House of Commons

Environment, Food and Rural Affairs Committee

Oral evidence: Fairness in the food supply chain, HC 160

Tuesday 30 April 2024

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Watch the meeting

Members present: Sir Robert Goodwill (Chair); Ian Byrne; Rosie Duffield; Barry Gardiner; Dr Neil Hudson; Mrs Sheryll Murray; Selaine Saxby; Cat Smith; Julian Sturdy; Derek Thomas.

Questions 286 - 361

Witnesses

I: Dom Morrey, Commercial Director for Fresh Food, Tesco; Kris Comerford, Chief Commercial Officer (Food), Asda; Charlotte Di Cello, Commercial Director, Waitrose; Richard Bourns, Chief Commercial Officer, Lidl GB; Rhian Bartlett, Chief Food Commercial Officer, Sainsbury's.

Written evidence from witnesses:

– Asda

- Sainsbury's

Examination of Witnesses

Witnesses: Dom Morrey, Kris Comerford, Charlotte Di Cello, Richard Bourns and Rhian Bartlett.

Q286 **Chair:** Welcome to this session of the Environment, Food and Rural Affairs Select Committee, where we are continuing our investigation into fairness in the food supply chain. The purpose of the hearing is to look at the impact of food price inflation on supermarkets, as well as consumers; to look at the relationship between food production costs, food prices and retail prices; and how structural relationships between food producers, manufacturers and retailers could be improved. We are also looking at the effectiveness of the groceries supply code of practice and the Groceries Code Adjudicator.

We are also looking at how we can influence the way that people choose healthier food options. We are very pleased indeed to have a full house of most of our major supermarkets. Would you like to introduce yourselves briefly?

Kris Comerford: Good afternoon, everybody. My name is Kris Comerford. I am the chief commercial officer for food at Asda.

Rhian Bartlett: I am Rhian Bartlett, chief commercial officer for food at Sainsbury's. We are a UK-based supermarket with 1,400 shops and 148,000 colleagues.

Dom Morrey: My name is Dom Morrey and I am the commercial director for fresh food at Tesco.

Charlotte Di Cello: Good afternoon, everyone. I am Charlotte Di Cello, commercial director at Waitrose, responsible for the buying, sourcing and pricing of all of our products, including those from our 3,000 British farmers and our own Waitrose farm in Hampshire.

Richard Bourns: I am Richard Bourns, chief commercial officer at Lidl GB, responsible for all commercial aspects of our business, including, of course, buying relationships and supply management.

Q287 **Chair:** We are not going to ask every question of every one of you, otherwise we will be here all day. Colleagues will be asking individual questions, but we are trying to share out the topics. If something is really burning that you need to say from your particular supermarket's point of view, then of course do indicate but, as I say, with five witnesses, it can take quite a long time.

Perhaps I could start with a question for Dom. Producers have reported significant increases in the cost of production in recent years. As a farmer myself, I can well remember having to pay three times the price for fertiliser compared with the previous year. Producers have stated that these increased costs are not being reflected in increased farmgate prices. What steps are you taking in your particular supermarket to ensure farmers receive a fair price for their produce?

Dom Morrey: Clearly, the last 18 months have been a particularly challenging period of time with input prices right across my supply base, not just the farming sector, being challenged with energy bills and other matters coming through. That has led to, in particular in the last 18 months, an unprecedented level of discussions around price. All of those discussions have been open and transparent, and we have responded quickly and appropriately to address them and pay a price that is fair to our supplier partners, when they have asked for it.

That includes doing things such as introducing energy escalators for our potato suppliers. I am sure that that aspect of increased production cost is—

Q288 **Chair:** Are those sort of changes in-contract? If a farmer, or a manufacturer that is supplied by a farmer, signed a contract for, say, six months in the future, is there any opportunity for flexibility in-contract, rather than waiting for that renewal?

Dom Morrey: These discussions are live all the time. The energy issues would have hit part way through the season. Prices would have been agreed on what we mutually thought they were going to look like for the year but then, when some of those things changed, we had to respond to that. There are many examples across the course of the last two years where we have responded to things that were not planned for. There has been £10 million to £12 million of extra support for the pig industry. The egg industry has been under particular challenges as well. We responded with £20 million of extra funding there.

We have models as well, with people like our Tesco sustainable dairy group, where we pay a price that is market production, but then we pay extra on top of that to reflect those costs.

The challenges around the pricing input have been felt right across retail, right across the supply base. It is something we have had to respond to in real time as it has come up, during the course of the last 18 months in particular. Gladly, now, we are past that phase of peak inflation and those prices are now starting to ease, but certainly in the last 18 months it would have been a very dynamic environment.

Q289 **Chair:** Kris, what is Asda's perspective?

Kris Comerford: It is very similar to Dom's. Clearly, I used to work at Tesco as well, so I have a similar perspective across the wider supply base of how things have been working. Dairy is possibly an example. Within that, we have signed long-term contracts with Arla, which was here not too long ago as well. We see the commodities coming through. We see how we pass that through and how it is working for the farmers, so they have a return as well, and we will continue to do that, being mindful of what we have to do for customers during the cost of living crisis in terms of the cost of food for UK consumers.

Q290 **Chair:** Charlotte from Waitrose is next. We do not have a Waitrose in Scarborough, but we are getting posher every day, so maybe it will happen one day soon.

Charlotte Di Cello: I will make a note of that for when we are looking at where we might put a new Waitrose. I will take that as a compliment.

I very much echo what Kris and Dom have said. It has been extraordinarily challenging but, from a Waitrose perspective, we have really leant on the relationships we have with our suppliers, growers and farmers, the majority of which span 20, 30, 40 years or more in some instances.

We have very transparent models, which has meant that we will always pay the cost of production and make sure that farmers are making a decent living, which is clearly a challenge. As Kris has already said, we are in the middle of a supply chain where we need to do right by farmers, growers and suppliers while also making sure that we are being fair to customers, with good availability of great quality British produce at fair prices.

We have long relationships, which have been fostered over many years. We have very transparent models that we have evolved where we have needed to due to some of the more recent challenges. Pork would be a good example, where the global price fell. We had to evolve our mechanism to make sure that we were reflecting the cost of production, so that British farmers continue to be able to give the outdoor-bred product they do for us.

Q291 **Chair:** Would you say your slightly more affluent customers, may I suggest, are slightly more conscious about wanting to have fairtrade not just when it comes to sugar snap peas from Kenya, but for British farmers as well? Is that something that you get feedback on?

Charlotte Di Cello: Our customers probably have a slightly higher disposable income than average, although our customer base is very broad, and our customers definitely value great-quality British produce that is ethically and sustainably sourced. That is something that is very important to our customers and it is definitely something that Waitrose will continue to do. We have not compromised on any of that during what have been very difficult times.

A lot of British higher-welfare producers have been kept in business because we have not compromised on those quality and ethical standards. That is what our customers want and it is a huge part of what makes Waitrose Waitrose.

Q292 **Selaine Saxby:** Charlotte, we also do not have a Waitrose in North Devon, if you would like to add us to the list. More seriously, Rhian and Richard, Ali Capper, the executive chair of British Apples & Pears, told us that supermarkets have delisted producers following requests for cost price increases due to rises in input costs, which are completely outside of the grower's control. How do you respond to this?

Rhian Bartlett: We are proud to be the biggest retailer of British apples and pears in the UK, and we have worked super-closely with our supplier base for many decades. We have models, rather as Charlotte describes, that reflect the real costs of growing fruit and also the yields that come off that. There was a massive yield last year. There was a much reduced one this year and we put through cost price increases ahead of the season to give certainty to farmers. We try to partner very closely to support our supplier base.

Richard Bourns: From a Lidl perspective, we are also committed to buying British. We are the fourth largest retailer in the UK, according to the latest data published by British Apples & Pears. We have the largest index of any retailer in the country. That is our market share in apples and pears, relative to our market share as a grocer. We are absolutely committed. We have very close relationships with our growers and supply partners.

