BRIEFING
November 2024

Profiteering during the cost-of-living crisis: food, formula and fuel. An update.

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November 2024

EXECUTIVE SUMMARY

- The CMA's initial inquiry into accusations of 'greedflation' by food sector companies in July 2023 provided no real evidence of profiteering by the major UK food retailers.
- However, their second report last November suggested manufacturers had been raising the cost of first infant formula milk higher than necessary to cover inflationary costs. Their interim report, published this November, finds weak competition in price.
- Retailers have continued to come under scrutiny for their large profits, record levels of executive pay, and shareholder pay outs against a backdrop of high food inflation and food insecurity.
- Meanwhile, none of the major UK retailers are accredited Real Living Wage employers, and some employees continue to be paid less than the living wage.
- Inflation has been slowing in recent months - now at 2.3% (CPI) in the 12 months to October 2024. However, food prices have remained high and continue to impact on low-income households
- Farmer's protests and the EFRA committee's Supply Chain Fairness inquiry have also spotlighted the imbalance of power in the food sector supply chain, with supermarkets holding much greater power than other food system stakeholders further downstream, particularly producers.

This briefing

As inflation eases, families across the UK are still struggling to afford a healthy (and sustainable) diet; The Food Foundation's latest food insecurity data showed that 7.2 million adults live in households that experienced food insecurity in June 2024. Data from January found that 44% of households who had experienced food insecurity reported having purchased fewer vegetables and 60% said they had cut back on purchasing fruit. Producers have also been struggling; farmers' protests are making headlines, and a survey by Riverford's Get Fair About Farming campaign found half of British fruit and veg farmers were worried about going out of business in the next year, with 75% citing supermarkets as the primary cause (Get Fair About Farming, 2023). Meanwhile, despite the turbulence of the last five years, UK retailers have continued to record healthy profits, and some executives have received generous pay outs.

This briefing looks again at the accusations of profiteering by supermarkets in the UK during the cost-of-living crisis, taking a longer view of the last five years and examining fresh evidence from the Supply Chain Fairness inquiry.

The last 12 months

Our first briefing on this subject analysed the Competition and Markets Authority's (CMA) inquiries in 2023 into accusations of 'greedflation' by food sector companies, provided further analysis, and presented recommendations of the actions that should be taken by both food retailers and policymakers to support UK households during the cost-of-living crisis.

We found that, from the evidence available at that time, there was no real proof of profiteering by supermarkets. The CMA's first report, published in July 2023, showed that average operating profits and margins in the retail grocery sector had actually fallen, indicating rising costs had not been passed on in full to consumers. It noted that consumers were switching to the discounters to find lower prices which suggested supermarkets are unable to keep prices artificially high without losing business given the competitiveness of the UK's retail sector. However, their separate road fuel market study, also published in July, concluded that higher fuel prices were at least partly due to a weakening of competition in the road fuel retail market, with at least one supermarket having significantly increased its internal forward-looking margin targets over this period and other supermarkets adjusting their pricing behaviour accordingly.

Since then, the CMA's further inquiry into price inflation and competition (published in November 2023) suggested that manufacturers have been raising the price of first infant formula to a higher level than was necessary to cover inflated input costs. It found they were able to maintain high profit margins while many parents across the country have reported struggling to afford this essential for their babies – a Food Foundation report found that one in four mothers who formula fed had struggled to afford formula, with the average product price rising by 25% over a two-year period (The Food Foundation, 2024; CMA, 2023).

In September 2023, Iceland discounted all formula sold in their stores to cost price. This led to a 7% reduction in price for first infant formula brands. In January 2024, in response to the CMA report, Danone (one of the largest manufacturers of formula in the UK) committed to cut the price of their Aptamil brand of formula by 7% (Sky News, 2024). Following this, Iceland led the market in reducing the cost of Aptamil leading to a domino effect of other retailers following suit (BBC, 2024a). A similar domino effect can be seen with Nestle's SMA Little Steps brand, where Iceland's move to cut costs in February 2024 led to similar price reductions for certain products in this range across the retail market.

