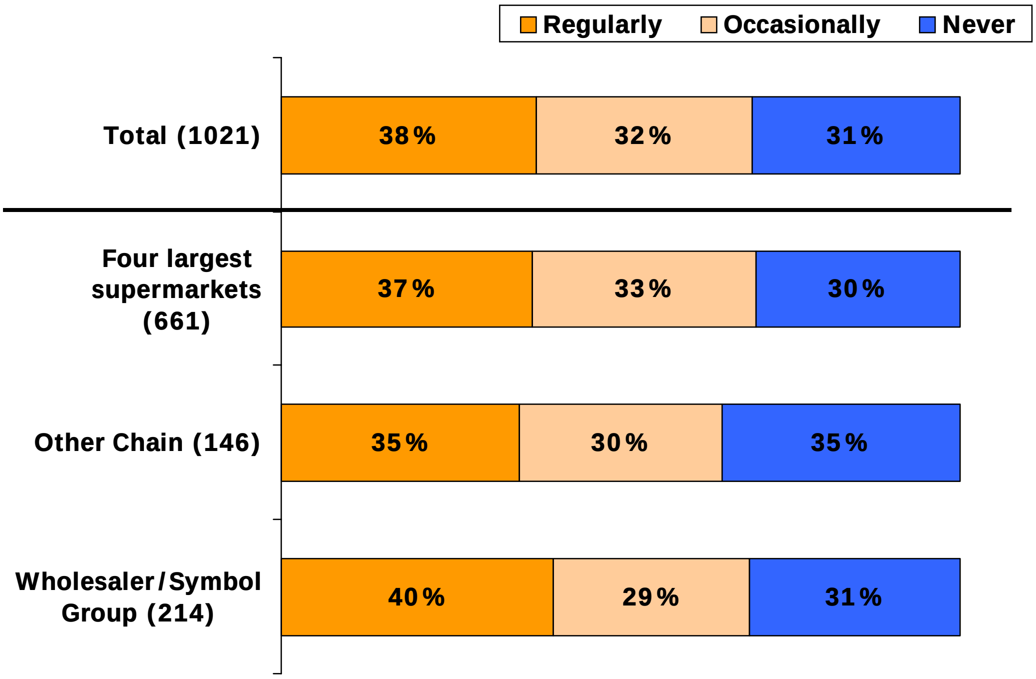
Respondents could answer about more than one customer

e) We make payments to the customer as marketing contributions/ promotion investment

Seven in ten suppliers said that payments are made regularly or occasionally to customers as marketing contributions or for promotion investment. This type of payment was mentioned as happening ***significantly*** more than any other type of payment.

This type of payment was being made to other chain supermarkets and wholesalers/symbol group companies to about the same degree as to the four largest supermarkets.

Chart 27: We make payments to the customer as marketing contributions/ promotion investment

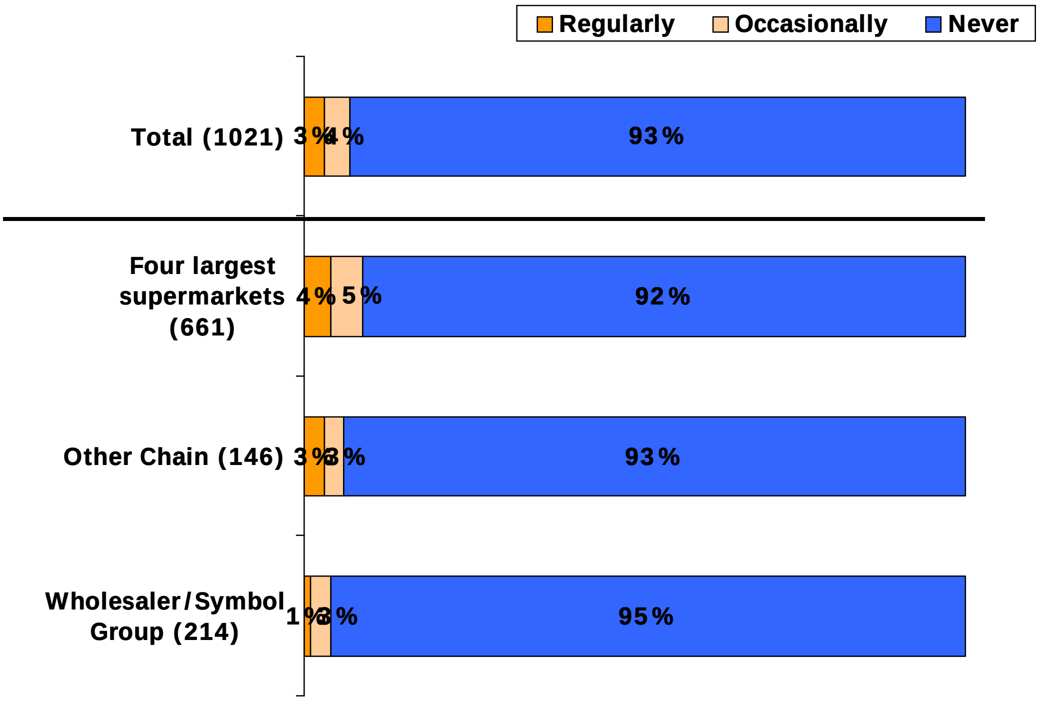


Base: All responses (1021)
Respondents could answer about more than one customer

f) We make payments for re-tendering

In total, 93% of responses suppliers gave to the question, as to whether they make payments for re-tendering, were that they did not occur.

Chart 28: We make payments for re-tendering



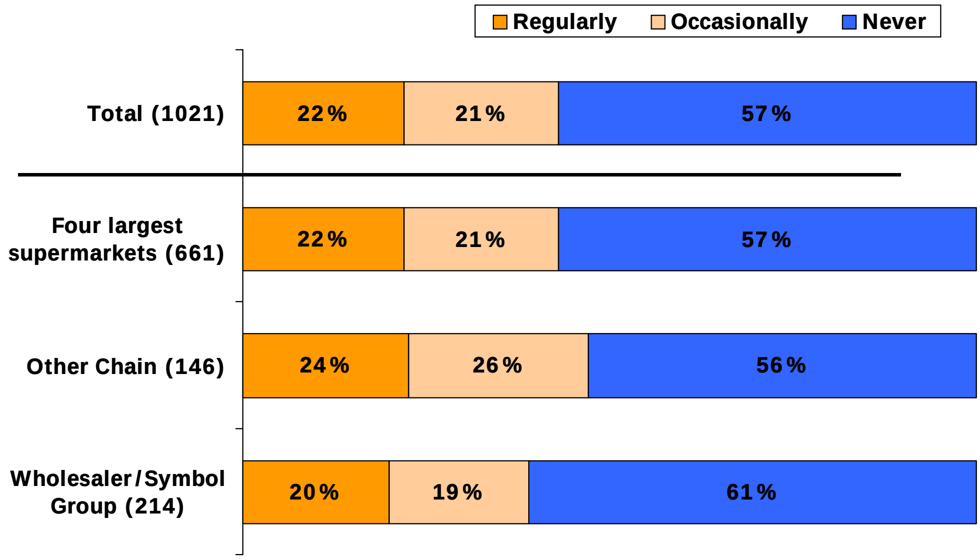
Base: All responses (1021)
Respondents could answer about more than one customer

g) We provide other rebates to the customer

Providing other rebates to customers had the second highest percentage of responses from suppliers of all the types of payment.

The types of 'other rebates' being paid by suppliers were explored in the in-depth interviews which are reported on in 2.9 (i).

Chart 29: We provide other rebates to the customer



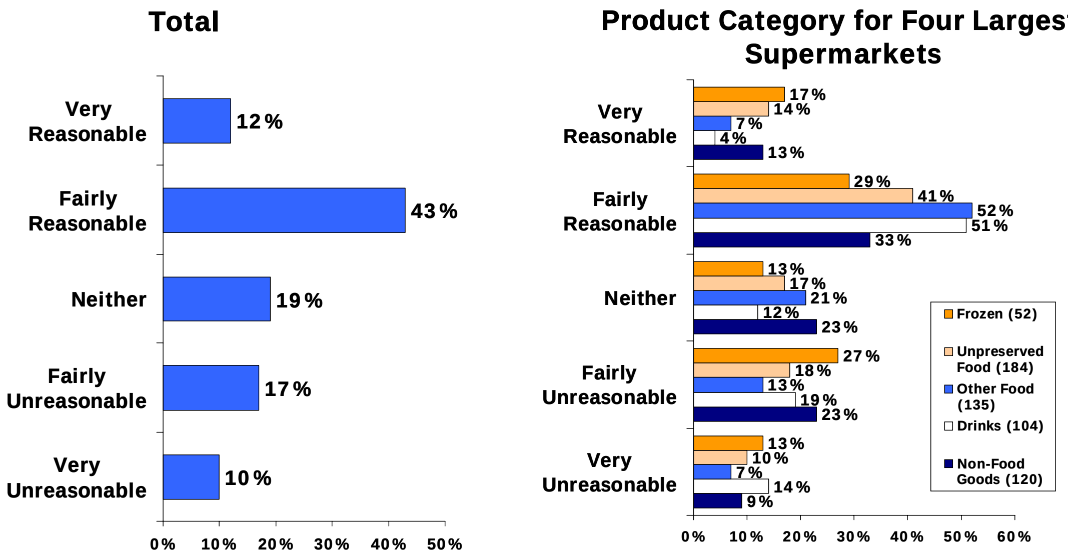
Base: All responses (1021)
Respondents could answer about more than one customer

h) Whether payments made to customers are reasonable or unreasonable

All suppliers who claimed that they did make any type of payment to customers were then asked whether they considered the payments to be reasonable or unreasonable.

In general, suppliers were more likely to consider the payments reasonable as opposed to unreasonable. Half of suppliers claimed the payments were either very or fairly reasonable and about a quarter claimed they were unreasonable. A fifth were non-committal saying they were neither reasonable nor unreasonable.

Chart 30: Whether payments made to customers are reasonable or unreasonable



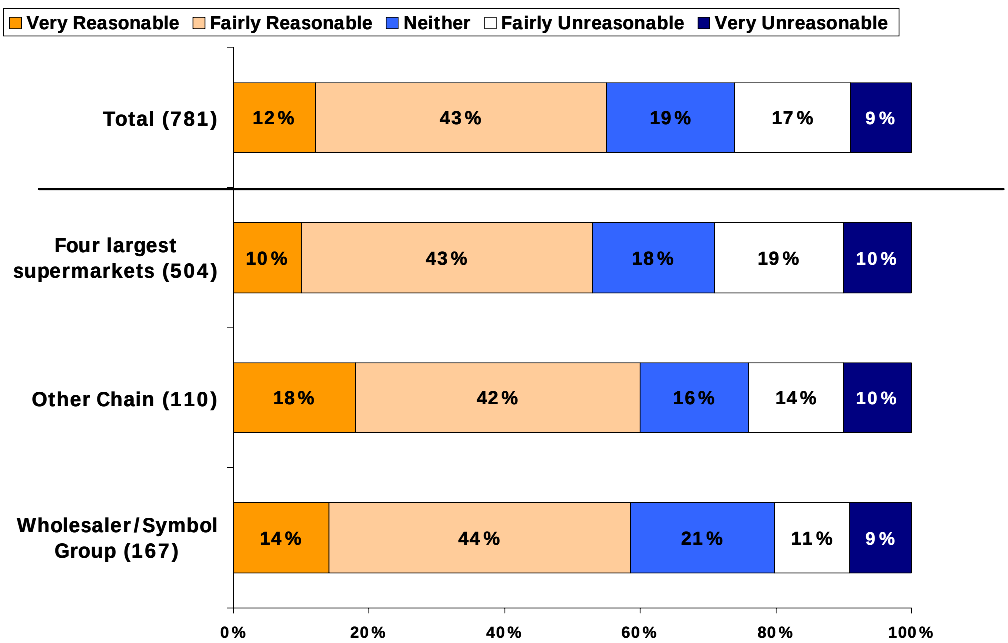
Base: All responses (763) who carry out a type of payment regularly or occasionally

Base: All responses (504) who carry out a type of payment regularly or occasionally

Respondent could answer about more than one customer and more than one product type

Responses were also analysed by customer as respondents answered specifically about individual retailers. Four in ten suppliers to wholesaler/symbol groups and other chains thought the payments were unreasonable and this proportion was somewhat higher for the four largest supermarkets taken together.