One example would be AC Hulme & Sons, which supplies more than 50% of our apples and pears. We are engaged currently in a long-term, multi-year agreement that commits us to set volumes and gives the opportunity for us to discuss pricing on a seasonal basis or in extraordinary circumstances. Where we see inflation beyond the control of anybody within the supply chain, of course we look to engage, discuss and rectify that, to make sure that is considered in the price that we pay our farmers and growers.

I do not recognise the allegation that we have delisted certain producers based on inflationary pressure, but certainly that is something we would take extremely seriously. We are absolutely committed to fair and transparent partnerships and dealings with all of our suppliers, and that is something we stand behind.

Q293 **Chair:** Excuse me for butting in. When you say you "do not recognise", do you mean it did not happen or you do not know about it?

Richard Bourns: I am not aware of that but, of course, if that is an allegation that is put to me, I can take it away, review it internally and come back.

Q294 **Chair:** What we heard from Ali Capper was that the contracts are now being negotiated much earlier in the season, before the fruit trees are even in blossom and the fruit is set. That presents quite big challenges. Previously, it would be at a point when the fruit harvest could be more accurately predicted. Is that something that you are aware of?

Richard Bourns: We would agree the contracts and the pricing around those contracts with our suppliers at the point in time that they want to discuss those. As with all of our discussions, agreements with all of our suppliers across all sectors, we would maintain an open dialogue to ensure that any concerns and challenges they have are considered and that we are discussing pricing and other matters at the right point in time for them.

Q295 **Selaine Saxby:** I now come to Dom and Kris. Guy Singh-Watson, founder of Riverford Organic Farmers, has told us that bullying by retailers still occurs in annual price negotiations. What steps do you take to ensure price negotiations are conducted fairly and that you do not abuse your market position?

Dom Morrey: First of all, price negotiations are not always an annual contract. They can be quite fluid and, particularly in the last 12 to 18 months, a lot of things have changed quite quickly. This is something that could have been agreed and needs to be revisited and addressed. The No. 1 thing that all the suppliers or growers that supply Tesco seek—I am sure for my colleagues as well—is the confidence in longer-term contracts and commitments, which allows them to invest in anything from apple orchards to packing houses and everything else.

We would tend to have discussions, a lot of the time, around forward-looking contracts, the length of contracts that give our supplier partners confidence, many of whom have supplied Tesco for over 25 or 30 years in the key categories you are talking about.

In other areas, I can give the example of this forthcoming year. For the potato harvest, we have agreed a contract with our main packer, Branston, which has 130 dedicated potato suppliers for Tesco. Those prices were forecasted 12% higher for inputs this year, but clearly, with the extreme weather conditions that those farmers have been facing in recent weeks, that is now a live discussion to see how we can help them further. What was perceived to be a fairly normal growing season at the moment looks quite challenging. My answer to that is, in every instance, we look to have long-term trading relationships with our suppliers. That gives them confidence to plan and invest.

Clearly, for the scale of business that Tesco does, we need people to be able to plan and get the volume of product that we need, but all of those things have to be fluid in the relationship. As things change, we support them and adapt to those changing marketplaces. A key one at the moment for a lot of my produce suppliers would be the very cold and unseasonal start to the growing season.

Kris Comerford: I will not duplicate what Dom has said, but you also have to be clear that we have a very effective and active regulator in terms of the GCA, the Groceries Code Adjudicator. He speaks to us at an exec level frequently. We meet with him. All of our suppliers know how to get hold of him as well. We would take any allegation of bullying and things like that, in terms of the negotiation, very seriously.

He laid out seven golden rules towards the back end of 2022. Personally, we took all of our buyers through training, as you would do, and reasserted it during 2023. We would take anything of that nature extremely seriously.

Q296 **Selaine Saxby:** Moving on, Richard, last week, farming unions called for supermarkets to display greater flexibility on product specifications, due to the recent poor weather, among other requests. How do you plan to help producers mitigate the effects of poor weather?

Richard Bourns: I am in complete agreement with the approach. That is one of a number of measures that we have taken as a retailer to support the sector. We have amended specifications for potatoes, parsnips, carrots and swedes, among other things, in order to enable our producers to maintain their avenue to market. We do not sell wonky fruit lines. That is a broadening of a specification within a standard range of product, and that is normally around appearance, shape and size of the product.

We have been absolutely supportive. We are absolutely behind that and we would continue to adopt that strategy going forward. I would say this is not the first instance of us recognising challenges within the sector. Back in 2022 and 2023, we were very active in working together with our suppliers to come to similar compromises around specifications, to ensure that we could keep stock on shelf, maintain that avenue to market for producers and reflect some of the challenges they were facing.

Kris Comerford: Richard has answered the question very well. It is always a fine balance between availability on the shelf, what customers are prepared to buy and clearly the waste challenge as well. The constant dialogue that you have with the growers as you go through seasons, and certainly as you look to seasons ahead, mean that you have to be quite flexible. It has been disproportionately wet, as we can all attest to, over the last 12 months, and that clearly has an impact on the growing conditions in the UK.

Q297 **Selaine Saxby:** Dom, is there anything you would like to add from a Tesco perspective?

Dom Morrey: My colleagues have covered it off very well. It is not an uncommon practice at the moment. The weather might be quite extreme but, two Christmases ago, if you remember, it snowed very heavily. It was very cold. We had to respond at that time to agree to smaller-sized sprouts, because that was the way to get the quantity of product that we needed. These are real-world challenges faced by growers and we all face into that quite regularly.

The other thing I would add is that, clearly, we have added-value foods. There are also other options for products if it is not necessarily to the size and specification you would sell in a produce environment, it can go into things to make added-value products. Potatoes, for instance, with skin finish can easily go into mashed potato products. We would work across our supply base to ensure the fullest use of the crop that comes available as it is grown through whatever growing conditions our suppliers are facing.

Q298 **Chair:** The issue of wonky vegetables is interesting. At the Downing Street Farm to Fork summit last year, I was talking to the boss of Marks & Spencer. In an experiment, they put a courgette with a bit of skin damage in a bin and, despite the fact that bin had been replenished about five or six times during the day, it was still there at the end of the day. Consumers do tend to reject anything that does not look perfect, if it is in that sort of scenario.

Dom Morrey: There is still that challenge where consumers will make a choice on visual appeal of products. That is why I say that sometimes having added-value outlets for things—be it baton carrots or mashed potato—is also a route with our products. While it might not be as visually strong in its raw form, it can still add value and be used in the food chain. That is really important.

Q299 **Dr Hudson:** A recurrent theme in many of your answers is that you are keen to support British producers. Many of you, if not all of you, have signed up to the Buy British button, which is a cross-party campaign led by our colleague Dr Luke Evans. Over 120 MPs have signed that letter about having a button on your online presence. Are you involved in that, if you have an online presence? Asda, are you?

Kris Comerford: No. You will have to search our website, unfortunately. You have to type the word "British" into the search engine, and then it all comes up relative to having a button on the website.

Q300 **Dr Hudson:** Would that be something that you could move towards, to join the rest of the team?

Kris Comerford: Yes. It is certainly something we would want to be doing. We are going through an IT change at this moment in time, and therefore it is reducing some of the functionality on our platform. That is the rationale behind it, unfortunately.

Q301 **Dr Hudson:** Further to that, in terms of supporting UK producers and in terms of seasonality, customers want to be able to access fruit and veg through the year. There are certain times of the year that we will need to import things. I am going to come to you first, Dom. We are now into the asparagus season and, at Tesco, you still have asparagus tips from Mexico, when we have fresh asparagus in the UK. How do you square that circle in terms of continuity of supply, but really trying to support local UK producers who your customers want to support?