The CMA are currently conducting a more in-depth investigation into formula prices, and published an interim report with their findings this November. The report concludes that price competition in the market remains weak, with both retailers and manufacturers having passed cost increases over the past few years onto consumers. It suggests that the relatively high level of manufacturer profit margins over the period, coupled with their stability, indicates weak competition on price that is not serving parents (CMA, 2024). Their final report with recommendations is due to be published in February 2025.

Supermarket profits and CEO pay

Despite the volatility of the last few years, supermarket profits have, for the most part, remained stable. Figure 1 shows the operating profits of the 10 major UK retailers over the last five years. Operating profit is a company's net income from its core operations after paying all business costs, but before paying tax or dividends (whereas net profit is after tax). An operating profit shows a business can generate more money than it spends. Despite inflationary pressures, the graph shows that there haven't been any notable dips in operating profit across the sector as a whole. The exception is Asda, which reported a dip in profits for the financial year 2022/23. Their 2023/24 annual report is not published yet, but preliminary reports suggest they made over £1bn of underlying profit in 2023, which would be a significant increase (Asda, 2024).

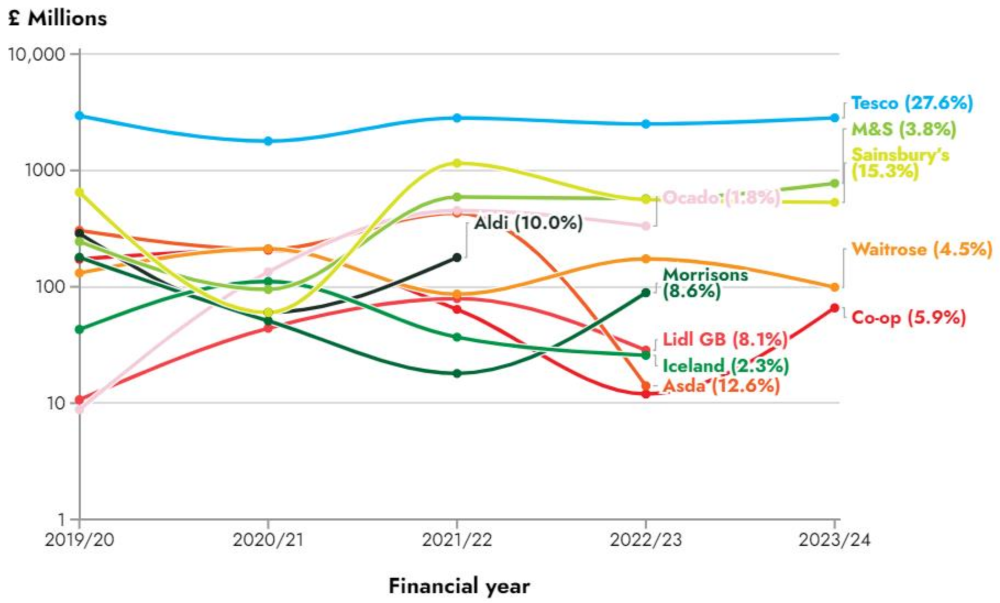
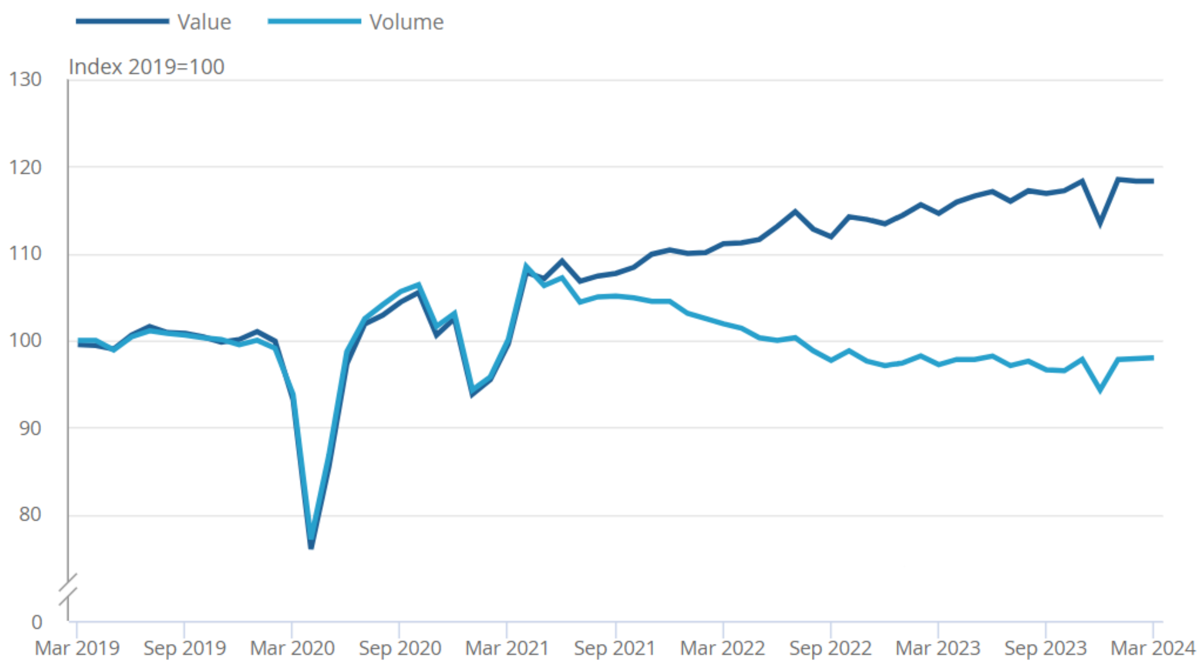