Chart 31: Whether payments made to customers are reasonable or unreasonable



Base: All supplier responses (781) who carry out a type of payment regularly or occasionally
Respondents could answer about more than one customer

i) In-depth Interviews

Companies interviewed for the in-depth interviews claimed to be making payments to the four largest supermarkets to a greater extent than other suppliers.

These suppliers were asked who had instigated the payment, either themselves or the customer and in virtually all cases the payment was initiated by the customer rather than the supplier.

Suppliers were asked for their opinions on various types of payments that they make and below are some of the verbatim responses made by them in relation to some of these payments.

Payments for initially listing a product

> *"The customer initiated it to cover administration and fees to underwrite profit"*

Payments for ongoing listing of a product

> *"To a degree it's fair. Because we're backing our product"*

> *"If a product wasn't doing too well, we'd pay to keep it listed because it's a strategic move"*

Payments towards marketing

> *"It's just the norm"*

> *"It's in our interest to do that because it's a mutual relationship"*

Other rebates

Various types of payments were mentioned by suppliers as to what other types of rebate they provided to customers, including:

> *"turnover rebate"*

"we create a fund to allow us to write costs off"

"They initiated it …..in essence it was basically just a clawing back of profit"

"lost profit for when we fail to deliver a product"

There were mixed opinions amongst these largest suppliers as to whether these payments were reasonable or unreasonable.

Where suppliers thought they were reasonable, it was because they felt they were getting a good return for their investment, generating good relationships with their customers.

"we are happy with the level of payment … we are happy with the level of profit we are making"

"they would be deemed as value for money for us to run these activities"

Suppliers who considered payments to be unreasonable generally did so when they felt they were being coerced into making the payments.

"because we are not making the profit to be able to afford them, but if you don't pay you potentially lose your business"

"because we do not have a choice, it's blackmail really"

2.10 Additional Services provided by suppliers to customers

Within this section, the report focuses on the results from the survey on questions asked to suppliers about the types of additional services provided to customers.

a) Summary of additional services provided to customers

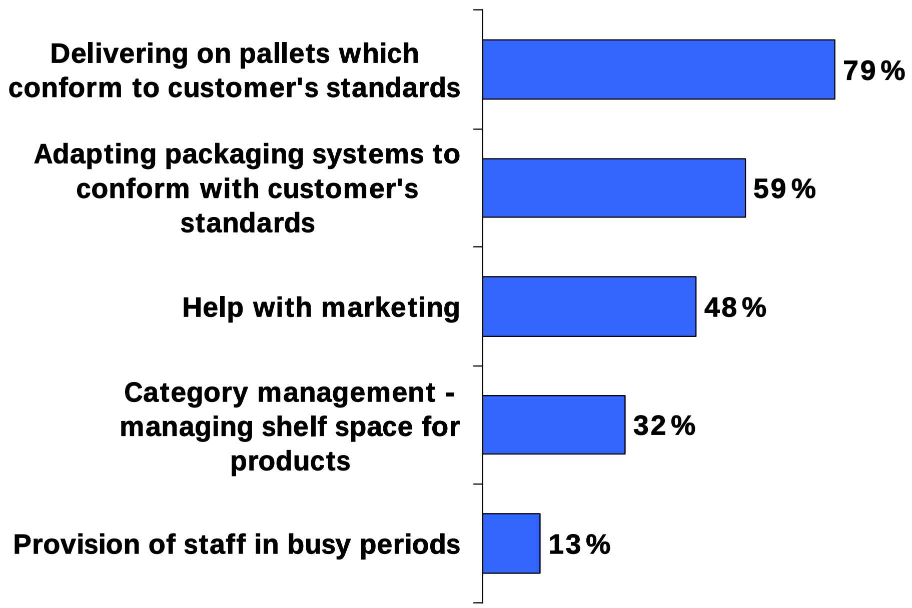
All suppliers were asked whether they provided any additional services to customers from a specified list. As for previous questions, suppliers were asked about up to three of their customers.

The types of additional services read out to suppliers were as follows:

- Help with marketing
- Provision of staff in busy periods
- Adapting packaging systems to conform with customer's standard
- Delivering on pallets which conform to customer's standards
- Category management – managing shelf space for products

Chart 32 provides a summary of the total responses received for this question.

Chart 32: Summary of additional services provided to customers



Base: All responses (1021)

Respondents could answer about more than one customer

The additional service most likely to be provided to customers was delivering on pallets, which conform to customer's standard. 79% of responses from suppliers were that this type of additional service was provided to customers.

Approximately three-fifths of all responses from suppliers were that adapting packaging systems was a service provided to customers, about half provided help with marketing and a third claimed category management takes place.

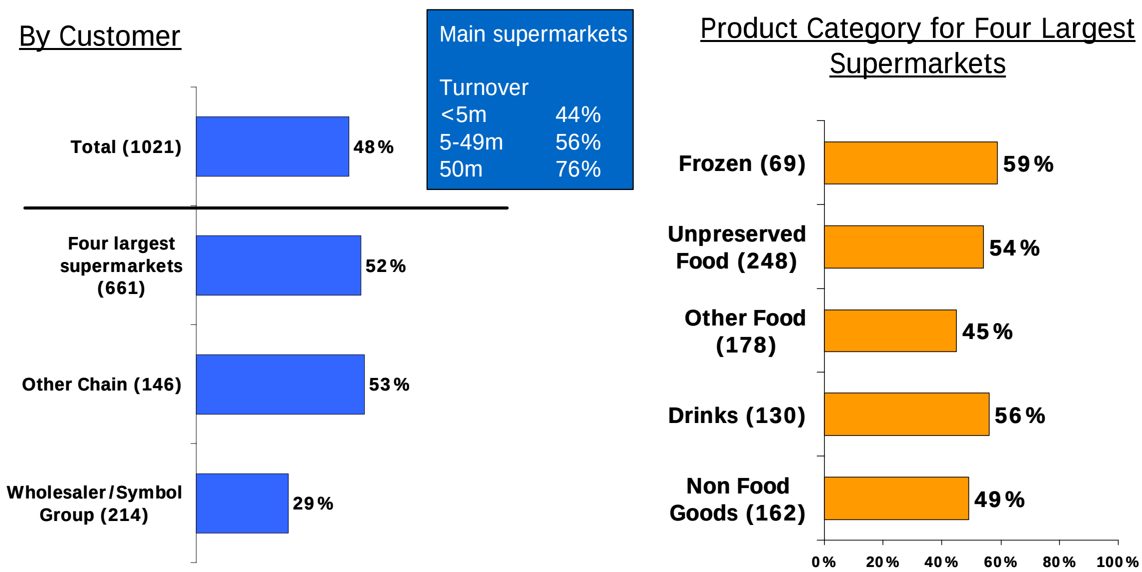
The service, which had the lowest proportion of mentions, was that the supplier provided staff in busy periods (13% of all responses).

Each of these additional services is now reported on individually, broken down by customer and main product category.

a) Help with marketing

Half of all responses as to whether help with marketing take place were in the affirmative. Chart 33 shows that this additional service was being provided to supermarkets to a *significantly* greater extent than wholesalers/symbol group companies. 29% of suppliers answering about wholesalers or symbol group companies claimed to provide help with marketing for them.

Chart 33: Help with marketing



Base: All responses (1021)

Base: All responses for 4 largest Supermarkets (723)

Respondent could answer about more than one customer and more than one product type

As would be expected, suppliers with the highest grocery turnover were the most likely to provide this service. Three-quarters of suppliers with a turnover of £50 million or more were providing help with marketing compared with 44% of those with a turnover of less than £5 million.

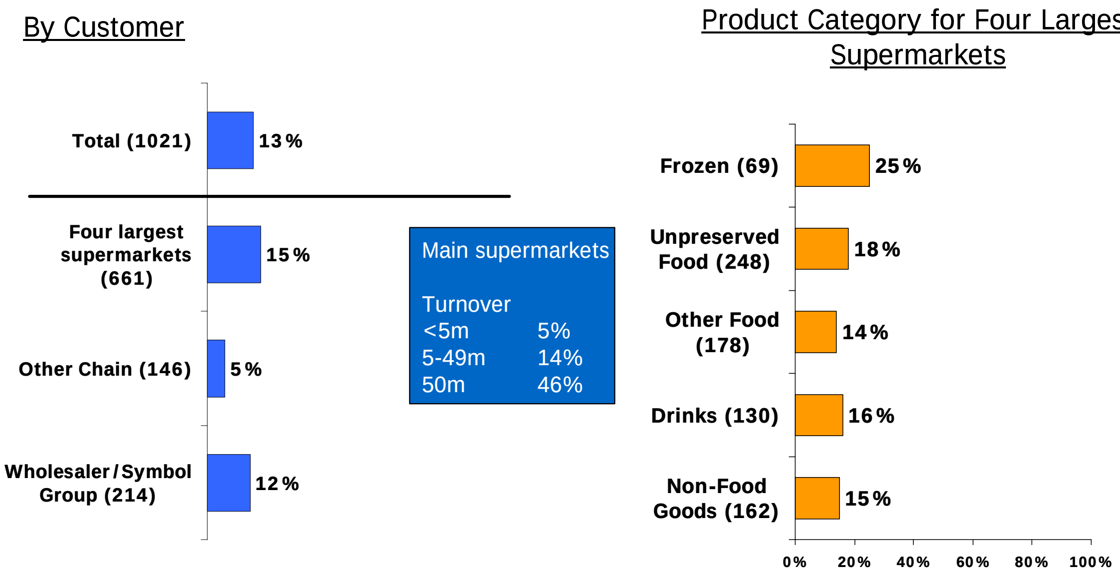
When comparing suppliers of different products, those supplying frozen and unpreserved food, claimed to be providing help with marketing to a higher degree than other suppliers. This was particularly the case for fresh food (fruit, veg, meat etc.) compared with other unpreserved food (63% relative to 49%).

b) Provision of staff in busy periods

Providing staff in busy periods was the service suppliers were the least likely of all additional services to say was being provided. Overall, 13% of all responses from suppliers were that this service is provided, although the occurrence is greater amongst the largest suppliers (£50m+ grocery turnover) of whom 46% claimed they provided this service.

The service was virtually non-existent amongst chain supermarkets other than the four largest, with only 5% suppliers mentioning they provided this service.