Dom Morrey: Tesco is fully committed to buying British where we can. Clearly, in areas like salads and veg that is easier than, say, fruit. There are elements of the fruit category—pineapples, citrus—that would not routinely grow in the United Kingdom. If you look at areas like veg, for instance, about 90% of our product would be UK-sourced. In season, June to October, we look to be 100% sourced on broccoli, cauliflower, iceberg, beans, spinach, et cetera. In a longer British season like for kale, leeks, et cetera, that would all be locally sourced. Our focus is always to have British-sourced product when it is available and when it is in season.

On asparagus, the UK asparagus season started for us in the last two weeks. I am very pleased to report it is off to good sales. The challenge has been, if I am honest with you, where weather has also impacted, meaning that the level of availability, sadly, for asparagus growers is not quite there yet. I am hoping that will recover quite quickly with the weather finally showing signs of being warmer in the next week to 10 days. We would be 100% committed that, if it is in UK season and being grown, our first priority is to have everything 100% sourced.

Q302 **Dr Hudson:** Would that be the same for everyone? For the benefit of the doubt of people watching this, where possible, you will try to access local food. Is that a recurrent theme?

Charlotte Di Cello: Yes, absolutely.

Richard Bourns: Yes, 100%.

Chair: Certainly, the asparagus in my allotment is very slow to emerge this year. It is the cold, wet weather in North Yorkshire.

Q303 **Julian Sturdy:** We have heard claims that there is often a disconnect between retailers and the strategic understanding of issues faced by growers, such as the labour challenges we have been facing over the last two to three years, import costs, et cetera. It has already been touched on. The disconnect is around the understanding and behaviour of buyers operating on behalf of retailers as well, with that in mind. Rhian, do you want to touch on that?

Rhian Bartlett: I will touch on labour first. It is actually the thing that my suppliers talk to me about the most. I hoped it would come up today. A big issue is availability of labour, particularly under the seasonal agricultural worker scheme. There is a lot of call for that to be expanded in both the numbers of people and the length of time, and for agricultural work to be added to the shortage occupation list, so that there is more access to more labour from around the world.

Also, there is an ask that the proceeds of the apprenticeship levy can be somehow kept in the food system, because lots of that leaks out and we do not have the skills we need across the supply base. We are super-clear about the challenges of labour in that part of the supply chain.

In regard to how that relates to buyers, whether they have that understanding and whether they stay in role for a long period of time, our directors of different categories do. They tend to be in their roles for five years. Buyers are much earlier in their careers. They do not tend to be in their roles as long. What we generally see is that those who work in fresh food want to stay in fresh food, and those who work in grocery want to stay there. I guess you just develop those skills. There is quite a lot of benefit to buyers coming through different buying areas in fresh food. They get a much broader understanding of the ecosystem that they are operating in, but we make sure that, in the leadership layer, there is that consistency of leadership and understanding of the issues that you raise.

Q304 **Julian Sturdy:** Does that feed down? If you have continuity at that level, you have to make sure it feeds down.

Rhian Bartlett: That is what we would be trying to do. The other thing that supports that, in terms of the way we work, is our preferred model with our packers, processors and farmers, which is a cost of production model, like the one Charlotte described. They are quite complex to build, but they allow the retailer to take the risk on the input cost, the variable costs moving around. They guarantee a pre-agreed margin for the supplier, and we encourage and incentivise them to reinvest in productivity and sustainability. We offer long contracts in return for that.

With regards to a buyer's level of experience, when you are working with an established buying model, it is easier to do that because we are not having cost price discussions all the time. The model takes the strain of that. What we are having discussions about is how we develop the product that customers want to buy—

Q305 **Julian Sturdy:** Just to interrupt very quickly, because I am conscious of time. When you talk about the model, does that bring in all the inflationary-linked pressures?

Rhian Bartlett: That is right. All of the input costs at farm level would be reflected in the model and, as they move up and down, the price that we pay moves up and down with them, with a pre-agreed and guaranteed margin for the supplier. We have that in place; we do not have those everywhere, as they are quite complex to build, but we have those in place across milk, chicken, pork, most of our fish species, beef, lamb and increasingly across horticulture. We are slowly working our way around, building these models and migrating—

Q306 **Chair:** We did not see that with eggs, when the price of chicken feed went up.

Rhian Bartlett: Eggs are a really good one. We did not have that in place with eggs. We now do. We now have exactly that approach. These things take quite a long time to build and move a large supplier base on to. This work has been going on for about seven to 10 years. It takes time and we are migrating slowly. We had not done eggs and, of course, there was a crisis. Now we have done that.

Richard Bourns: Speaking to our suppliers, which I regularly do—I was speaking to a pork producer-supplier last week—one of the main issues that they still face as suppliers and producers is one of the main issues that we still face into as a business. It is clear that there is a reduced availability of labour and that that labour costs more, and certainty around access to labour and the cost of labour is something that we could do.

I am talking about the royal "we" here. From a Government perspective, we need to make it easier for people to access that labour, because it simply is not as easy as it was before. That is adding increased cost for our suppliers. That is adding increased cost for our producers. That is adding increased cost for us as a business and, ultimately, that feeds its way into the prices that consumers pay.

We are very aware of that, because it affects our business in such a severe way. That is front of mind in all of the discussions that we are having with our suppliers. Similar to Rhian at Sainsbury's, we favour a longer-term agreement. We are absolutely committed to growing in this market, but those ambitious expansion plans are nothing without a strong supply base that has the certainty and confidence to continue to invest in their business for us.

Q307 **Julian Sturdy:** That longer-term agreement would have those inflationary indexes built into it, because that is quite crucial. That could change very quickly over a five-year period.

Richard Bourns: Yes, absolutely. We track all of the key input costs. We track those against independent indices and those are reflected in the prices we pay. There is a bespoke approach to every model, based on the sector and the supply within that sector, so there is clear engagement and clear, open dialogue with the supplier, with the producer, to ensure that any agreement that we put in place accurately reflects the concerns, challenges and costs that they face as businesses. Absolutely, we are reflecting movement in labour in the cost prices that we pay to our suppliers.

Q308 **Julian Sturdy:** The Groceries Code Adjudicator has advised retailers to consider improving training for buyers, to extend the period of time spent in particular product categories. I know you have touched on the GCA slightly already, but what steps, if any, have your companies taken to implement this advice?

Dom Morrey: There are two things. First of all, on GSCOP and the ruling around that, we do regular training for all of our buying colleagues, regardless of what category they work in and what period of time they have stayed in an area. That training will be face-to-face and also digital. A record will be kept, so I would know that everyone in my buying team, including myself, has been through that training and has completed it to a satisfactory standard. Regardless of what area you work in or how long you are there, the importance of GSCOP, its principles and how we train people is inherent in every category.

The nature of a retail business is that people will look to progress and move around from category to category. We normally try to approach it so that people stay in an area for a minimum of two years. Clearly, if you look at something like my produce category, I have a blend in there: some people have been there two or three years; some have done five or six years; some have done a lot longer and have only been in the produce side of business. There is a blend to it.

We definitely look to keep buyers there two years. I personally feel that, in a produce world where you need to see the seasons through, in terms of UK, imported and the different challenges year on year, spending three or four years in those types of areas is probably more advantageous. You can probably do a bit less in a heavily branded or packaged area.

As I say, regardless of the length of time somebody serves, everybody will be trained around the code, what its principles are, what its application is and what their duties are to uphold it.

Kris Comerford: Asda has a slightly more vertically integrated model than some of our competitors. For example, we run a business called IPL. We have eight manufacturing and producing sites in the UK.

To Dom's points on fruit and veg, where I was a buyer for seven years—that was 20 years ago or so—the longevity of that relationship further down the supply chain definitely helps with understanding the seasons and, truthfully, getting out there, meeting the growers and seeing the situations. With regard to the GCA, as I said, we reasserted the training programmes last year. All of our buyers were trained, in terms of modules, e-learning and physical, by about November 2023.

Charlotte Di Cello: The principle of fairness, which runs through GSCOP, also runs through the John Lewis Partnership. It is inbuilt in our constitution and underpins why we have such long and trusted relationships with so many of our produce and agriculture suppliers in particular.