FIGURE 1: Operating profits of the major UK retailers, 2019-2024*, and their % market share in August 2024, according to data from Kantar.

*****_Created using data from available company accounts. Some companies had not released their annual reports for 2023/24 at the time of writing._

High food inflation has been one driver of rising levels of food insecurity. Retail sales data from the Office of National Statistics (ONS) seems to support this; Figure 2 shows revenue has held up very strongly even as people buy less food (ONS, 2024a).

FIGURE 2: UK retail sales: volume and value sales, seasonally adjusted, Great Britain, March 2019 to May 2024, ONS.

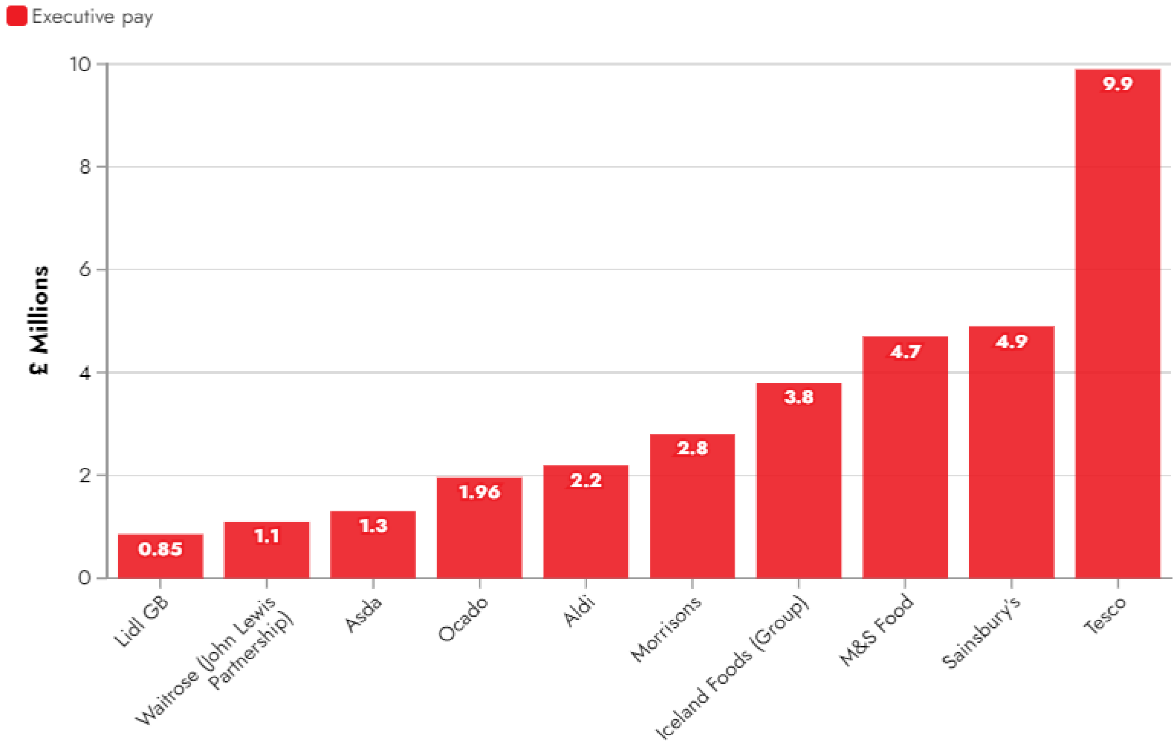


Unite's 2023 report on profiteering across the economy, summarised and updated here, found that for Tesco, 2021/2022 was the most profitable year since 2011/2012. It was also the most profitable year for Sainsbury's since 2013/2014 (Unite the Union, 2023). This is true, they assert, for every measure of profit or profit margin, including net, operating or gross profits (ibid.). These claims are significant, given that 2021-2022 was when food inflation started to rise.

Moreover, according to Tesco's latest annual report, the retailer paid out £859 million in dividends in 2023, and £777 million this year. Sainsbury's paid out £319 million to shareholders last year, according to their 2023 annual report. In both cases, Unite claims these are the highest pay outs since 2015 (Unite the Union, 2023).

Supermarket executive pay has also remained high – see Figure 3. This has been subject to civil society, shareholder and media scrutiny in recent months, particularly focused on Tesco and Marks & Spencer. For both, CEO salary increases were a result of hikes in share payments and performance bonuses, rather than rises in basic pay (The Grocer, 2024a), supporting the idea that overall profits have been healthy. Tesco boss Ken Murphy's pay more than doubled in the year 2023/24 to £9.9 million (it was £4.4 million the previous year) (ibid.), while M&S CEO Stuart Machin's pay increased by over £2 million year on year (ibid.).

FIGURE 3: Supermarket CEO pay, as reported by The Grocer. Data range from 2022 to 2024.



