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Small food producers need more protection

6 If you're buying a Christmas pudding or a frozen turkey from one of the big supermarkets this week, feel free to tell them that you won't be paying until the end of April. If they make a fuss, you could, at a push, compromise by promising to settle the bill in March – but only if you get a discount on the normal price.

This, after all, is how many of the suppliers to the food industry are treated – not necessarily by the supermarkets, but by the large manufacturers from which they buy.

Take the Christmas pudding and frozen poultry producer 2 Sisters, as one example. It has asked some suppliers for four months to settle its bills, or a discount of 3 per cent if it pays in less than three months, although it says these terms are negotiable.

It would be nice to think such payment terms are an unusual practice, but far from it: this is a standard way of operating for many large food manufacturers. The 2 Sisters case follows the row a couple of weeks ago after it emerged that Premier Foods had been warning suppliers they might lose their contracts unless they paid a fee to remain with the firm.

How do these companies get away with it? The answer is that if you run a small company that depends on 2 Sisters or Premier Foods for a large chunk of your revenues, you may feel you have no choice but to accept these terms and conditions. If you're a large company with hundreds of suppliers, each individual firm is entirely expendable.

The Federation of Small Businesses (FSB) has countless examples of these cases. One in five small companies has been subjected to supply chain bullying, the group reckons. The “pay-to-stay” tactics of Premier Foods sound extreme, but 5 per cent of companies have received a similar request. Countless small businesses have been told they'll have to wait months on end to have their bills settled, or accept



discounted settlements for prompt (but still not prompt) payment. Some large companies are even applying these discounts retrospectively – just announcing to suppliers that they have no intention of paying up in full.

The FSB has called for better legal protection of smaller businesses, but the frustrating thing is that it's difficult to frame effective legislation. For example, the European Union's Late Payment Directive, which requires companies to settle their bills within 60 days, looks very strong until you read the small print: if suppliers explicitly agree to wait longer, that's acceptable. Many suppliers feel they have no choice but to agree. The UK's Prompt Payments Code suffers from a similar problem.

That's not to say more can't be done. Two years ago, amid concern

about the behaviour of the large supermarkets, the Government set up the Groceries Code Adjudicator, an ombudsman scheme for direct suppliers to food retailers. There is no reason why the scheme could not be expanded so that it covers many more businesses – and given extra powers to take misbehaving firms to task.

In the end, however, small businesses are also going to have to help themselves. The interesting thing about the Premier Foods and 2 Sisters cases is that they came to light because a small supplier was prepared to stick its head above the parapet. In both cases, the supplier in question wasn't totally dependent on the larger companies, but speaking out was nevertheless a risk to their business.

More smaller companies are

going to have to be brave – and to act together, because strength in numbers will win over.

The good news is that in a world of social media, this is getting easier. Calling out the bullies can be tremendously effective because large companies worry constantly about reputational risk. It was noticeable that red-faced Premier Foods, for example, backtracked almost immediately after being exposed.

However, customers must do their bit too – either individual consumers or the supermarket groups, where appropriate. When businesses behave like this, we shouldn't buy their products – when we do, we're siding with the bullies rather than their victims.



Premier Foods changed its policy on 'pay to stay' contracts for its suppliers after they were exposed

SMALL BUSINESS PERSON OF THE WEEK

A classic cottage industry that grew organically



Andrew Howard
Beechdean Ice Cream

“I set the business up 25 years ago with my wife, Susie, after we'd met at university. We wanted to start a business and Susie's parents were dairy farmers, so we started thinking about the ice-cream market. Susie and I put £18,000 into the business to get it going, along with support from friends and family.

“It was one of those classic cottage industry businesses, basically working out of the kitchen. But we worked really hard and tried to learn as quickly as possible. We talked to as many other ice-cream businesses as we could and copied the ideas that seemed to work.

“We lost money until 1996, but we've been profitable every year since – sales have grown every year too, with the exception of one year where we lost a major client. That was an important lesson not to allow any single customer to account for too large a proportion of your sales.

“By 2011, after growing organically and acquiring some smaller businesses, we were turning over around £8m a year – that's when we bought the Loseley group, which has a fantastic brand, but which other people had been struggling to make work. Because we know about ice-cream, rather than just being investors, we've been able to turn the company around.

“I also run my own motor sport team, Beechdean Motor Sport, and I'm the chairman of Wycombe Wanderers football club. I am a fan of trying to run a business that employs young, talented people and giving them the opportunity to thrive.”

Spark hopes to fire up inventors

Have you got a fantastic idea for an inventive new product? If so, the Design Council wants to hear from you. Its Spark initiative is a programme of investment and mentoring designed to enable the next generation of inventors to achieve commercial success. Unlike other accelerator programmes, Spark will be run on a not-for-profit basis.

It is beginning with a competition aimed at Britons who have a new product they want to develop and

bring to market. Spark will choose 10 winners, with each one receiving seed funding and mentoring to help them get the product out there. Winners then have to agree to donate 5 per cent of future sales revenue back to Spark to fund it on an ongoing basis.

The competition runs until 31 January, with a shortlist of 30 due to be offered a place at a two-day workshop in February. The final 10 winners will be announced in March. See www.designcouncil.org.uk.

Rare concession from taxman

Small businesses struggling with the switch to real-time information (RTI) have finally won a concession from the taxman. RTI is the process through which employers must file all payroll data to HM Revenue & Customs in real time, rather than in a single annual tax return. Introduced last year, some businesses have found it difficult to get their systems and processes RTI-compliant, despite the threat of penalties.

Now HMRC is to simplify the

end-of-year return employers still have to make by 19 April each year. Until now this has included requests for all sorts of data that small businesses have been providing via the new system.

Natalie Miller, president of the Association of Tax Technicians, said: “HMRC had promised that RTI would remove the need for an additional end-of-year return, and this represented quite a burden being placed on agents and employers.”