Chart 34: Provision of staff in busy periods



Base: All responses (1021)

Base: All responses for 4 largest supermarkets (723)

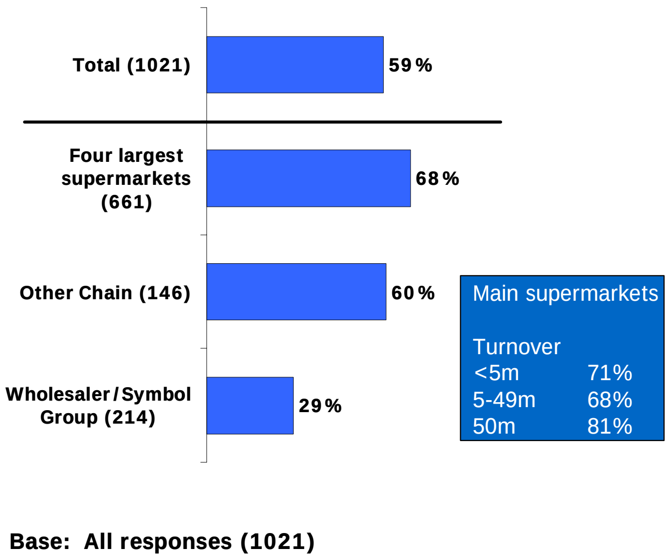
Respondent could answer about more than one customer and more than one product type

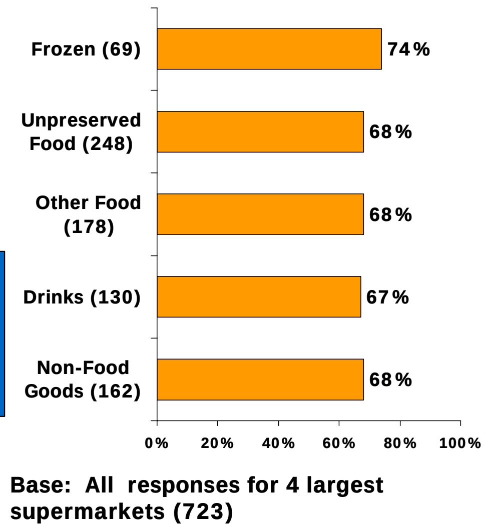
c) Adapting packaging systems to conform with customer's standards

Three-fifths of all suppliers' responses were that they adapted packaging systems to conform with customer's standards.

Adapting packaging is less common amongst those supplying wholesalers/symbol group companies.

Chart 35: Adapting packaging systems to conform with customer's standards





Respondent could answer about more than one customer and more than one product type

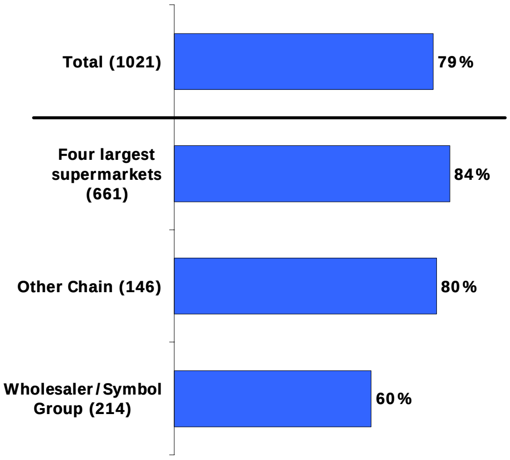
There were no major differences in the data when comparing suppliers of different grocery products. However, the largest suppliers were again more likely to conduct this service for their customers.

d) Delivering on pallets which conform to customer's standards

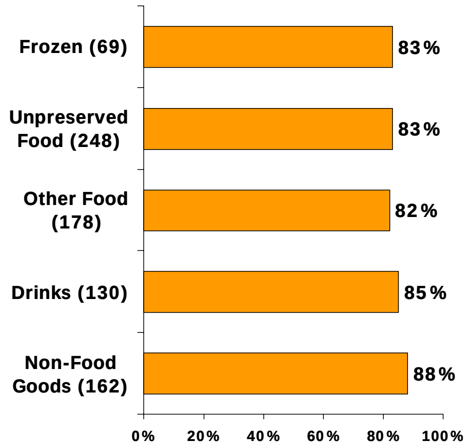
The practice of delivering on pallets, which conform to customer's standards was provided to a greater degree by suppliers than any other type of additional service. 79% of all responses to this question were that the service is provided. The service was again less common for wholesalers/symbol group companies.

Chart 36: Delivering on pallets which conform to customer's standards

By Customer



Product Category for Four Largest Supermarkets



Base: All responses (1021)

Base: All responses for 4 largest supermarkets (723)

Respondent could answer about more than one customer and more than one product type

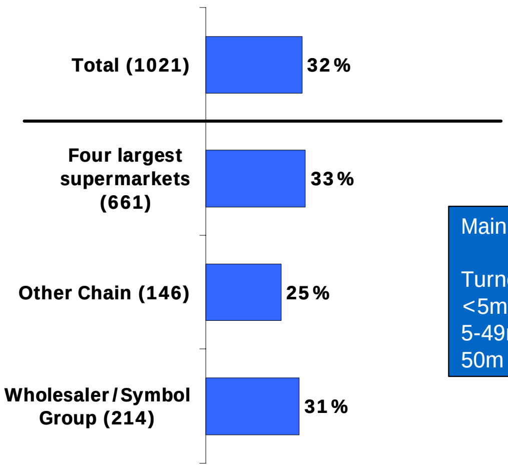
For this particular service there were relatively few differences between supplier in terms of type of product supplied and size of company.

e) Category Management – managing shelf space for products

Suppliers reported that they provided category management to a third of their customers overall.

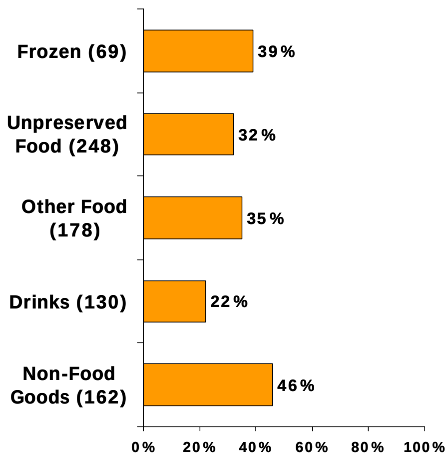
Chart 37: Category management - managing shelf space for products

By Customer



Main supermarkets	
Turnover	
<5m	19%
5-49m	30%
50m	73%

Product Category for Four Largest Supermarkets



Base: All responses (1021)

Base: All responses for 4 largest supermarkets (723)

Respondent could answer about more than one customer and more than one product type

Category management was less prevalent amongst suppliers of drinks products than other types of supplier and also suppliers with the lowest grocery turnover.

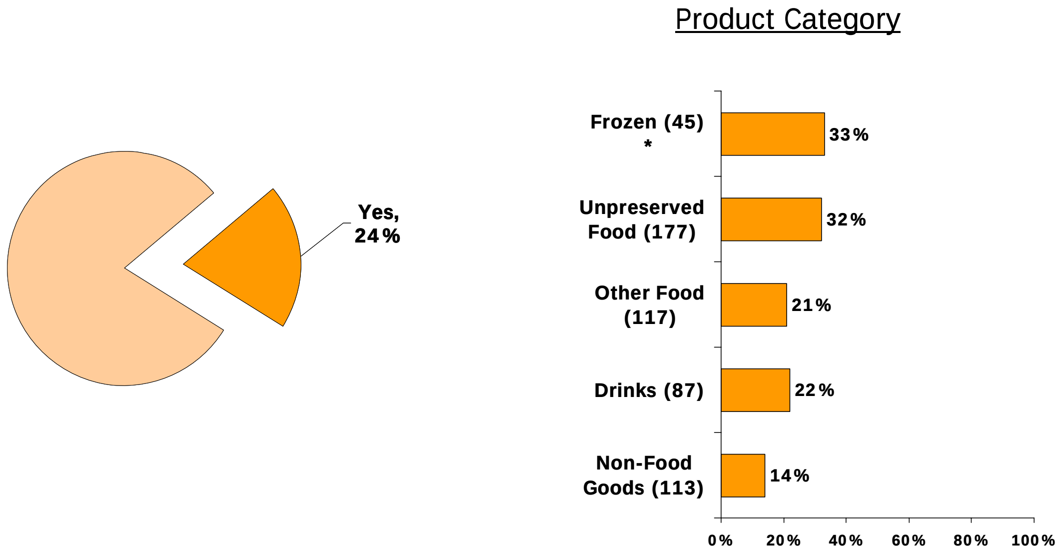
f) Combined Shipments of Deliveries

All suppliers were asked whether they combined shipments of deliveries to customers with any other suppliers. In total, about a quarter of suppliers claimed that they did provide this service.

Those suppliers selling frozen and unpreserved food were the most likely to say they combined shipments with other suppliers. A third of suppliers providing each of these types of product claimed to provide this service, compared with about a fifth providing 'other food' and drinks and just 14% providing non-food grocery products.

Within the unpreserved food category, suppliers of fresh food and bakery products were the most likely to combine shipments with other suppliers.

Chart 38: Combined Shipments of Deliveries



Base: All suppliers 456

*** Small base**

The provision of this service was again more common amongst the largest suppliers (£50m+ turnover), of whom 34% claimed this happened.

2.11 Competitive Environment

This section of the report covers questions, which were asked in the survey relating to the competitive environment within the UK grocery market.

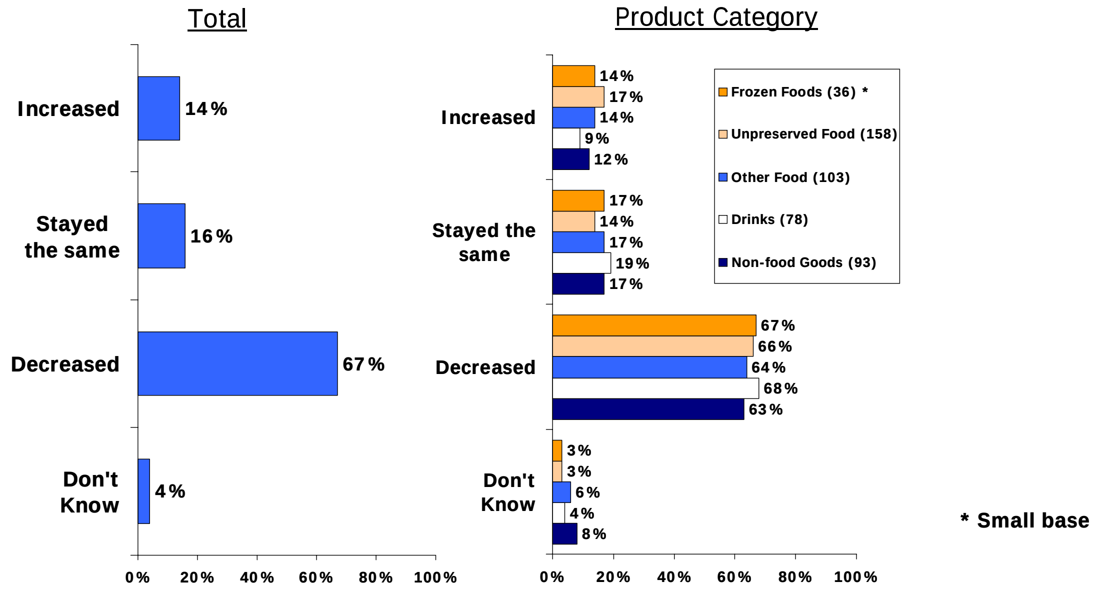
a) Gross Margins

Suppliers were asked a number of questions about gross margins on their products.

(i) Whether gross margins have increased or decreased over the last five years

Firstly they were asked whether gross margins on their grocery products have increased or decreased over the last five years and chart 39 shows the responses for this question.

Chart 39: Whether gross margins have increased or decreased over the last five years



Base: All suppliers (405)

Suppliers were ***significantly*** more likely to claim gross margins had decreased as opposed to increased (67% compared with 14%). 16% of suppliers claimed that gross margins were about the same.

When comparing suppliers in terms of different types of product provided, there were virtually no differences in their responses to this question.

However, suppliers providing 'value' products were more likely to say gross margins had decreased than those supplying standard products and ***significantly*** more than those selling premium goods.

(ii) Customers from whom the lowest gross margins are received

Suppliers were asked to say which of their customers provided them with the lowest gross margins specifically for their top two products. Overall, half of those supplying one of the four largest supermarkets mentioned one of these supermarkets. Just under a fifth mentioned another chain supermarket and less than 10% mentioned either a wholesaler/symbol group store or an independent retailer.

% mentioning each type of store amongst those who supply each type of store	%
Any of four largest supermarkets	53
Any other chain supermarket	17
Wholesaler/symbol group	8
Independent retailer	6

Base: All responses (724)

(iii) Reasons why lower gross margins are received from some customers

All suppliers were asked spontaneously why lower gross margins were received from some customers. Verbatim responses were then grouped into similar categories for the analysis and chart 40 shows the grouped responses to this question for all responses of 6% or more.