In July, ShareAction asked Tesco to justify this pay out – which amounts to 430 times the average Tesco employee's pay – while their contract cleaners and security staff are paid less than the Real Living Wage (The Grocer, 2024b). While hourly pay rates for colleagues in Tesco stores is above the living wage, having risen in March 2024 from £11.02 to £12.02, this does not include third-party contracted staff such as cleaners and security. Marks & Spencer and Sainsbury's were also called out for low pay at their respective AGMs, with ShareAction urging them to pay all their staff at least the Living Wage and become accredited living wage employers (ShareAction, 2024). Simon Roberts, Sainsbury's chief executive, is set to receive nearly £5 million in pay this year, 212 times the amount its average employee will earn, according to the High Pay Centre (The Standard, 2024).

Supply Chain Fairness in the spotlight

Earlier this year, the EFRA Select Committee questioned supermarket representatives over alleged rising profits during the cost-of-living period, as part of their investigation into fairness in the food supply chain. Sainsbury's spokesperson put their increased profits of £11 million (pre-tax profits for year ending March 2023, compared to the previous year) down to an increase in market share due to holding prices at a competitive level. However, according to Kantar data, Sainsbury's market share has been decreasing since 2021, and actually fell during this period – in March 2023 it was 14.8%, compared to 15.1% in March 2022 (Kantar, 2024). Tesco's representative echoed the claim they had invested in holding price increases back, and insisted that anytime they see prices ease, their response is to try to pass reductions on to customers. However, this is not reflected in The Food Foundation's Basic Basket tracker (see Figure 5) which shows supermarket food costs have not gone down.

The supply chain fairness inquiry also spotlighted an imbalance of power in the UK's food supply chain, with supermarkets holding much greater power than other food system stakeholders further downstream, particularly producers. After hearing evidence from farmers on unfair purchasing practices, members of the EFRA committee accused supermarkets of exploiting farmers during the cost-of-living crisis to prop up their profits (The Grocer, 2024c). Retailers swiftly refuted these claims, asserting they had long and good relationships with their suppliers.

