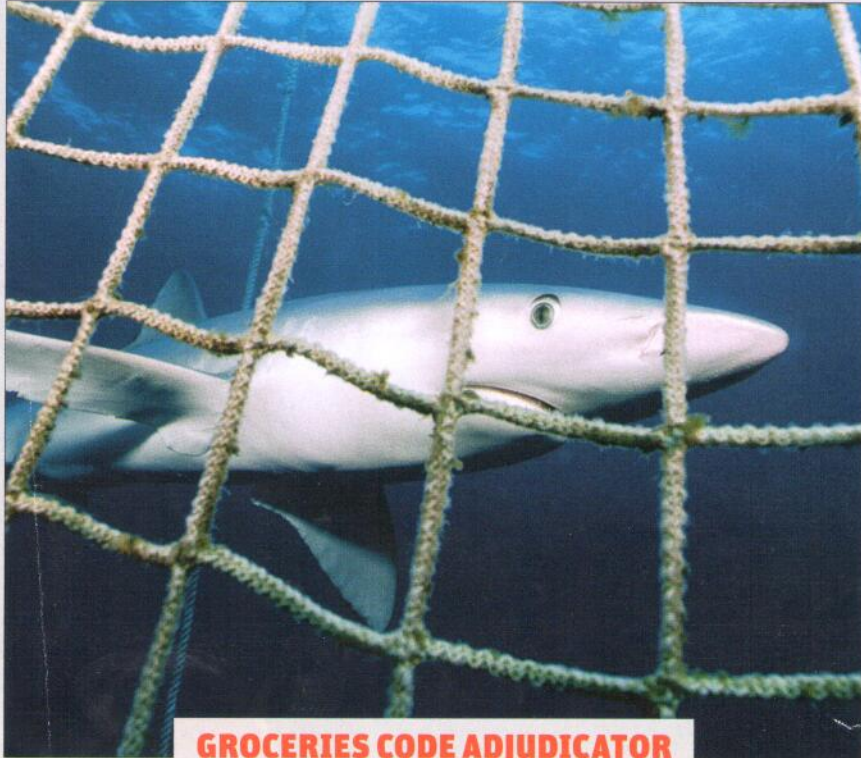


The Grocer

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GROCERIES CODE ADJUDICATOR

Widening the net: who should Tacon tackle next?



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“THE big debate is inflation. Not whether there will be inflation, but when, how much and where”

Adam Leyland, Editor of the Year, British Society of Magazine Editors 2016

Marmitegate is just the tip of the iceberg, says Nick Clegg. Even if you're the most diehard Brexiteer it's impossible to argue with him – unless you know nothing of how the food and drink industry works.

What's less clear is how inflation will manifest itself. Lots of suppliers are already reporting significant increases in input costs (p5). But inflation is at its most telling when it reaches the consumer. And judging by the hysteria that greeted even the prospect of a hike in the price of Marmite, consumers are going to hate it.

So the question is not will there be inflation, but when, how much, and where. At the IGD's Big Debate retailers mostly dodged it. It was the elephant in the room. Only Tesco's UK CEO Matt Davies gave any sense of the battle that lies ahead. "As the no1 food retailer, we are clear inflation is a bad, bad thing and we will do everything we can to make sure inflation is kept to a minimum. Everybody should be very clear how damaging it is to the economy, to retail and manufacturing businesses, and to millions of people struggling to live, week in, week out."

As we've seen, Tesco has quickly rebuilt bridges with Unilever, coming out of the affair with its (formerly tarnished) reputation as a champion of the consumer enhanced. But what happens to other negotiations?

Groceries Code Adjudicator Christine Tacon has been arguing that retailers cannot ignore calls for price hikes (p4) – particularly in cases where retailers had demanded and received price cuts from suppliers when sterling strengthened against the euro. Dave Lewis has effectively said the same thing: that Tesco will be more sympathetic if suppliers cut prices when sterling was strong.

But Tesco has worked incredibly hard to become price competitive – even winning share back from the discounters (p10) – and it won't want to give up those hard-fought gains easily. So, as well as watching its rivals like a hawk, it will also be playing a game of bluff with its suppliers, particularly when it comes to hedging. After all, how do you know how far forward manufacturers have hedged?

Government plans to extend the role of Adjudicator Christine Tacon finally got off the ground this week, almost two years after pledges by former PM David Cameron.