In response to what has been a very challenging period of time with a heightened number of cost price negotiations, as a result of all the inflation we have seen, we have reinforced the ongoing annual training that we have done with all of our partners, not just across trading but also in other parts that face into the supply base.

We launched the seven golden rules to our teams in the training ahead of their being launched, to reinforce tone from the top down to all of the teams, to reinforce the principle in terms of everything that we do, in terms of all of our engagement and in terms of being fair in the light of what was a very challenging time with many more negotiations than normal.

Q309 **Julian Sturdy:** Last spring, Henry Dimbleby called supply shortages in salad and vegetables a "market failure", citing fixed-price contracts as an issue. How do you respond to this?

Dom Morrey: From my perspective, you are talking about a particular window of time when there were definitely challenges with imported crop coming into the country before the UK season was ready to go. My view is that we have a very competitive and capable UK retail scene, underpinned by a very capable supplier, both in the UK and overseas. There have been windows of time over the last couple of years, as in salad or eggs, where there have been challenges across the industry, but broadly the supply chain model works well through partnership to deliver things.

There will be times when challenges come up that mean there can be gaps in supply, which is why you sometimes have to have flexibility on whether to import or whether to take changes to specifications, like we talked about earlier, to minimise disruption to consumers.

Ultimately, all of our roles are to ensure that good-quality, fresh and affordable food is available in shops 52 weeks of the year. My view is that we have a well-structured, well-run food retail business in the UK, underpinned by first-class suppliers and providers of goods.

Q310 **Julian Sturdy:** How much actual flexibility is there on quality in these extreme circumstances, as they arise?

Dom Morrey: There is a great deal of flexibility, things that we would change routinely, as I talked about with sprouts. When they were coming through smaller, we had to address the specification on that. Sometimes on soft fruit, you can get the fruit come on quickly and it might not necessarily have the normal shelf life. We would adjust the shelf life to reflect that we can still take the product but sell it with fewer days of life.

In the last year, we responded to onions, where there have been challenges with some disease in the crop, to address some of those things. Those things are part of normal ongoing dialogue and decision making.

Q311 **Julian Sturdy:** Are there any contractual penalties back to the grower for things like that?

Dom Morrey: There are none whatsoever. Our entire role is to source as much product as we can get, ideally to the specification that our customers expect from us, but there will be periods of time when things are more challenging in terms of growing conditions. We would react quickly and dynamically to reflect that. That is how we work with supplier partners. There is no penalty for ensuring that we both use the fullest amount of the crop that is grown rather than it going to other sources, which could be wasted.

Kris Comerford: When we are not in here, we are competing for a finite crop in a lot of situations like that. That is when the supplier partners, the relationships we have and the investments we have made over many years with our suppliers, come to the fore. There is absolutely a need to be flexible with the specifications of the product. You just have to be mindful of what Sir Robert said. From a consumer perspective, there has to be an understanding of what they will still be prepared to pay for.

Therefore, you can open the spec very widely, but if it starts to rot on the shelf or does not live up to the code life, there is no purpose for that product to go on to the shelves by the time you have got it through the distribution centres and into the stores. You always have to be weighing up the availability, what you can do, the cost that you pay for it and, ultimately, what customers want and demand from the products that they are paying for.

Rhian Bartlett: We would take exactly the same approach. In terms of widening specs, sometimes we will bring on new varieties at short notice to try to achieve crop utilisation because, as you have heard, there is finite crop, and it is in all of our interest to keep our shelves full and customers happy and coming back. Produce is the most dynamic, of course, because it responds the quickest to conditions around it. It would be more stable than protein. There does not need to be quite the level of adjustment to specifications, because it is more controllable. Produce is a very dynamic category. That is why lots of people stay in it a long time.

Q312 **Julian Sturdy:** Are you finding it harder now, or more challenging, I should say? That is probably the correct term.

Rhian Bartlett: Weather events have always happened, but we have seen them become closer together and a bit more extreme, both here and overseas, which creates challenges. We have seen challenges with labour and getting crop out of the ground, which we have covered very briefly. We have seen challenges with energy. Crops grown under glass have been planted later than they might have been in other years, because the cost of energy has been so high. That has meant those crops coming to market a bit later and us needing to keep European sources going for longer. In that sense, it has become a bit harder.

At an industry level, the customer has not suffered. They can still get, most weeks in most supermarkets in the country, a full range of products that they would expect.

Q313 **Barry Gardiner:** Ms Bartlett, you just said that the customer has not suffered. A Which? consumer report said that 79% of customers are extremely worried about food price inflation. It said that one in five households is going without some foods, and 13% of households have actually skipped meals. It found that was much more prevalent among people who are renting or unemployed. I am sure you are very well familiar with the figures. The idea that customers have not suffered is something we need to look at pretty carefully.

In March 2023, the annual rate of food price inflation was the highest it had been for 45 years. It goes back to the Labour Government bar one in 1979, when Mrs Thatcher took over. Then this year, on top of that, that 19.1% has had a further increase of 4%. Even though the rate of inflation is not so high, the prices keep going up.

Given that I look at your profits and see they have gone up in the past year from £690 million to £701 million, and that is your pre-tax profits, are you really doing as much as you possibly could to make sure that the customer is not suffering?

Rhian Bartlett: That comment was in relation to availability of product. Customers have had excellent availability of product right across the last four years, despite massive disruption to supply chains. It was said in that context.

In relation to inflation, customers have absolutely suffered. We know that, and we have been working really hard to try to manage the cost of living crisis on their behalf as best as we can. I will come back to our profits, if I may, but in regard to the things that we have done to support customers, we have invested £780 million over the last three years in reducing prices and holding back inflation.

Q314 **Barry Gardiner:** Prices have gone up. It is not reducing prices. What you are telling me is that, in some way, you have been trying to hold back the rise in prices.

Rhian Bartlett: That is exactly what we have been trying to do.

Barry Gardiner: That would imply that you have not passed on to the customer the increases that you have experienced in your supply chain.

Rhian Bartlett: Yes.

Barry Gardiner: Yet we have had evidence previously that shows, certainly for the top three supermarkets in the post-pandemic years, a 97% rise in their profits. Again, you will be familiar with the figures. If you were not passing on your increased costs of supply, you would expect your profits to be by and large the same. They were not, and in the last years yours have not been. Of course, I will come to Mr Morrey in a moment and seek his comments on this as well.

Rhian Bartlett: There are a few things to cover there. At any point over the last year, the rate of shelf price inflation in Sainsbury's was running at about half the rate reported by the ONS. That is the real inflation that came through the system. Some of that was our investments trying to hold back price increases.

Q315 **Barry Gardiner:** Sorry, I do not want to stop you in mid-flow. This is really for clarification. When you say that it was half the rate of the ONS, the ONS was looking at retail costs, rather than your supply chain costs. Is that correct? Therefore, in addressing the fact that your retail costs may have been less than the average retail cost, it is not really addressing my question about passing on the cost in the supply chain.

Rhian Bartlett: It was looking at shelf prices and the extent to which shelf prices had moved up, so prices charged to customers. Our prices have moved up by about half that figure. Some of that was us investing in it. Some of it was customers choosing to trade to own-brand, from brand. That dynamic was going on at the time.

In regard to our profits, our profits have gone up £11 million this year versus last year. That is 1.6%. We have been balancing very carefully the needs of customers and investing in prices, as I have talked about, and the needs of our colleagues. We are the first living wage employer in supermarkets. We spent £220 million on our colleague pay last year.

We have also been balancing the needs of our supplier base. If you look at the cost price increases that we processed last year, it was over £1 billion-worth of increases. It is very significant indeed. We make 3p in the pound.

These are the sets of dynamics that we are trying to balance between the interests of all these groups. Our profits went up by 1.6% because we have grown our market share. We have more customers doing more of their shopping with Sainsbury's. That is because we are holding prices, for the quality that we provide, at a very competitive level. We have grown our business.