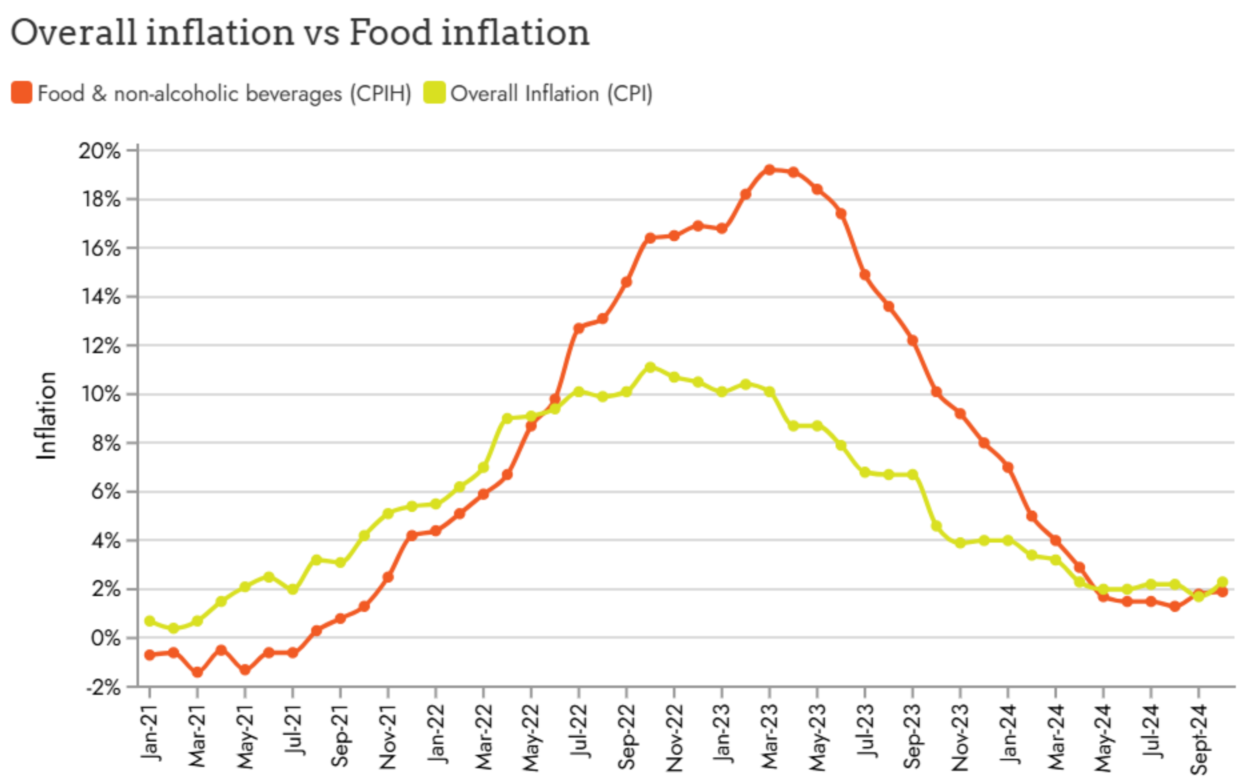
This inquiry was held against a backdrop of farmer protests; Riverford's Get Fair About Farming campaign ran a survey which found that the majority of farmers cited supermarkets as the primary cause for their fears of going out of business (Get Fair About Farming, 2023). Research has previously shown that farmers often receive far less than 1% of the profit from their produce (Sustain, 2022). The petition prompted a debate in parliament in January, with support among many MPs from various parties for the petition's goals of reforming the Groceries Supply Code of Practice (GSCOP) to better protect farmers.

At the Farm to Fork summit in May, the then government committed to bringing forward legislation to make contracts between suppliers and retailers fairer. However, the election in July 2024 meant the legislation never materialised, and the EFRA Select Committee's inquiry was cut short, before its final report was published. The new government has, however, since announced its commitment to introduce a new deal for farmers to provide stability and confidence to the farming sector, with Defra Secretary Steve Reed pledging to make the supply chain work more fairly (Defra, 2024). This was following the release of new figures from Defra showing that half of farmers don't feel positive about their future in farming and 14% are planning to leave farming in the next 3-5 years.