Chart 40: Reasons why lower gross margins are received from some customers

Base: All suppliers (453)

The top response amongst suppliers as to why they receive lower margins from some customers was that 'they are tough, aggressive negotiators', mentioned by 15% of suppliers, followed by 'they won't pay more' (13%).

Other responses of less than 6% were as follows:

- Competition between suppliers (4%)
- Supply basic goods to them (4%)
- They are our main customer (4%)
- They want higher margins (4%)
- They are a wholesaler (2%)
- Historical pricing (2%)
- Price promotions (2%)
- They order in smaller volumes (2%)

(iv) Customers from whom the highest gross margins are received

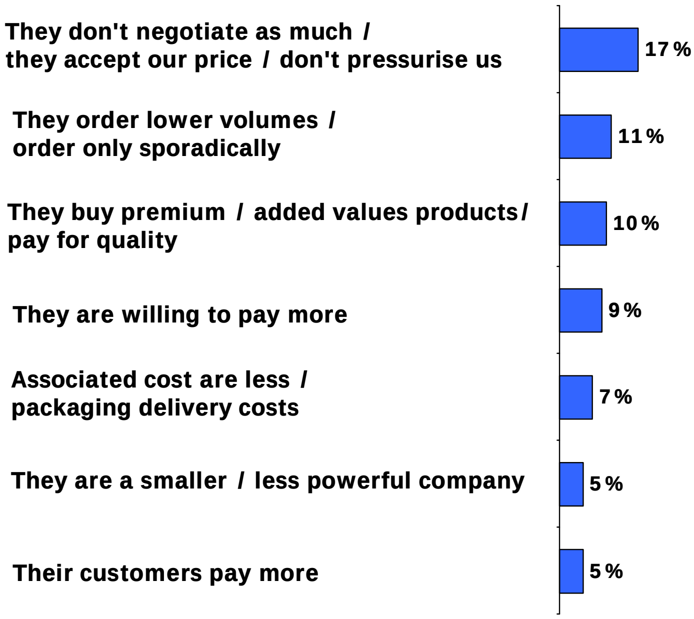
Suppliers were then asked to say which of their customers provided them with the highest gross margins. Overall, a fifth of suppliers to the four largest supermarkets mentioned one of these stores, but the highest response amongst suppliers was for an independent retailer.

% mentioning each type of store amongst those who supply each type of store	%
Any of four largest supermarkets	22
Any other chain supermarket	27
Wholesaler/symbol group	12
Independent retailers	34

(v) Reasons why higher gross margins are received from some customers

All suppliers were asked spontaneously why higher gross margins are received from some customers. Verbatim responses were then grouped into similar categories for the analysis and chart 41 shows the grouped responses to this question for all responses of 5% or more.

Chart 41: Reasons why higher gross margins are received from some customers



Base: All suppliers (456)

The top response amongst suppliers as to why they receive higher margins from some customers was that ‘they don’t negotiate as much’, mentioned by 17% of suppliers, followed by ‘they order lower volumes’ (11%) and ‘they buy premium products’ (10%).

Other responses of less than 4% were as follows:

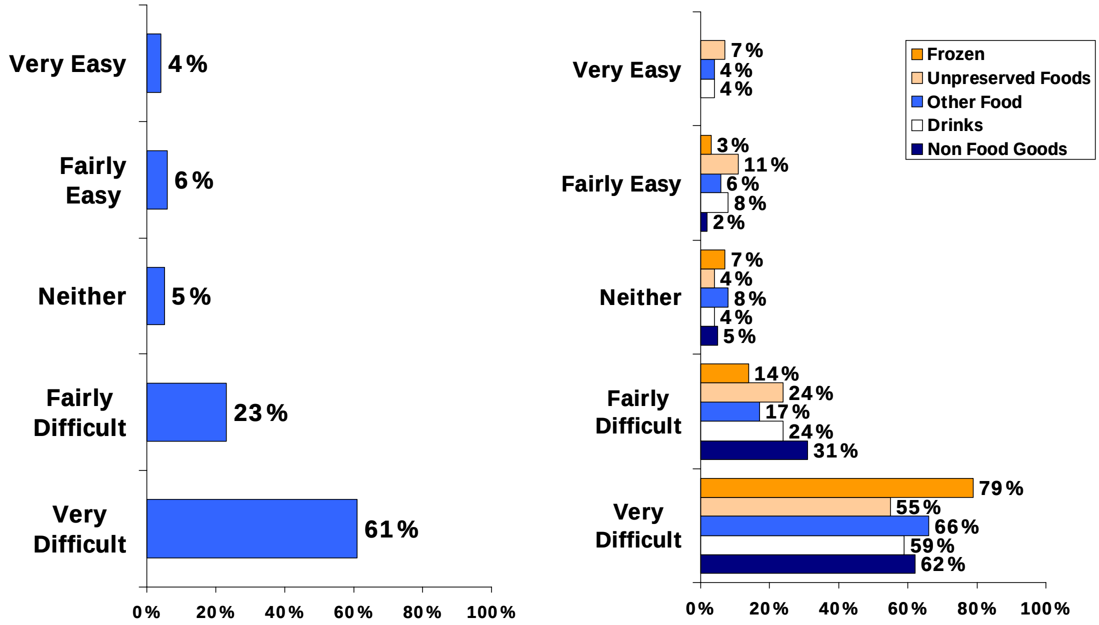
- They work to lower margins (3%)
- Local customers (2%)
- Better relationship with them (2%)
- Volume related (2%)
- Product mix (2%)
- Run promotions differently (2%)

(vi) Ease or Difficulty in replacing customers from whom suppliers receive the lowest gross margins

Suppliers were asked to say how easy or difficult it would be for them to replace the customers from whom they receive the lowest gross margins and chart 42 shows the responses to this question.

Only 1 in 10 suppliers claimed it would be easy to replace these customers and 84% claimed it would be difficult; for 61% of suppliers very difficult. There were no significant differences between types of supplier in terms of the products they are selling, but it is interesting to note that none of the largest suppliers (£50m+ grocery turnover) thought it would be easy to replace these customers.

Chart 42: Ease or Difficulty in replacing customers from whom suppliers receive the lowest gross margins



Base: All suppliers (362) from who lowest margins are received

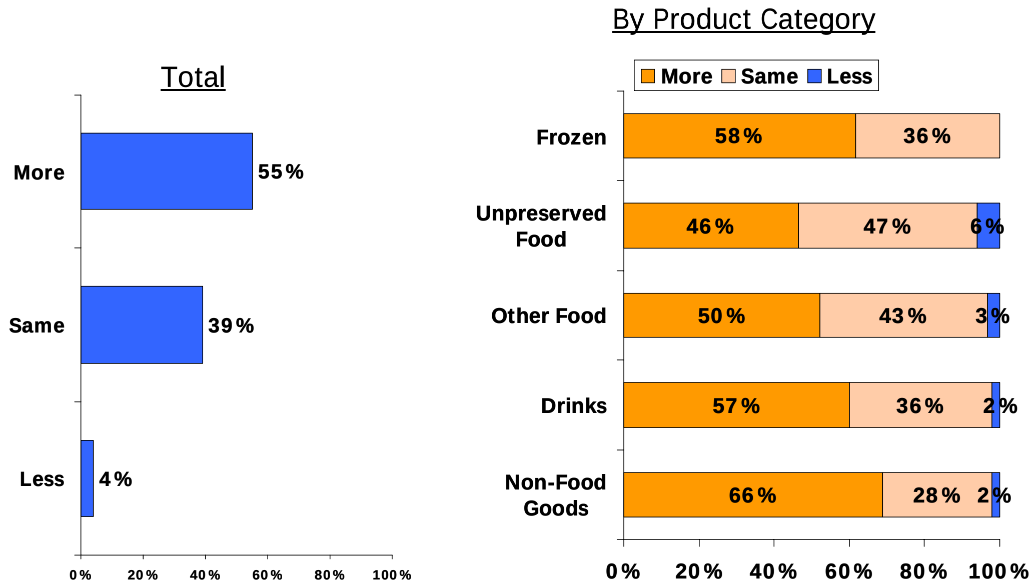
(vii) Whether suppliers are facing more or less competition from abroad than five years ago

When suppliers were asked whether they faced more or less competition from abroad now compared with five years ago, only 4% claimed there was less competition. Over half of suppliers claimed there was more competition and two-fifths about the same level of competition.

Suppliers selling products in the non-food grocery category were the most likely to say there was more competition when comparing suppliers of different grocery products. Two-thirds of suppliers selling non-food products claimed there was more competition compared with 46% selling unpreserved food.

Other differences in response were apparent amongst suppliers of different sizes and those selling different quality products. The smallest suppliers in terms of turnover were the most likely to say they faced more competition, as were suppliers providing goods in the 'value' market.

Chart 43: Whether suppliers are facing more or less competition from abroad than five years ago



Base: All suppliers (456)

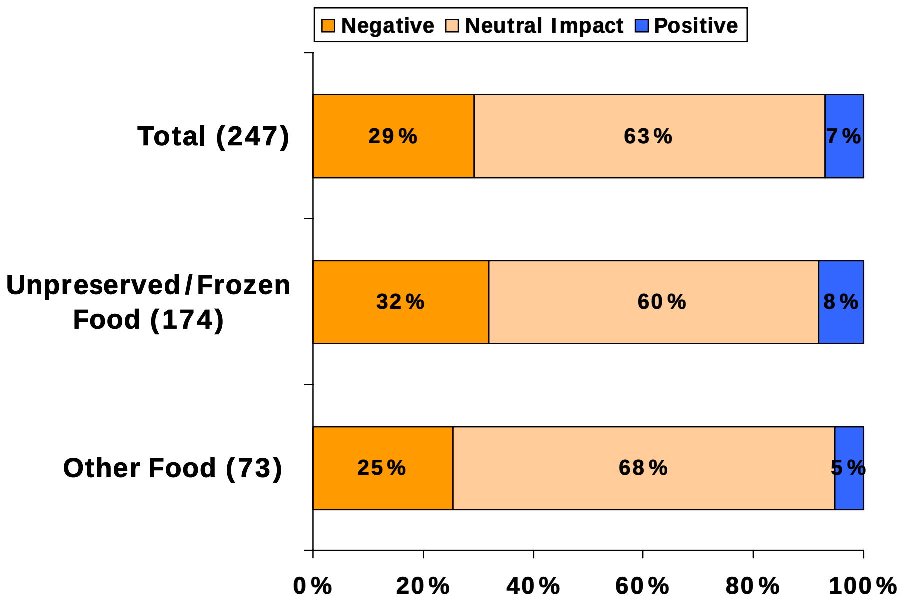
(viii) Impact of changes in the Common Agricultural Policy (CAP) on company profitability

All suppliers who were providing food products were asked whether the changes in the Common Agricultural Policy (CAP) had had a positive impact, neutral impact or a negative impact on their company's profitability.

Of those suppliers who felt the CAP had affected their company, just 7% claimed it had had a positive effect on their company, about three-fifths a neutral effect and 29% a negative effect.

Suppliers providing frozen and unpreserved food were more likely than those selling 'other food' products to claim the effect of the changes in CAP were negative on their profitability.

Chart 44: Impact of changes in the Common Agricultural Policy (CAP) on company profitability



Base: All suppliers (247) who supply food products, excluding not applicable

(ix) Tendering for business via auctions

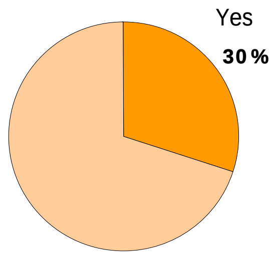
Suppliers were asked if they ever tendered for business via auctions and in total three in ten companies claimed that they did, as shown in chart 45.

In general, there were no differences between suppliers selling different grocery products. However, those selling unpreserved food were slightly less likely to claim they did participate in auctions, compared with other suppliers (25% compared with 31-33%).