In terms of the doubling of profits that you mentioned, there was a year in the middle of the pandemic when no one made normal levels of profit. It was the year where we had a lot of extra labour, we had social distancing and we put a lot of extra protection into our stores. There was a dip in industry profit as a total. It was also the year that we worked very closely with the Government to make sure that we did not take any unnecessary aid from them. There was no furlough, rates relief and so on.

Q316 **Barry Gardiner:** Just to be clear about what you are saying, I had thought that the supermarkets actually did quite well during the pandemic.

Rhian Bartlett: No, not in 2021.

Q317 **Barry Gardiner:** What was the drop in your profits from 2020 to 2021?

Rhian Bartlett: It was the cost of running the operation.

Barry Gardiner: What was the drop in your profitability?

Rhian Bartlett: It was £533 million against a run rate of about £700 million over the last four or five years.

Q318 **Barry Gardiner:** You are back to where you were, but after the drop to £533 million—let us give you the £170 million that you dropped—you then doubled it in the following year. That is an extra £500 million to make up for the £170 million that you dropped. That does not seem particularly fair-minded to me in terms of what the customer got out of it. I do not want to focus on just Sainsbury's. I am not trying to pick on Sainsbury's in particular. I just want to try to get to what actually happened here.

If I can move on to Tesco, Mr Morrey, you have seen a very large rise in profitability this year. It is £2.3 billion, up from the previous year by £882 million. Is there more you could be doing to help customers, as 79% of customers are worried about putting food on the table?

Dom Morrey: To answer your question, first of all in terms of the profit that we have just declared for the year ending and its difference to the year before, part of that is a statutory profit issue, where in the previous year there was a non-cash impairment charge, which we incurred in that year and not in this year.

Q319 **Barry Gardiner:** Could you explain that in a way that the general public, or indeed someone as stupid as me, might understand?

Dom Morrey: I am not far behind you in terms of my knowledge, but it is to do with accounting practice. We can certainly write to you. What I am trying to say is, essentially, the scale of profit uplift year on year is partly masked by an accounting practice around something on statutory returns.

Did we have a better year's profit this year? Yes, we did. We did that through a variety of ways. First of all, from a customer point of view, you are completely right: there have been challenges for lots of customers. Lots of customers still have challenges in their weekly shop. Many things that Rhian said apply to Tesco as well in terms of looking to hold on some prices. Where we have taken on inflation, we did not pass it totally through to the customer. Customers have also, in some instances, traded out of branded goods into own-label. Again, that headline rate of inflation is not always what the customer ended up choosing themselves.

Inflation has abated in the last year as well. If I talk about fresh food, which is the area that I am responsible for, last week inflation in that area was 0.8% versus the same period last year. There are categories within it that were deflationary last week. Where they are deflationary, we have passed those prices back to our customers. We are starting, thankfully, to see some of those extremely inflationary periods abate and go back. We have reduced prices on over 4,000 items in the last year by an average of 12%. Where we are able to, we are quickly looking to move those prices back down.

Q320 **Barry Gardiner:** Is that not because your supply chain costs have been reduced as well?

Dom Morrey: Of course they have. When supply chain costs go up, we have to work to give a fair return back to our supplier partners, and then we have to take a view, in a very competitive market, on what we can price and pass on. Some things we will absorb. Similarly, when a market comes back down, we will also do some of that activity as well. Much of the talk you have heard from myself and others around the panel today on models and ways of operating mean that suppliers are transparent and clear that, when there are pressures on things and things have to be passed on, we work to do so. Clearly, when they start to unwind, such as how things like energy are fortunately now starting to abate, we would work in the other way around that.

We have also managed to achieve strong profits in the last year because, by doing the right thing by our customers, by taking prices down where we can, by consistently being the cheapest of the full-line retailers, we have also grown our volume of sales. As your volume of sales grows, that helps your profit position.

In addition to that, we have talked quite extensively about what we did for suppliers in that period of time. There are several instances where we have passed additional money on to supplier bases to help them face some of the challenges they had.

Finally, the third part of that equation is what we did for colleagues in that period of time. Our job is to balance all stakeholders when it comes to profitability by doing the right thing. To be very clear, what the customer feels and what the customer needs is always at the forefront of what we do. A large part of my job is therefore to work with supplier partners to understand how we best support customers through that.

Q321 **Barry Gardiner:** My question to you was, given that you have made £2.3 billion in profit this year, is there not more that you could be doing for your customers to reduce those costs?

Dom Morrey: There is always more that we can do to support customers. That is our No. 1 focus. The most important thing, from our point of view, is growing sales sustainably. We have over 750 lines in things like Aldi Price Match. We are extending further into lower everyday prices for things, on top of which, when we start to see inflationary pressure abating, is how quickly we can pass that back through to our customers in lower prices as well. I can assure you it is a constant balancing act to make sure that we are doing the right thing by our supplier partners, but also where we see benefits from things reducing in price, we pass those back.

Indeed, our supplier partners want us to do that, because it allows them to drive volume, which helps the whole operation in terms of profitability for themselves as well. Having a factory that is only half capacity clearly is not where people want to be. They want to be in a facility that is fully engaged and operating. I can assure you, whenever we see prices start to ease, our first response is, "How do we pass that back to our customers?"

Q322 **Barry Gardiner:** Just to go back to the point that was raised earlier about shorter shelf life, you in particular picked out soft fruit. It has been quite a topic of conversation about how the shelf life of many types of fresh produce, not just soft fruit, seems to have got shorter and shorter recently, I would say in the past year. When there is a shorter shelf life, the customer is getting a worse deal, because instead of being able to keep something in their fridge for three or four days, sometimes it is the next day. You pick it off the shelf and you see that the best-before date is the next day. Do you ever reduce cost to the customer as a result of them getting a worse deal, or do you simply reduce the cost to your supplier because the shelf life has been reduced?

Dom Morrey: It is in context. When I answered that question earlier, I wanted to be very clear that I would not pay my supplier less for the product. I was talking about there being times when we face challenges in the agricultural supply base. How can we lean in to help them? All of my soft fruit growers would say it is a far better position to sell the fruit and move it through the system, albeit maybe with a reduced shelf life, rather than seeking another route, which may sadly end up being waste. That would be unacceptable in the food supply chain.

Q323 **Barry Gardiner:** I am sure I am not the only one who goes to the back of the shelf to get the one that has a shelf life that is two days longer.

Dom Morrey: I would also that is an infrequent thing, but it is also an example. You have asked us how we would lean in and support suppliers and growers when they face real challenges. That is an example of what we may do.

In my experience of working in the food industry for over 36 years now, if anything, in terms of technological advances in harvesting, speed of inter-refrigeration and end-to-end cold chain environment, I would put it to you that actually the shelf life of product has been improved over that period of time.

Clearly, when there are challenging times for growing, as we are seeing at the moment in the UK, which hopefully will not persist beyond this week, then there have to be adjustments. All of those things would always be clear in terms of date coding, to allow customers to make choices.

Q324 **Barry Gardiner:** Again, my question to you was whether, when there are problems with the shelf life and the customer is getting a worse deal in that respect, you ever reduce the price that the customer is paying.

Dom Morrey: When we are talking about the shelf life, a product might normally have five days; it might go to three days in a soft fruit environment. The speed of sell-through on that would normally be adequate. If we get a product that is then going to waste or go beyond its shelf life, to avoid waste, we will always mark it down and sell that product through.

Q325 **Barry Gardiner:** Is that a cast-iron guarantee that, the next time I pick raspberries off the shelf and the best-before date or sell-by date is the following day, I can come to you and get a rebate?

Dom Morrey: If it was about to go out of life, we would mark it down and sell it down. If the product is perfectly saleable within the shelf life, then that is the price, but we also mark the date on the product. More importantly, I am saying that is a way of responding to a challenge that the growers are having, to make sure that we are supporting them and taking their product, rather than the other option, which would be to say, "It is not going to meet the shelf life requirements," or "It is not quite the skin finish we want and therefore we do not want it." There is a balance.

