



PRESS RELEASE

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A PREMIER LESSON

The recent dire financial results announced by Premier Foods resulted in the Company's share price falling by a third and the likely forced sale of some of its iconic brands. One important reason for this disaster must be its disputes during its financial year with Tesco, by far away Premier's largest customer. Late in 2010, Tesco delisted a number of Hovis lines in a dispute over cost price increases, whilst between March and June 2011 Tesco pulled about a quarter of Premier's lines off its shelves for similar reasons.

These incidents throw into sharp relief the disparity in power between the Big 4 supermarkets, especially Tesco, and even the largest of their suppliers, a fact the last OFT review of the grocery industry refused to acknowledge. Very low prices may serve the interests of politicians desperate to keep short-term inflation in check, but if the result is severe damage to one of the UK's leading food suppliers then this is not a good approach. More generally, excessively low prices mean that suppliers are unable to invest in innovation and new brands, whilst supermarkets' artificially high profits can enable them to compete unfairly with smaller retailers.

A major concern for the RSA is the "waterbed effect", again a feature of the market that the OFT refused to acknowledge. If big supermarkets demand very low prices from their suppliers based on raw market power, then these companies are forced to seek to make up the lost income somewhere else; we have already seen how unforgiving the Stock Market has been to reduced profits. Sometimes this is resulting in prices being pushed up more than they should for their smaller customers, including the wholesalers supplying the independent sector. It is of course impossible to acquire data on this issue; such figures are extremely confidential. However, if you were the MD of a grocery supply company, stuck between the pressures from the stock exchange to maintain profits and your largest customers to give them very low prices, what would you do?

We would urge the Government to expedite the appointment of the proposed Grocery Code Adjudicator as at least one way to encourage a sensible balance between big grocery retailers and their suppliers.

Notes for editors:

The Rural Shops Alliance (RSA) is the national voice for about 7,500 rural retailers. We campaign on their behalf and also help these shops to

become more competitive with practical advice and support, to the benefit of thousands of rural communities. Many 'blue chip' suppliers and county councils sponsor and partner the work of the RSA. Our direct contact with rural shops and with these organisations means that we keep in close touch with emerging issues and concerns in our fast changing business sector.

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