Tendering for business via auction was more prevalent amongst larger companies compared with smaller companies. 51% of suppliers with a £50m+ grocery turnover claimed to bid at auctions and just 15% of suppliers with a turnover of less than £5m.

Chart 45: Tendering for business via auctions

Total



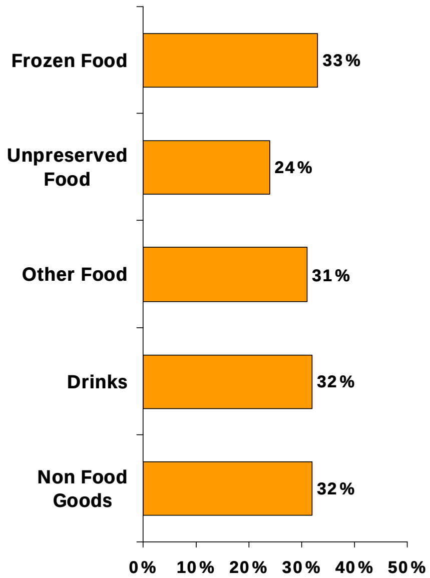
Size of company saying 'Yes':

Turnover:
<5m 15%

5-49m 40%

50m+ 51%

Product Category



Base: All Suppliers (456)

The suppliers who did claim to bid for business via auction were then asked with which retailers they had tendered for business with. The distribution of responses may have been affected by whom they are currently providing products to as they may not bid for business if they are not already supplying a customer. The table below shows the overall responses for this question and also the responses based on only those who currently supply each type of retailer. Over two-thirds of suppliers who had tendered for business by auction said that the auction had been with one of the four largest supermarkets and a quarter mentioned one of the other chain supermarkets.

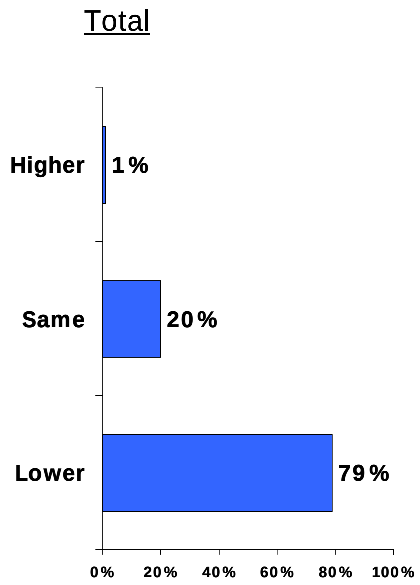
	Total %	All who supply each type of store %
Four largest supermarkets (132)	69	72
Other Chain supermarket (125)	26	28
Wholesaler/symbol group (105)	20	27
Independent retailer (45)	1	4

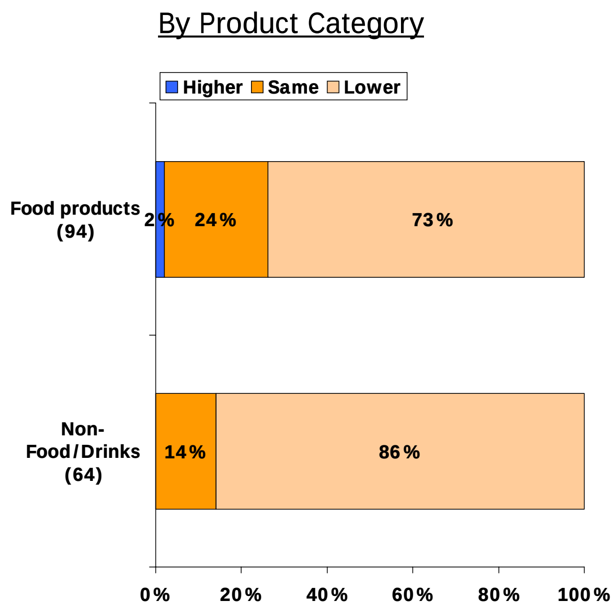
Base: All Suppliers (137) who tender for business via auctions

These suppliers were then also asked whether, in general, their gross margins were higher, the same or lower when dealing by auction than other methods of tendering. The overall consensus was that gross margins were lower, with four-fifths of suppliers giving this response. Virtually all the remaining suppliers claimed that gross margins were about the same rather than being higher.

Since there were few responses chart 46 shows just two categories: food; and non-food and drinks. Suppliers of non-food products and drinks were more likely to say gross margins were lower compared with those providing food products but the difference was not significant.

Chart 46: Whether gross margins are higher, the same or lower when dealing by auction



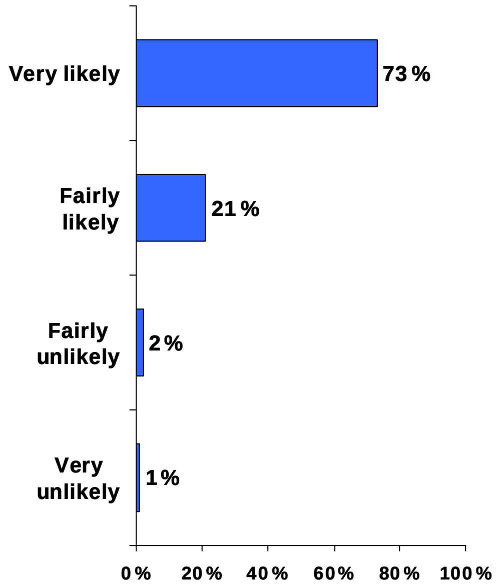


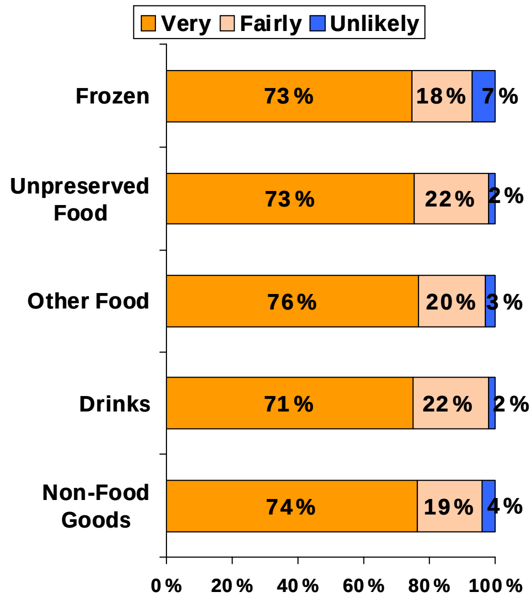
Base: All suppliers (137) who tender for business via auctions

(x) Likelihood of being in business in five years time

To understand what the future outlook was for suppliers, they were asked how likely or unlikely they were to still be in business in five years time. The responses were virtually all positive, with nearly three-quarters of suppliers claiming it was ‘very likely’ they would still be in business in five years time.

Chart 47: Likelihood of being in business in five years time





Base: All suppliers (456)

As would be expected, the smallest companies were slightly less optimistic, although still nearly two-thirds of suppliers with a grocery turnover of less than £5m thought it very likely they would still be in operation in five years time.

There were no differences between supplier's responses in terms of the type of grocery product being supplied.

(xi) In-depth interviews

Amongst the largest suppliers interviewed in more depth, their perception was that gross margins have decreased to a greater extent over the last five years than other suppliers.

They claim to receive lower gross margins from some customers mainly due to two factors, namely **negotiation** and **volumes** purchased by customers. Some of the verbatim comments mentioned regarding negotiation and volumes were as follows:

Negotiation:

> *"because they are very aggressive in their negotiations"*

"They are the biggest customer, so their leverage and their size is probably the best way of putting it"

Volumes:

"because of the pure volume that we do with them"

"the more you supply they expect a better price which is fair enough"

In terms of why they receive higher gross margins from other customers, the main comments related to **volumes** and **product quality**, as follows:

Volumes:

"they sell lower volumes"

Product Quality:

"At the premium end of the market there tends to be margin in it"
"Because it's a higher specification product so we would expect a higher margin there"

When these suppliers were asked how difficult it would be to replace the customers from whom they receive the lowest gross margins, virtually all of them replied that it would be 'very difficult'. Some of the comments made regarding replacing customers were as follows:

"There's no-one else out there to replace these types of customer because they're all high volume"

"In the grocery market they are xx% of the market place and where do you go to suddenly find another xx%"

"You lose volume, you lose efficiencies and you lose capabilities for production …. it's like a vicious circle"

In terms of tendering for business via auctions, these suppliers were more likely to be taking part in this method to win business, which reflects the main findings where it was reported that the suppliers with a turnover of £50m+ had the highest propensity to bid by auction.

2.12 Code of Practice

In this section, the report focuses on a number of questions asked to suppliers about behaviours of the sort regulated by the Code of Practice. The Code of Practice is a set of guidelines that all the four largest supermarkets have agreed to abide by, however this is not a universal code for all retailers. Suppliers were not asked directly about this Code of Practice as many would not have been aware of its existence or content. Instead, suppliers were asked if they had any experience of certain practices or behaviours of the sort regulated by the Code of Practice. These are referred to as 'behaviours' throughout this section.

a) Whether behaviours have happened in the last 5 years

Initially suppliers were read out a number of statements relating to various behaviours and asked to say whether any of them had happened to their company in the last five years.

The statements read out to suppliers were as follows:

- Not being given standard terms of business by a customer when we asked for them
- Delays in receiving payments from a customer substantially beyond the agreed time
- A customer requesting price reductions for products, soon before or after delivery
- A customer requesting obligatory contributions to marketing costs
- A customer requesting obligatory payments in return for stocking or listing products
- A customer requesting excessive payments for consumer complaints
- A customer requesting obligatory additional services such as packaging and distribution

The table below shows the overall response, as well as responses by each of the main product categories. The dark green shading shows responses which were relatively high and the lighter green shows responses which were relatively low.

%	Total (456)	Frozen (45) *	Unpreserved Foods (177)	Other Food (117)	Drinks (87)	Non-Food Goods (113)
A customer requesting obligatory contributions to marketing costs	61	58	63	58	62	60
Delays in receiving payments from a customer substantially beyond the agreed time	48	47	42	54	62	47
A customer requesting excessive payments for consumer complaints	48	53	50	46	49	46
A customer requesting obligatory additional services such as packaging and distribution	37	29	39	38	28	40
A customer requesting price reductions for products, soon before or after delivery	37	38	37	34	37	38
A customer requesting obligatory payments in return for stocking or listing products	35	31	27	40	41	38
Not being given standard terms of business by a customer when we asked for them	19	24	21	19	17	20

Base: All suppliers (456) *** Small base**

The behaviour, which suppliers claimed to have happened the most in the last five years was 'a customer requesting obligatory contributions to marketing costs'. Three-fifths of suppliers claimed this had happened to their company and responses were similar across all the main product categories.

About half of suppliers claimed that 'delays in receiving payments from a customer substantially beyond the agreed time' and 'a customer requesting excessive payments for consumer complaints' had occurred in the last five years. Suppliers providing drinks were ***significantly*** more likely to claim delays in payments had happened, compared with the sample as a whole.

Over a third of suppliers claimed that the following behaviours had happened to them in the previous five years:

- A customer requesting obligatory additional services such as packaging and distribution
- A customer requesting price reductions for products, soon before or after delivery
- A customer requesting obligatory payments in return for stocking or listing products

Although not significant, suppliers of drinks and frozen food were less likely than suppliers in other markets to claim that they had been obliged to provide additional services such as packaging and distribution.

Suppliers of unpreserved food were ***significantly*** less likely to say a customer had requested payments for stocking or listing a product than suppliers overall.

The behaviour which suppliers claimed to have witnessed least in the last five years was 'not being given standard terms of business by a customer when asked'. However, a fifth (19%) claimed that this had happened.

b) Behaviour of the four largest supermarkets

The table below illustrates the types of behaviours shown by the four largest supermarkets.