Q326 **Barry Gardiner:** I understand what you are saying in terms of continuing to take the product from your suppliers. You will know that we have heard from your suppliers, from farmers, that they feel they get a raw deal from you guys. You guys today have been telling us, "No, we have these wonderful relationships with our suppliers." You can't both be right, can you? The farmers do not feel happy about it, the suppliers do not feel happy about it, and yet you are saying that you are doing everything to make things hunky-dory with them.

Dom Morrey: I am saying that it is a dynamic market but, speaking from a Tesco point of view, we have long-standing relationships with these people. Suppliers have been supplying us for 25 or 30 years. Are there challenges within that? Are there things that we can always jointly improve upon? Yes, there are. Yesterday my team was with part of the fruit supply base and looking at some of the challenges that have been flagged at previous Committee meetings to see what we can do to lean in further. There is always more that we can do.

One of the panellists mentioned earlier that it is a very competitive market to get good-quality products readily available. The only way that a company like Tesco is going to do that is by having good relationships with people and paying them a fair price for their products.

Barry Gardiner: We will continue to make recommendations to make sure you do.

Q327 **Ian Byrne:** We have heard about the profits being made by supermarkets. This week the BBC reported on a huge rise in shoplifting, with the highest number of offences since records began. Do any of you think that the unaffordability of food for many in this cost of living crisis would drive some people to take actions they would never have dreamed of doing? For instance, we have the Food Foundation saying that one in four mothers is unable to afford baby formula milk. We have all seen the horrific pictures of baby formula milk in security cases. Do we need to be thinking about price controls on essential items such as baby formula milk?

Rhian Bartlett: The level of shoplifting is at an all-time high. More worrying is that violence and aggression towards shop workers is at an all-time high. We are very concerned about that, and we have been working on it.

Q328 **Ian Byrne:** Do you think there is a link between the unaffordability of food and shoplifting?

Rhian Bartlett: We have seen, over multiple decades, that shoplifting moves up and down with economic progress.

Ian Byrne: There is definitely a link there.

Rhian Bartlett: I would say so at an economic level, as people feel under more financial pressure.

Q329 **Ian Byrne:** When potentially one in four mothers is unable to afford baby formula milk, is it time to think about price caps on essential items?

Rhian Bartlett: The CMA is looking at infant formula now, so we will wait to see what it recommends.

Chair: We have a Sainsbury's in Scarborough, and the manager tells me they have a big problem with shoplifting, but it is not formula milk; it is vodka that is being stolen. They have had to ban some customers from going in to shop at all because of the issue. They feel very vulnerable as shopkeepers. I know thr Government have taken steps to make—

Ian Byrne: The Food Foundation did not highlight vodka, Chair. It was baby formula milk.

Q330 **Mrs Murray:** Which? has found that many shoppers are experiencing shrinkflation. Dominic, I am going to come to you first. For example, pack sizes of Maris Piper potatoes have reduced from 2.5kg to 2kg without a reduction in price. Why have you reduced pack sizes, and what impact does this have on customers and producers?

Dom Morrey: There can be routine changes to products for a variety of reasons. Which? touched upon the Tesco Finest pork sausage, which went from 97% pork to 90% pork. The reason we made that change was because our customers told us that it was not eating as well as competitors' products. We re-benchmarked it, and we moved that product down. It was clearly labelled.

Q331 **Mrs Murray:** What about pack sizes?

Dom Morrey: In potatoes it is not uncommon. They are all sold in 1kg, 1.5kg, 2kg or 5kg. There will be different times of year, depending on whether there is an abundance of crop, at which some products will be sold at a lower or higher weight.

I also talked about soft fruit. At a tight time of the season, you may reduce the pack size of strawberries because there is a finite amount to go around.

Q332 **Mrs Murray:** You do not reduce the price?

Dom Morrey: We are reflecting the input cost price.

Mrs Murray: The price is not reduced proportionately?

Dom Morrey: It would either hold or, to reflect the increased price because of a shortage of crop, it would drop down. The other thing is that all of those weights are clear on the packs, so we are not hiding the weights; they are clear and transparent. We also show the unit pricing at the shelf edge, which makes clear the price per gram.

It is not uncommon, and it has happened for many years, that weights flex up and down to reflect seasonality, but it is called out clearly at the shelf edge. As I said, in other areas there could be changes to formulation. It could be due to things like health, where we might reduce calories or remove fat to address it, or it might be to make a product better, like the product that Which? touched upon. Again, we would clearly label that on the back of pack.

Q333 **Mrs Murray:** Kris, this is not soft fruits or anything that is perishable. At Asda, Bisto best chicken gravy granules have been reduced from 250g to 230g—8%—without a reduction in price. Why are you not doing more to inform customers when package sizes have been reduced?

Kris Comerford: That is a brand, as you will know. Therefore, the pence per unit will be changed on the shelf-edge label. It will be the brand that chooses the pack size. If it were an own-brand product—Asda-branded gravy, stocks or sauces—we would decide on the pack size and, therefore, the price.

If you look back at 2023, across the roughly 10,000 Asda own-branded products, 0.5% of the products—53 out of that 10,000—decreased in weight. The rest did not change. Clearly, the example you have brought forward is a branded one and is part of the ongoing conversation we have with our branded suppliers.

Q334 **Mrs Murray:** Charlotte, we have heard that it is not just the package size that is being reduced, but also the amount of valuable ingredients within products. To give you an example, the chicken in Waitrose's butter chicken curry has been reduced from 47% to 41%. Have you communicated this reduced chicken volume to consumers? How does it benefit them?

Charlotte Di Cello: That particular example is one of the less than 1% of changes that we have made. It reinforces that we are always thinking about our customers, value for money being one aspect. It would have been communicated on the back of the pack that there was a very small decrease.

The other thing I would add, again with customers first in mind, is that customers told us when we panelled that particular product that they preferred the changed recipe to the previous one. We communicated it and customers preferred that particular product after we made the changes.

Q335 **Mrs Murray:** Dominic, similarly, Which? reports that the proportion of beef in Tesco's 1.5kg beef lasagne has been reduced from 23% to 19%. Why did you make the change, and should retailers be doing more to inform customers that products have been altered to include fewer expensive ingredients, and not just in tiny writing on the back of a pack?

Dom Morrey: First, sometimes the change is not necessarily to cheaper ingredients. There could be a change to a recipe to reflect health, as I said earlier. We have removed calories and fat from products in the last year or two to improve the healthiness of the product and to maintain the eating quality. That would also be communicated on the back of the pack, albeit in fairly small writing, but it is the same writing that would have been on it previously.

Your challenge about how we communicate when we make changes is something that we can go away and have a look at, but reformulating products is not a new thing and will quite often come because of either the changes in the competitive set, if somebody does it better, or customers' feedback, as was the case with the sausage example. When we questioned customers as to why it was not performing well, they could name some of my competitors' products that they thought did a better job. We benchmarked it to make it a better eat.

Reformulation can happen for a variety of reasons. It can be about quality. It can sometimes be that you are putting in different ingredients; they are not always cheaper. It can also be for health purposes.

Q336 **Chair:** Would I be right in assuming that beef is the most expensive ingredient in a beef lasagne?

Dom Morrey: It could be in that product. Then again, it may well have been changed to ensure that the eating quality delivered better. We would not have changed it purely on a cost-price basis. It is the same with the sausage example. I could give you numerous examples of formulating products to make them healthier. There are challenges and changes around it. The nature of packaging means that we can be transparent on the ingredient deck, but there is a limited amount we can put there.

Q337 **Mrs Murray:** Do any of your supermarkets advertise anywhere, other than the back of the pack, the fact that changes have been made or package sizes have been reduced? Do any of you put an advert on the side of the shelf or something like that?

Richard Bourns: If we had made a change to the quality or specification of a product, it would be for one of the number of reasons that have been outlined by some of my colleagues. That would be benchmarking versus the market; it would be customer feedback; it would be changing health requirements and wanting to improve the product. If we had changed it, we would clearly communicate that on the pack. We would put "new improved quality" on a product.