Cue a tidal wave of calls from farming bodies that have been pushing the government to stick to its word and widen her net to cover thousands of suppliers. Yet it appears this may be far from ministers' latest thinking, with sources close to the review suggesting it's the likes of Boots, Holland & Barrett and Booker that are the target instead.

This would be welcomed by many suppliers, with

allegations emerging that complaints about companies not covered by the Code have ended up in the GCA shredders.

And compared with the minefield involved in extending Tacon's powers to farmers, it looks comparatively straightforward, allowing the pragmatic Tacon to stick to pretty much the existing formula.

The big stumbling block, as ever, is likely to be politics. Can the government really be seen to ignore the plight of farmers, even if a better and more logical system makes more sense?

More on page 14



“Can ministers afford to leave farmers out of the GCA remit?”

Ian Quinn, chief reporter

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Birds Eye launches gluten-free fish fingers



Unilever-Tesco scrap: the winners and losers



Sainsbury's Nine Elms store: in pictures



Steve Murrells awarded The Grocer Cup



Waitrose backs paper cup recycling experiment

quote of the week

“It's rrp or RIP for many independent stores as their businesses are at risk if reduced traffic comes through their doors”
p11

Widening the GCA net: who should Tacon tackle next?

Never mind farmer concerns, does GCA have bigger fish to fry?

Ian Quinn

Back in January 2015, David Cameron told the Commons it was time to extend the Groceries Code Adjudicator's role to cover "more of this vital industry". It was largely dismissed as political posturing, but his words may actually come to fruition – though not necessarily in ways the former PM might have intended.

The Department for Business, Energy & Industrial Strategy (BEIS) finally began a statutory review into the Adjudicator's remit (which technically runs out next May) alongside a call for evidence on the case for expanding it into new areas.

But, despite widespread calls to use the Adjudicator to protect primary producers, The Grocer has learnt the future model envisaged by some senior sources is very different.

This week The Grocer revealed top-level discussions with ministers about how the Adjudicator's role could be updated to cover grocery retailers, wholesalers and foodservice giants whose sales exceed the £1bn cut-off set by the government for GSCOP compliance.

Sources have named Boots, B&M Stores, Ocado, Booker, Compass and Poundland as some of the giants that could fall under a widened remit.

The Grocer understands the GCA has received substantial evidence from suppliers relating to behaviour from companies outside its remit that might not be allowed under the Code.

One such case involved Holland & Barrett. In January The Grocer revealed the health food chain had demanded price



“At the moment this evidence is just going into a black hole”

cuts of at least 5% from all its suppliers, accusing them of failing to contribute to the cost of its growing businesses.

A source said: “At the moment there is absolutely nothing the GCA can do about this evidence. It's all just going into a black hole because the Adjudicator has no power to investigate.”

Holland & Barrett would fall outside the current £1bn cut-off point, but Tacon herself recently made the case for the £1bn threshold to be lowered. Speaking at the Westminster Forum in May, she spoke of retailers such as Dunnes Stores and Musgrave in Northern

Ireland “who don't come above the billion mark, but who have a big impact in that local region”.

She also suggested that foodservice companies – including Compass – should be considered for the same reason based on their impact on food and drink suppliers.

Extending Tacon's role has clear financial advantages to a cash-squeezed government, not least because retailers fund the GCA's activities through a levy. Extending that to the likes of Boots is, some argue, likely to be a lot easier than taking on the plight of farmers by adding 8,000 suppliers into the mix.

Ged Futter, founder of Innovative Retailing Solutions, believes the proposition is also “what suppliers want”.

But adding in a few companies to the Code isn't necessarily that simple, as Mark Jones, senior solicitor at law

Currently untouched by Tacon
Annual turnover*

£6.3bn
Boots UK

£5.0bn
Booker

£2.0bn
Compass

£1.3bn
Poundland

£1.2bn
Ocado

£574m
Holland & Barrett

(*latest publicly available figures)

firm Gordons, warns. For him, the suggested new model is at odds with the 2008 Competition Commission report that resulted in the creation of the Groceries Supply Code of Practice.

“The Commission said it was dangerous to expand the regulation to wholesale because it could lead to the wholesaler market being distorted, Booker being a great example. It would be subject to regulation by the Adjudicator, but others in that sector wouldn't. I think there is a danger the government is just being pushed into doing this so it can be seen to be doing something.”

Saying that, experts have warned it could take many months or years for the government to extend the Adjudicator's remit. Indeed, if the process takes as long as it took to set up the Adjudicator, suppliers would be waiting until 2030. +