	% of suppliers mentioning behaviours have occurred with any of the four largest supermarkets
A customer requesting obligatory contributions to marketing costs	38
A customer requesting excessive payments for consumer complaints	36
A customer requesting obligatory additional services such as packaging and distribution	29
Delays in receiving payments from a customer substantially beyond the agreed time	28
A customer requesting price reductions for products, soon before or after delivery	26
A customer requesting obligatory payments in return for stocking or listing products	22
Not being given standard terms of business by a customer when we asked for them	12

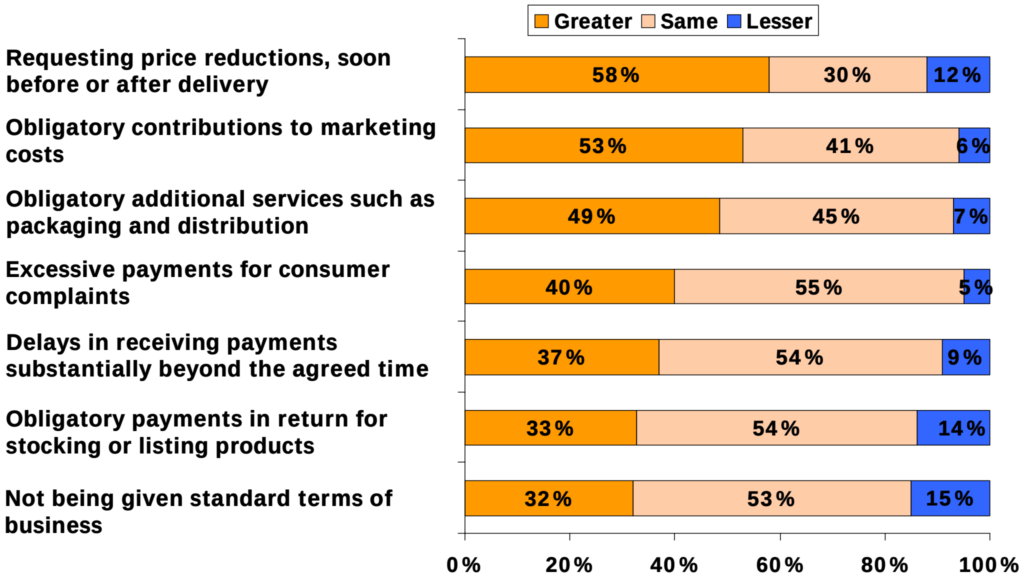
Base: All suppliers to the four largest supermarkets (408)

Over a third of all suppliers to the four largest supermarkets, claimed that obligatory contributions to marketing costs or excessive payments for consumer complaints had occurred with one of these supermarkets.

c) Whether behaviours had happened to a greater, or lesser, extent in the last 12 months

Suppliers who claimed that a behaviour had happened to their company in the last five years were asked whether it had happened to a greater, same, or lesser extent in the last 12 months. Chart 48 summarises the responses to this question.

Chart 48: Whether behaviour had happened to a greater, same, or lesser extent in the last 12 months



Base: All suppliers saying each behaviour has occurred

The behaviour that more than half of suppliers claimed had happened to a greater extent over the last 12 months were customers ‘requesting price reductions soon, before or after delivery’ (58%) and ‘obligatory contributions to marketing costs’ (53%).

However, generally these behaviours were seen to be happening to the same extent in the last 12 months. Very few suppliers claimed that any of these behaviours were happening to a lesser extent.

d) In-depth interviews

Suppliers interviewed in the in-depth interviews were more likely to claim to have experienced the following behaviours in the last five years compared with those interviewed in the main stage.

- A customer requesting price reductions for products, soon before or after delivery
- A customer requesting obligatory contributions to marketing costs
- A customer requesting obligatory payments in return for stocking or listing products
- A customer requesting obligatory additional services such as packaging and distribution

They were also more likely to say they were happening to a greater extent in the last 12 months than those included in the main stage.

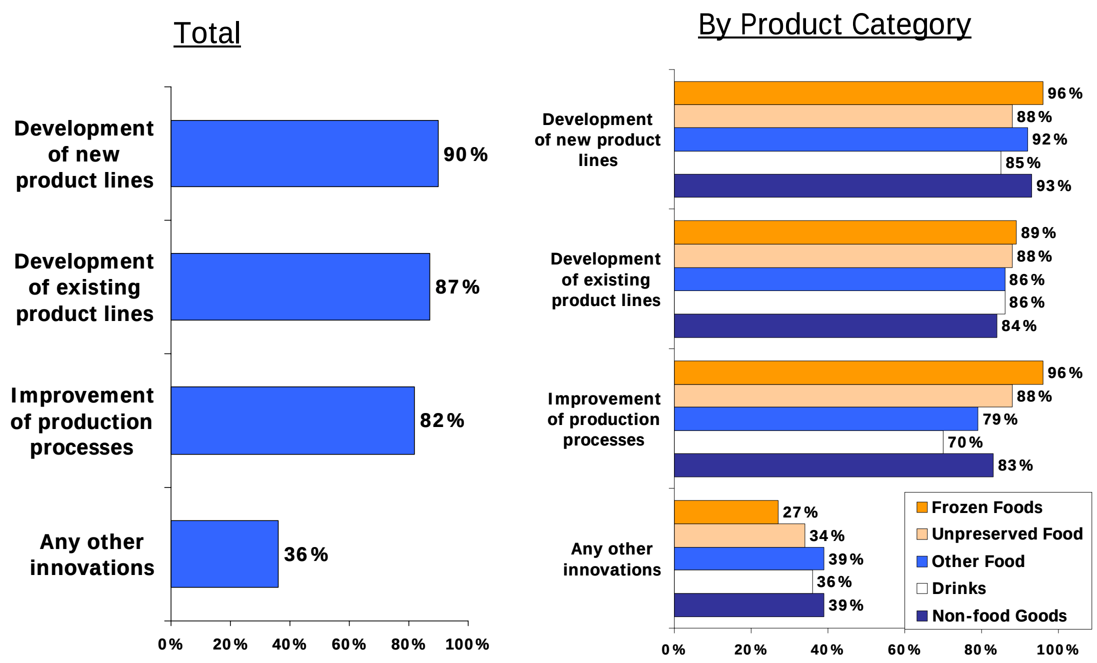
2.13 Research and Development

A number of questions were asked of suppliers regarding whether research and development was being carried out within their companies.

a) Product and process innovations conducted in the last two years

Firstly, suppliers were asked what types of product and process innovation had been conducted over the last two years and the results are charted below.

Chart 49: Product and process innovations conducted in the last two years



Base: All suppliers (456)

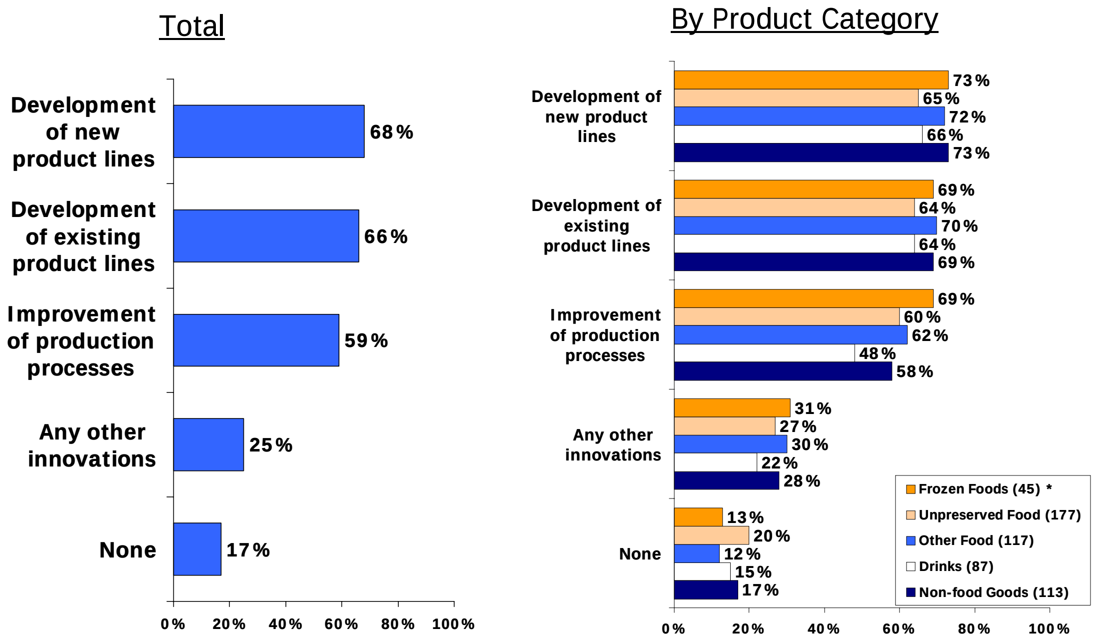
Over 80% of all suppliers claimed to have conducted either development of new product lines (90%), development of existing product lines (87%) and improvement of production processes (82%). In addition, over a third claimed to have conducted some other type of innovation.

In general there were few differences between types of supplier, although as would be expected the largest companies had conducted product and process innovations to a greater extent than smaller companies. Over 90% of companies with a grocery turnover of £50m+ had conducted the three specified innovations and nearly half claimed to have conducted an other type of innovation.

b) Product and process innovations supplier currently has a budget for

Suppliers were then asked what types of product and process innovation they currently had a budget for. Approximately two-thirds of suppliers claimed to have a budget for developing new product lines and existing lines and just slightly less at 59% had a budget for improving processes. 17% of suppliers claimed they currently did not have a budget for any of these innovations.

Chart 50: Product and process innovations supplier currently has a budget for



Base: All suppliers (456)

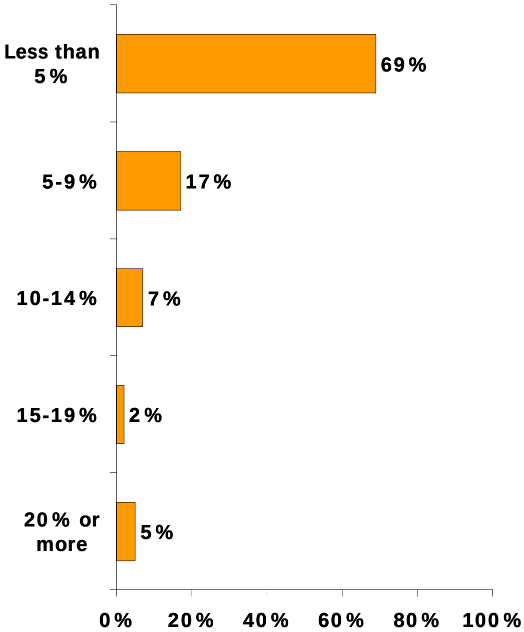
*** Small base**

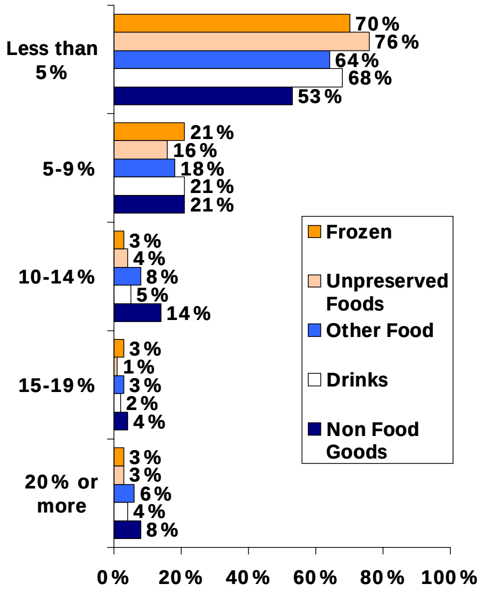
There were few differences between suppliers in terms of the type of product they sell, although suppliers selling drinks tended to mention they had a budget for improvement of production processes to a lesser extent than other suppliers.

c) Proportion of grocery revenue spent on product and process innovation

All suppliers who had conducted some type of product or process innovation in the last two years were asked what percentage of their revenue the company spends on research and development or product and process innovation for grocery products. 13% of suppliers were unable to provide a response to this question, but the responses from those who were able to answer are shown in chart 51.