As a rule, as a retailer, we do not practise shrinkflation. Our business model is very different from all of our counterparts here today. Ninety per cent of our range is own-label; only 10% is branded. We have more control over our range as a whole to determine the quality, the pack weight and the retail pricing—all elements. For the 10% branded that we have in our range, we have the same challenges as anybody else in this room, in that we would not dictate the weight, the quality or the price of the product. It is important to point out the differences between our model and those of everybody else in this room.

Q338 **Mrs Murray:** Do you have anything to add, Rhian, in one or two sentences, please?

Rhian Bartlett: Customers are very savvy, so they do notice; they do look at unit pricing on the shelf. Where we have seen brands that have reduced their sizing, the switch to own-brand is very fast, because the superior value is very obvious.

Cat Smith: I have a very quick point on shrinkflation, particularly when it comes to reducing the grams of carbohydrates in products. When that is not adequately advertised, it can be very misleading and dangerous for people with diabetes, when it comes to managing insulin levels. Is there anything more that supermarkets can do to support their customers with health needs, where changing the make-up of a product can have quite a catastrophic impact? I will take that as a no.

Q339 **Derek Thomas:** Richard, are you saying that you have not reduced the weight of crisps in Lidl in the last three years?

Richard Bourns: If there is a specific example that you would like me to take away and have a look at, I am happy to do so.

Q340 **Derek Thomas:** I would suggest that they have gone from 25g to 18g in some of yours crisps. Is it Snaktastic?

Richard Bourns: Snaktastic is the own-label. I am glad to see you shop with us.

Q341 **Derek Thomas:** My wife does. She is very concerned that they just aren't worth buying anymore. I was just shocked, because you said that shrinkflation is not your practice. I am pretty sure that it is on some of your own brands.

Richard Bourns: Every decision we make in relation to our range is based on our independent analysis of the market and the competitive set. If we amend the make-up or the weight of any product, we would clearly communicate the retail price of that product to customers at the shelf edge.

Derek Thomas: I hear that. I was just challenging your point that you do not reduce the weight.

Q342 **Rosie Duffield:** You might all be about to be saved by the bell, because we are going to have a vote any minute now. I want to talk about the confidence that the customer can have in the transparency of your brands because, starting with Dominic and Tesco, there has been a rise in supermarkets using farms that simply do not exist to brand their own-label products. Tesco uses eight so-called fake farms to market its food products. To what extent do you feel this practice deceives consumers and undermines producers with real farms?

Dom Morrey: First, we are proud to work with thousands of British farmers and growers that supply products. Whether under a farm brand, Tesco core product or Tesco Finest product, they are sourced from the same farms with the same standards. We are equally committed to helping customers to navigate their shopping. It is not unusual to have a good, better and best tiering. In Tesco, that might well be a farm brand in some sub-categories, core product and Finest. They are a fairly well-established mechanism across the retail sector.

What I would say is that anything we do is clearly labelled and transparent. If it is British, it would be labelled as British*.* To put it in some form of context, if you went into one of our regular-sized stores we would stock 25,000 SKUs, of which 52 could be what you would call a farm brand. We do have them. They come from the same growers and packers that we are proud to serve as our Finest or core product. They are labelled and clear in-branch as to what they are.

Q343 **Rosie Duffield:** Do you think it is clear to invent farms? The *Daily Mail* found that Rosedene Farms, Suntrail Farms, Redmere Farms, Nightingale Farms, Willow Farms, Woodside Farms, Boswell Farms and Bay Fishmongers were all completely fake. Is that fair? Is that transparent?

Dom Morrey: When those products were previously sold as a value item, our customers fed back that they did not necessarily like the way that was done. We have tried to bring it to life in terms of being more redolent of the supply base it comes from. Again to reiterate, it comes from the same growers and farmers, the same producers and standards, that we have now. Those products would be priced differently, because sometimes the specifications will be slightly different. Therefore, on a tiny percentage of the overall volume of SKUs, we offer a value entry into certain sub-categories.

Q344 **Rosie Duffield:** There is a value product and a fake farm product at a different price. Am I right?

Dom Morrey: In terms of what you would call the farm brands, we would sell them, in many instances, at the entry price point in those categories.

Q345 **Rosie Duffield:** Sainsbury's, what about the clotted cream rice pudding? It was found that no clotted cream is used in the product at all, despite it still being advertised as such online.

Rhian Bartlett: I am not aware of that product. I would need to look at it, so we will have to come back to you on that.

Q346 **Rosie Duffield:** In December, Lidl rebranded its "sourdough crusty rye bloomer" to "crusty wheat and rye bloomer" following claims that the "sourdough" label was completely misleading and there was no sourdough in it at all. Why did you initially market the product as that if it was completely false?

Richard Bourns: I would need to go away and have a look at that in detail. I do not want to speculate on that and give you an incorrect answer in this forum. That would not be the right thing to do.

Q347 **Rosie Duffield:** You have also used labels such as Oaklands, Birchwood, Strathvale Farm and others to market meat products. You talked about own-brand being the majority of the things that you sell, but you use Danpak instead of Lurpak and things like that. Do you think that is entirely transparent to customers?

Richard Bourns: It is absolutely clear to our customers. They understand our own-label approach. The vast majority—90%—of the products in our store, are own-label. That performs a very important role for us and our customer in our store, by aiding their navigation at the shelf edge to help them easily and quickly identify the products that they want to buy. We do not use farm brands, just to be absolutely clear on that.

Rosie Duffield: You do.

Richard Bourns: No, we do not.

Q348 **Rosie Duffield:** The *Daily Mail* was wrong when it talked about Oaklands and Birchwood?

Richard Bourns: Birchwood is a brand; it is not Birchwood Farm. Oaklands is a brand; it is not Oaklands Farm. We do not use farm brands.

Q349 **Rosie Duffield:** What about Strathvale Farm?

Richard Bourns: We do not use Strathvale Farm; we use Strathvale.

Q350 **Rosie Duffield:** The *Daily Mail* got that wrong? I want to put that on record.

Richard Bourns: We do not use farm brands, just to be absolutely clear.

Chair: Not for the first time, the *Daily Mail* got it wrong.

Rosie Duffield: That is very true. Thank you very much for clearing that up.

Q351 **Chair:** Wait a minute. We have here a Strathvale Farm Scottish large chicken for £3.85. Gosh, that is cheap. There is, on the website at least, a reference to Strathvale Farm Scottish large chicken.

Richard Bourns: If there is a reference to Strathvale Farm on our website, I will need to take that away and correct it. It could be the case that our website is not up to date. We do have an online offering, but I can categorically tell you that we do not have farm brands in our business, just to be absolutely clear. We have Strathvale for Scottish meat in Scotland, we have Birchwood for British meat in the UK, but we do not have Strathvale Farm and we do not have Birchwood Farm.

Q352 **Chair:** The chicken packaging itself has a picture of a farm, the word

"Strathvale" and then "farm" written underneath it. It is quite small, to be fair, but it certainly is a Strathvale Farm Scottish large chicken. It does say they are "reared with care by Scottish farmers", plural.

Richard Bourns: Just to be clear, we do not sell Scottish chicken. We only sell British chicken. That is a point on which we need to update the website.

Rosie Duffield: That is completely untrue. Perhaps we need written answers on that, Chair[1].

Barry Gardiner: Chair, I wonder whether it would be helpful if all of the witnesses were to write to us with instances where they have reduced the percentage of the most expensive ingredient in a product, or reduced the overall weight of a product, without reducing the price. Then we could get a very comprehensive view of exactly what sort of shrinkflation is going on.

Rosie Duffield: They could include whether or not it came from a farm.

Q353 **Chair:** We also have on the Lidl website a Birchwood Farm British pork boneless shoulder joint. It is British. It is from Cranswick, who are fantastic people. It is described as Birchwood Farm, so there must be one or two products at least that have slipped through the net that use the word "farm".

Richard Bourns: We have not used farm brands for a number of years. That point on the website is absolutely valid. We need to take that away, and we need to have a look at our website. It is very clear.

Barry Gardiner: Can we get an assurance from all the witnesses that they will respond in writing to us on those points? Thank you very much.

Q354 **Ian Byrne:** I just want to touch on unit pricing. In the current cost of living crisis, clear pricing for food and drink is more important than ever. Reading the evidence from the CMA and *Which?* magazine, they have found different metrics being used. Unfortunately, it looks like supermarkets may be letting the consumer down. The examples include the price of Coca-Cola per 100ml varying between 11p and 50p at Tesco. It is 340% more for a shopper who buys four 250ml glass bottles, compared to one who picks up a 1.5-litre bottle instead. There are big savings to be had.

For Walkers ready salted crisps, the price per 100g is 57p to £1.89 at Asda. That is 231% more for a shopper buying a 45g packet compared with one buying a 175g sharing bag. It is right across the board.

I want you all to give an answer, please. Do you recognise that inconsistencies in unit pricing practices can affect the consumer's ability to make comparisons and determine value, especially in a cost of living crisis? What have you done as a company to improve your unit pricing

[1] Richard Bourns, Chief Commercial Officer, Lidl GB, corrected the record in relations to Questions 347 - 352 in correspondence on 1 May 2024.

practices in light of the CMA's call last July to ensure that all unit prices on all products of the same type use the same metric and give unit prices for products on promotion?

Kris Comerford: I will have to look at the specific example of Walkers. Clearly we have quite an extensive range of Walkers, so it might be to do with the promotion activity.

Ian Byrne: What about in the round?

Kris Comerford: Our principle is always for a bigger pack to be better value. It is always to do that. Similarly, you can compare it for unit prices at the shelf-edge label. That is what we comply to. That is what you and customers will be able to see. There may be specific examples of promotion activity where we have been able to negotiate packs, and therefore they come in different areas.

Q355 **Ian Byrne:** Regarding what the CMA has called for—consistent labelling of pricing on all products—is that happening?

Kris Comerford: Yes, you are absolutely right. It is therefore really important that we have consistency of pricing and clarity at the shelf edge for customers.

Q356 **Ian Byrne:** Is Asda giving us that now?

Kris Comerford: I do not know exactly the guidance you are referencing but, if it is from the CMA, we will clearly comply in our involvement with them.

Rhian Bartlett: For all the products that we sell, the CMA found that we were displaying unit pricing, whether that is on Nectar prices or base prices. We sell 30,000 products. There are about 400 that were not clear enough. The denominator, the unit, was inconsistent; we had selected kilo when gram would have been more appropriate. We have cleaned all of those up. We have managed to put some extra checks in the system to stop someone selecting something that is not very sensible when it prints on a ticket. It has been a useful exercise, and we think we are in really good shape.

Dom Morrey: I echo much of that. In terms of shelf-edge labelling, our key thing is to make prices as large as possible, so people can physically read the ticket. They also contain some other information that is regulatorily important. We have unit pricing on all of our products. Specifically to your point, yes, after the CMA raised some concerns around Clubcard pricing, I can confirm that we fully comply with its recommendations.

Q357 **Ian Byrne:** How many products did you identify as probably falling foul of what the CMA was talking about?

Dom Morrey: It would depend on when products were on promotion and the Clubcard pricing. Now that has changed, and it is all in line with their recommendation of fully complying. All of our products would have unit pricing across all tickets in all stores.

Charlotte Di Cello: Transparency, not just on price but in terms of sourcing and ethics, is very important so that customers can make a conscious, informed choice. Much like other colleagues on the panel have said, we are tidying things up. There are a small number of products where we are in the midst of making those changes to make sure that it is grams, kilos or the most appropriate unit so that customers can make the choice they want.

Q358 **Ian Byrne:** Are you confident that a consumer entering the store will have all the information they need to make the right choice with regard to pricing?

Charlotte Di Cello: For our customers, in particular, it is about value for money. We are being really clear on the quality, the sourcing and the ethics of the product, as well as the price. It is price and value. It is value for values. All of those things are important, as well as price.

Richard Bourns: I am very confident that our customers in store have clarity at the shelf edge in terms of price per pack and price per kilo or litre. We have a more limited range than any of my counterparts here today, so only about 3,000 SKUs. Only 300 of those, roughly, are branded items. We normally have only one A-brand in the range. Similarly, for our own-label range, in most categories we would have a single variant. Sometimes there are multiple pack weights, but the likelihood of confusion, as a result of that more limited range and very clear shelf-edge labelling, is incredibly small.

In addition to that, we are in the final stages of rolling out electronic shelf labelling. That allows us to control the price that we communicate to the customers centrally, which avoids any chance of mis-ticketing items due to a personal error at store level. We are very confident in the approach.

Q359 **Ian Byrne:** Which? identified in August 2022 that there was no unit pricing for multi-buy promotions for loyalty card members on products such as Müller rice puddings at Tesco. What steps have you taken to remove inconsistencies in pricing information for products being promoted to loyalty scheme members?

Dom Morrey: That is what I was referring to. The CMA recommendation was taken and fully applied. The recommendation came out. We have responded. That is now in place.

Q360 **Cat Smith:** Ms Bartlett, supermarkets are increasingly using loyalty cards to offer different prices for those who have, in the example of Sainsbury's, a Nectar card.

For Cadbury Dairy Milk, when it was a four-pack of 33.5g bars at Sainsbury's, the Nectar price was £1.50; the regular price was £1.65. Sainsbury's only increased the regular price a month earlier, and it was the highest price of any store over the period compared to the other supermarkets. Again, that is an example of raising the price in order to offer a lower price, which is actually the regular price, for the Nectar card holder, isn't it?

Another example is Nescafé Gold Blend, 200g. The Nectar price was £6. The regular price was £8.10, but that had only become the regular price two days before the Nectar price launched. Before that, it was £6.

Again, with Quaker Oats' Oats So Simple original sachets, it was a very similar case. Do you think you are misleading your customers?

Rhian Bartlett: We absolutely do not mislead customers. It is not in our interest to do that. They would stop shopping with us very quickly if they felt we were doing that. I am aware of some of these examples, because they have been raised directly with us by Which?.

What they fail to acknowledge is that we have gone through a period, as we have discussed at this Committee, of very high inflation. Base prices are moving up over time. We have talked about that a lot. That has been very painful for customers, and it has been very painful for the industry. We never put a price up in order to promote it, but prices have gone up over the last 18 months. That is undeniable. We have talked a lot about the extent to which they have. It was 18%, as reported by the ONS, and about half that level in Sainsbury's.

When we offer a promotion in Sainsbury's, it is a genuine promotion. We apply all the promotional rules to it, whether it is under Nectar or under any other form of discount or offer. We always have done that.

Q361 **Cat Smith:** Seriously, it was two days between the price increasing and the Nectar card offer being exactly the same as the previous price. You can see why customers might look at that and feel a little bit misled.

Rhian Bartlett: On the Nescafé one, the data was just wrong, I am afraid. It was just incorrect, so we raised it at the time.

Chair: Unfortunately, we have a number of Divisions, so we are going to have to pull stumps, I am afraid. This is a very interesting issue. We should probably write to ask some detailed questions on these loyalty card schemes, because there seem to have been a number of times when the price has gone up to make the loyalty price look competitive, even when it was the old price.

We also need to ask you a few questions about convenience stores, because they are more expensive, to find out a little bit about that. I am also interested to ask you some questions about home delivery and whether that is subsidising the people in-store or the other way around, and whether that is something that might mean we pay more in-store because of the cost of delivery. Finally, I have a few questions on multi-buy promotions.

I am sorry we have these votes, which are going to take away the last hour of the session, but we cannot come back, even at 5 o’clock, because of the other event we are going to. Thank you very much indeed for your evidence. We much appreciate your time.