Chart 51: Proportion of grocery revenue spent on product and process innovation





Base: All suppliers (364) who are conducting R&D, excluding don't know/refused

The majority of suppliers (69%) claimed to be spending less than 5% of their grocery revenue on innovation.

When comparing different types of suppliers in terms of the product they supply, those in the non-food category claimed to be spending the highest proportion of their revenue. A quarter of these suppliers claimed to spending 10% or more of their revenue on research and development.

The largest companies were spending the least in terms of proportion of revenue on research and development. 82% of companies with a grocery turnover of £50m+ claimed to spend 5% of their total grocery revenue on innovations compared with 65% of the smaller companies (less than £5m turnover).

d) Whether suppliers are spending relatively more or less on research and development for grocery products than five years ago

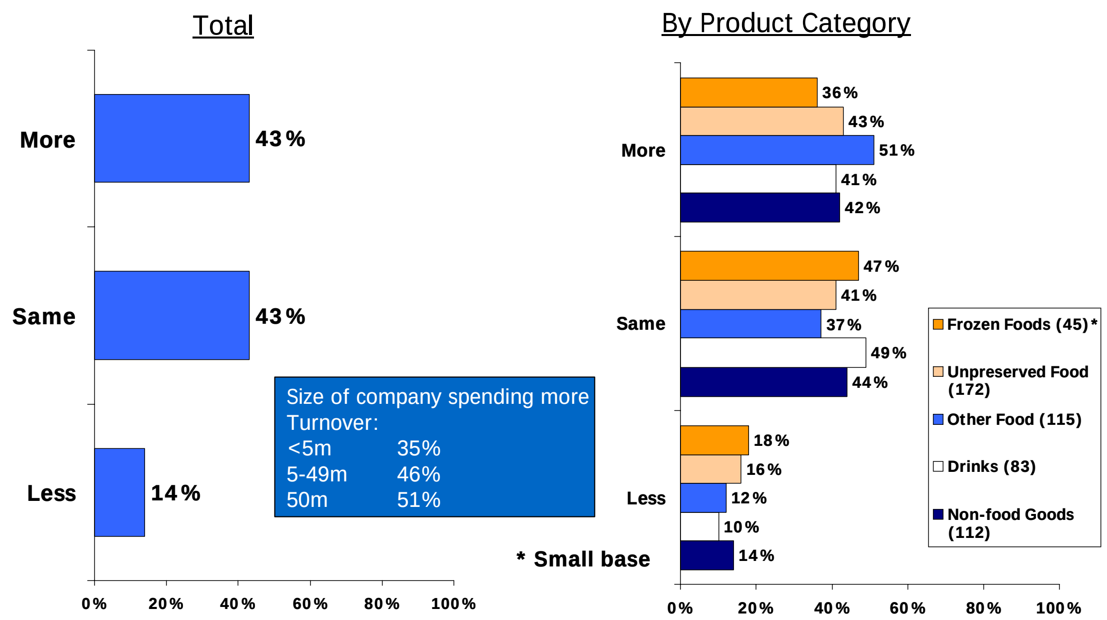
Suppliers were then asked whether the amount they spent on research and development was more, the same or less than the percentage of groceries revenue they spent 5 years ago.

In total, approximately two-fifths of suppliers claimed to be spending more and similarly two-fifths were spending about the same amount in terms of the percentage of revenue.

Suppliers in the largest companies were ***significantly*** more likely to say they were spending more compared with smaller companies (59% compared with 35%).

Interestingly suppliers selling 'other food' products had the highest propensity to say they were spending more on research and development compared with suppliers of other types of products.

Chart 52: Whether suppliers are spending relatively more or less on research and development for grocery products than five years ago

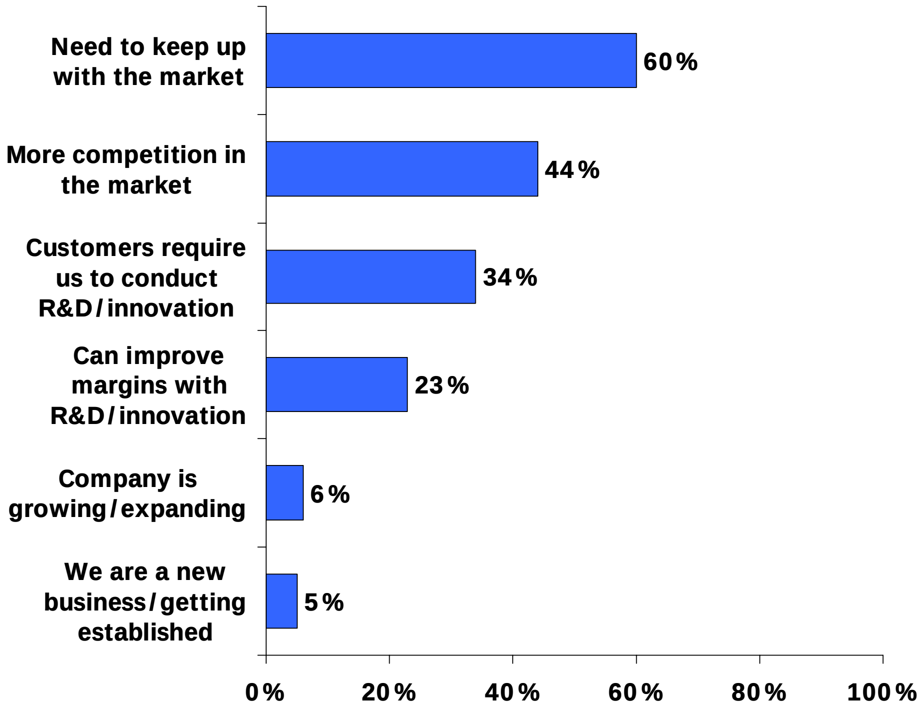


Base: All suppliers (447) excluding those who have not carried out any of the specified product or process innovations

Suppliers who were spending more or less on research and development were then asked to give their reasons for this change. Chart 53 shows the responses given amongst those suppliers who were spending relatively more on developing products and processes.

The top reason given by suppliers for spending more on research and development was the need to keep up with the market, mentioned by three-fifths of these suppliers. Following on from this theme, suppliers next mentioned that there was more competition in the market (44%). In a third of cases, suppliers claimed that customers required them to conduct the innovations and nearly a quarter were aware that they could improve their margins by conducting development work.

Chart 53: Reasons why suppliers are spending relatively MORE on research and development for grocery products than five years ago

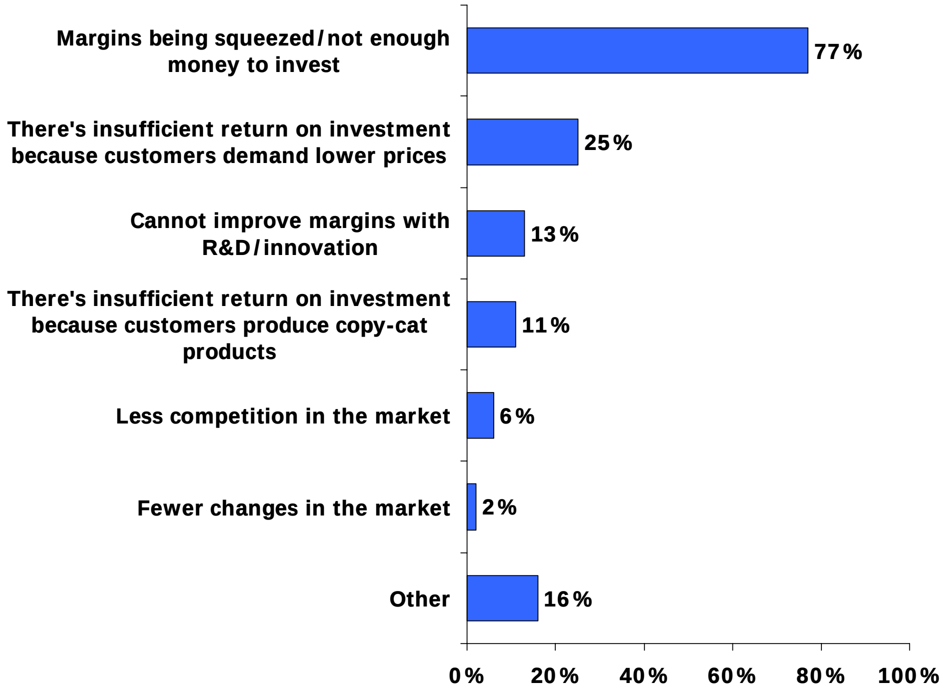


Base: All suppliers (190) who spend relatively more than 5 years ago

Amongst the 14% of suppliers who claimed that they were conducting less research and development, the top reason mentioned ***significantly*** the most by suppliers was that margins were being squeezed/there was not enough money to invest (77%).

The next highest reason, mentioned by a quarter of these suppliers was that there was insufficient return on the investment due to customers demanding low prices.
Other mentions of note included suppliers claiming that margins cannot be improved through research and development (13%) and that there was insufficient return on investment due to copy-cat products (11%).

Chart 54: Reasons why suppliers are spending relatively LESS on research and development for grocery products than five years ago



Base: All suppliers (63) who spend relatively less than 5 years ago

3 Appendices

3.1 Response Breakdown

The following table provides a breakdown of the initial sample and the removals from this data prior to fieldwork.

Total Initial Sample Supplied	**3874**
Removals	
Duplicates	412
No telephone number (after attempted matching)	265
No category ID	64
Incorrect telephone number (incomplete/international)	343
Resulting sampling frame	**2790**

A total of 625 suppliers did not have a telephone number in the initial sample. A matching exercise was undertaken to attempt to match the company name and address with a telephone number. 360 contacts were matched.

Below is a breakdown of the response outcomes from the survey:

	Total sampling frame
Screened out	216
Incorrect details	289
Refusals	483
Non-contact	1126
Agreed to online survey, but did not complete and telephone follow-up interview was not achieved	220
Telephone completes	319
Completed online survey	137
Total	**2790**

The definitions for the above categories are as follows:

Screened out: respondent failed one of the screening criteria included in the questionnaire and was not eligible for interview

Incorrect details include: wrong number, company moved, duplicate, telephone number unobtainable

Refusals include: refusal from reception of company, refusal from potential respondent

Non-contact includes: call-backs not converted into interviews, respondent was unavailable during fieldwork period, overtries (8+ times), no answer, line busy, voicemails.

In total, the response rate was 16% from the sampling frame. However, the base for this percentage includes those where an interview would not have been possible. Excluding from the base those where the details were incorrect or the respondent was not eligible to take part (i.e. excluding screen-outs and incorrect details) the response rate was 20%.

3.2 Maximising Response Rates

It was important that the response rate was maximised to ensure that differential response rates on respondent type, size of company etc. were not creating a response bias. A number of actions were undertaken to maximise the response rate and thereby reduce bias.

These included:

- Scheduling interviews at a time convenient to the respondent and confirming duration at the start of the interview
- Giving assurances on confidentiality of response information and providing contact details so that the respondent could verify the authenticity of the survey
- Contacting each potential respondent up to 8 times, and at different times of day (9am-6pm) and week (Mon-Fri) to increase the likelihood of contacting respondents.
- A helpline number for respondents to call to confirm authenticity of the survey and deal with any queries
- Interviewers faxed or e-mailed the original letter from the CC where respondents could not recall receiving the letter
- Reminders were sent to respondents who had opted for the online survey and not completed by a specific date to allow them every opportunity to participate.

3.3 Questionnaire

The table below shows the questions covered in the research.

S1. Can I just check, does your organisation deal directly with retailers to negotiate prices of products?	Base: All respondents
S2. And are you the most appropriate person to speak to about your relationship with retailers in terms of negotiation?	Base: All respondents
S4. Would now be a convenient time to go through the survey?	Base: All respondents
A1a. Which of the following product categories do you supply to the grocery trade?	Base: All respondents
A1b. Which ONE of the product types you have just mentioned provides your top revenue?	Base: All respondents
A1c. Which product provides your 2nd highest revenue	Base: All respondents
A2a. Which of the following multiple retailers in the UK do you supply your "grocery products" to directly?	Base: All respondents
A2b. Which of the following wholesalers or symbol groups, if any, do you supply your "grocery products" to directly?	Base: All respondents
A3a. Are you also responsible for negotiating with [customer]	Base: All who supply to customer
A3b. Do you also supply your "grocery products" to any independent retailers directly?	Base: All respondents
A3c. How many independent retailers do you supply?	Base: All who supply to independent retailers
A4. Where are your production facilities located?	Base: All respondents
B1. Which of the following best describes your type of business?	Base: All respondents
B2a. Which of the following types of "grocery products" do you supply?	Base: All respondents
B2b. What percentage, by value of your "grocery products" are sold as Branded goods?	Base: All respondents
B2b. What percentage, by value of your "grocery products" are sold as Non-branded goods?	Base: All respondents
B2b. What percentage, by value of your "grocery products" are sold as Own-brand goods?	Base: All respondents
B3a. Do you supply your "grocery products" as value, standard or premium products?	Base: All respondents

B3b. What percentage of your "grocery products" in terms of value are sold as Value	Base: All respondents
B3b. What percentage of your "grocery products" in terms of value are sold as Standard	Base: All respondents
B3b. What percentage of your "grocery products" in terms of value are sold as Premium	Base: All respondents
B4. Can you give the percentage of revenue generated from GROCERY PRODUCTS broken down by each of the following customers supplied?	Base: All respondents
B5.What was the approximate company turnover (excluding VAT) for your "grocery products" in the 2005/2006 financial year?	Base: All respondents
B6. Does your company supply products, other than those we have classified as "your grocery products"?	Base: All respondents
B7. What was the approximate company turnover (excluding VAT) for the products we would classify as "your non-grocery products" in the 2005/2006 financial year?	Base: Companies that supply products, other than those classified as "your grocery products"
B8a. Thinking about the commercial viability of your business, how likely or unlikely is your business to still be operating in 5 years time?	Base: All respondents
B9a. What was your approximate GROSS margin on the revenue relating to your grocery products before distribution costs in the latest financial year?	Base: All small/medium suppliers
DB9a. What was your approximate GROSS margin on the revenue relating to [product1] before distribution costs in the latest financial year?	Base: All large suppliers giving top revenue product
DB9b. What was your approximate GROSS margin on the revenue relating to [product2] before distribution costs in the 2005/2006 financial year?	Base: All large suppliers giving 2nd highest revenue product
B9b. Over the last 5 years, would you say your gross margins have increased, stayed the same or decreased?	Base: All small/medium suppliers
DB9ba. Over the last 5 years, would you say your gross margins on [product1] have increased, stayed the same or decreased?	Base: All large suppliers giving top revenue product
DB9bb. Over the last 5 years, would you say your gross margins on [product2] have increased, stayed the same or decreased?	Base: All large suppliers giving 2nd highest revenue product
B10. How often do you supply Customer 1 with [product]?	Base: All respondents
B10. How often do you supply Customer 2 with [product]?	Base: All specifying a Customer 2
B10. How often do you supply Customer 3 with [product]?	Base: All specifying a Customer 3

B11a. Do price negotiations with Customer 1 for [product] generally take place [frequency]	Base: All respondents excluding those who do not supply to this customer
B11a. Do price negotiations with Customer 2 for [product] generally take place [frequency]	Base: All respondents excluding those who do not supply to this customer
B11a. Do price negotiations with Customer 3 for [product] generally take place [frequency]	Base: All respondents excluding those who do not supply to this customer
B11b. How satisfied or dissatisfied are you with the frequency of your price negotiations with Customer [1, 2 or 3]	Base: All respondents excluding those who do not supply to this customer (all answering)
B11c. Would you like price negotiations with Customer [1, 2] to be more or less frequent?	Base: All who feel dissatisfied with current price negotiations but who do not negotiate daily or less frequently
B12a. Do volume negotiations with Customer [1, 2 or 3] for [product] generally take place [frequency]	Base: All respondents excluding those who do not supply to this customer
B12b. How satisfied or dissatisfied are you with the frequency of your volume negotiations with Customer [1, 2 or 3]?	Base: All respondents who have volume negotiations
B12c. Would you like volume negotiations with Customer [1, 2] to be more or less frequent?	Base: All who feel dissatisfied with current volume negotiations but who do not negotiate daily or less frequently
B13(a). Please can you tell me whether the following types of payment occur regularly, occasionally or never in your dealings with Customer [1, 2, or 3]: We make payments to the customer for initially listing a product We make continuing payments to the customer for the ongoing listing of a product We provide rebates per unit for items not sold by the customer We make payments to the customer as marketing contributions/promotion investment We make payments for re-tendering We provide other rebates to the customer	Base: All respondents
DB13e. You mentioned that your company makes payments [of type mentioned earlier] to [customer]. Please can you tell me who initiated this and why?	Base: All large suppliers respondents whose company makes these payments to

	customers
B14. Do you think the payments you make to Customer [1, 2 or 3] are reasonable or unreasonable?	Base: All who carry out a type of payment regularly or occasionally
DB14a. Reasons for response at B14 regarding Customer [1, 2 or 3]	Base: All large suppliers saying that the payments to customer are reasonable
DB14a. Reasons for response at B14 regarding Customer [1, 2 or 3]	Base: All large suppliers saying that the payments to customer are unreasonable
B15(a). Do you provide any of the following services to Customer [1, 2 or 3]? Help with marketing Provision of staff in busy periods Adapting packaging systems to conform with customer's standards Delivering on pallets which conform to customer's standards Category management - managing shelf space for products Any other services	Base: All respondents
DB15a. Do you consider providing these additional services to Customer [1, 2 or 3] as reasonable or unreasonable?	Base: All respondents
DB15b. Reasons for response at DB15a	Base: All large suppliers saying they provide additional services to Customer [1, 2 or 3]
B16a. Of all the customers to whom you supply, from which ONE do you receive the LOWEST margins, taking into account any fixed payments you make or receive, transport or any other services provided?	Base: All giving top revenue product
B16b. Of all the customers to whom you supply, from which ONE do you receive the LOWEST margins?	Base: All with 2nd product category
B16d. Of all the customers to whom you supply, from which ONE do you receive the HIGHEST margins, taking into account any fixed payments you make or receive, transport or any other services provided?	Base: All giving top revenue product
B16e. Of all the customers to whom you supply, from which ONE do you receive the highest margins?	Base: All with 2nd product category
B17a. Reasons for receiving the lowest margins	Base: All respondents
B18. Why do you receive higher margins with some of your other customers?	Base: All respondents
B19. Thinking about [customers mentioned at B16a], from whom you receive the lowest margins, how easy or difficult would it be for you to replace these customers, if they no longer ordered from you?	Base: Customers from whom you receive the lowest margins

B19a. And thinking about [one of top four customers mentioned at B4], how easy or difficult would it be for you to replace this customer, if they no longer ordered from you?	Base: All who identified customer(s) as one of top 4
DB19c. Can you tell me why it would be difficult? What alternative sales channels do you have?	Base: All large suppliers who think it would be difficult to replace customer
B20. To what extent do you agree or disagree that dealings with [large customers] are beneficial to your relationship with other smaller customers in any of the following ways: We gain insights into consumers and the market? We become more efficient suppliers? We invest in process innovation? Our products are improved? We are given technical support which improves our overall offering?	Base: All supplying to more than 1 customer
B21. Are there any other aspects of your dealings with Customer1 OR your OTHER largest customers, which have a positive effect on your relationship with smaller customers?	Base: All supplying to more than 1 customer
B22. To what extent do you agree or disagree that dealings with [large customers] have an effect on your relationship with smaller customers in any of the following ways? If a larger customer negotiates a lower price, we increase prices to smaller customers If a larger customer increases demand at short notice we cannot supply smaller customers If there is a supply shortage, we supply a larger customer but cannot supply smaller customers If a larger customer demands better/additional services, service to smaller customers becomes worse	Base: All supplying to more than 1 customer
B24a. Which of the following types of product or process innovation, if any, have you carried out in the last 2 years?	Base: All respondents
B24b. And which of these, if any, do you currently have a budget for?	Base: All respondents
B25. You told us that your revenue from grocery products was (about) [Response from B5]. Approximately, what percentage of this revenue does your company spend on Research and Development or product and process innovation for grocery products?	Base: Excluding those who have not carried out any of the specified product or process innovations or refused to give turnover at B5
B26a. Is this more, the same or less than the percentage you spent 5 years ago?	Base: Excluding those who have not carried out any of the specified product or process innovations
B26b. Why do you now spend relatively more than you did 5 years ago?	Base: All who spend relatively more than 5 years ago
B26c. Why do you now spend relatively less than you did 5 years ago?	Base: All who spend relatively less than 5 years ago
B27. Do you ever tender for business via auctions?	Base: All respondents

B28. With which retailers have you tendered for business via auctions?	Base: All who tender for business via auctions
B29. In general, are your margins higher, the same or lower when dealing by auction than other methods of tendering?	Base: All who tender for business via auctions
B30. Apart from supply agreements for own label products, have you been asked to enter into agreements to supply other products to any retailers exclusively regardless of whether you then went on enter into the agreement or not	Base: All respondents
B31a. Which customer(s) asked you to enter into agreements to supply exclusively?	Base: All who have been asked to enter into agreements to supply other products to any retailers regardless of whether they went on to enter into the agreement or not
B31b. And which, if any, of these customers did you then go on to enter into an exclusivity agreement?	Base: All who have been asked to enter into agreements to supply other products to any retailers regardless of whether they went on to enter into the agreement or not
B32a. Which of the following, if any, have happened to your company in the last 5 years? Please note we are only interested if this has happened with a retailer. Not being given standard terms of business Delays in receiving payments Price reductions for products Obligatory contributions to marketing costs Obligatory payments in return for stocking or listing products Excessive payments for consumer complaints Obligatory additional services	Base: All respondents
B33. Would you say [each practice mentioned above] has happened to a greater, the same or lesser extent in the last 12 months than in the previous 4 years?	Base: All saying practice has occurred
B32b. Can you name any customer where [each practice mentioned above] has occurred?	Base: All saying practice has occurred
B34. Do you now face more, the same or less competition from overseas suppliers than you did 5 years ago?	Base: All respondents
B35. Have changes in the common agricultural policy had a positive impact, neutral impact or a negative impact on your company's profitability?	Base: All who supply the appropriate food categories.
B36. Overall, how would you rate your level of bargaining power with Customer [1, 2 or 3]? Please answer on a scale of 1 to 10, where 10 means you completely control the bargaining process and 1 means you have no control at all over the bargaining process?	Base: All respondents

DB41. Do any other suppliers combine shipments with your deliveries to customers?	Base: All respondents
DB42.Thinking about your relationships with retailers... Are there any retailers you prefer to deal with?	Base: All large suppliers
DB42a. Reasons for preferring to deal with certain retailers	Base: All large suppliers
DB43. Are there any retailers you prefer NOT to deal with?	Base: All large suppliers
DB43a. Reasons for preferring not deal with certain retailers	Base: All large suppliers
DB44. How do your relationships with manufacturers or processors compare with retailers?	Base: All large suppliers who supply manufacturers or processors
B38. Is your company part of a larger organisation?	Base: All respondents
B39. Whether parent company/ultimate parent company named	Base: All companies part of larger organisation
B40. Finally, if we have any questions about your responses to this survey are you willing to be re-contacted?	Base: All respondents