Inflation and profiteering – where are we now?

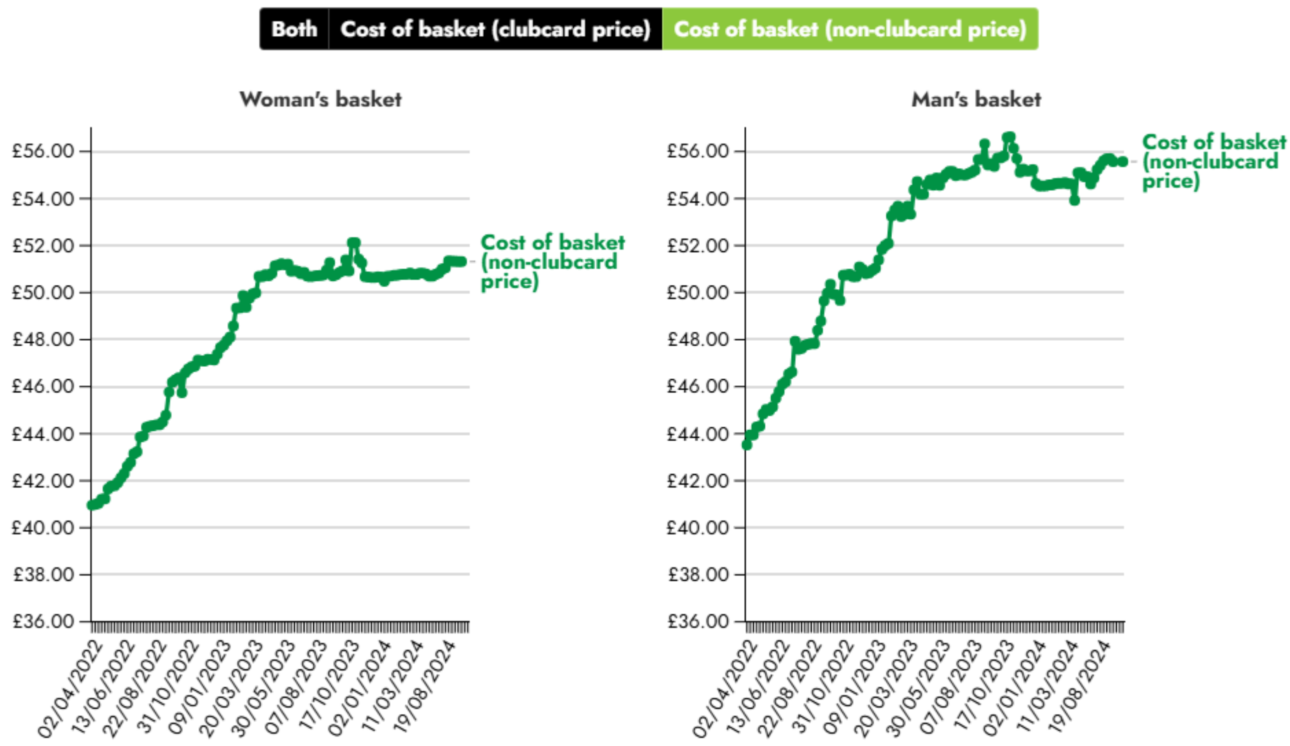
Overall inflation is now at 2.3% in the 12 months to October 2024 (CPI), and food inflation currently sits at 1.9% (CPIH) (see Figure 4) (ONS, 2024b). As high food inflation has been a major contributor to rising overall inflation, recent decreases have played a large part in the slowing overall levels of inflation occurring since April of last year.

FIGURE 4: Overall inflation vs food inflation. Source: ONS, Consumer Price Inflation tables.



However, it is important to note that falling inflation does not mean that prices are coming down but that they are rising more slowly; indeed, despite this slowing of food price inflation, food prices remain high – 25% higher than at the beginning of 2022 (12 months to May 2024) (BBC, 2024b). This is reflected by the Basic Basket Tracker (see Figure 5) which measures weekly prices of a basket of food for an adult male and adult female that makes up a reasonably costed, adequately nutritious diet.

FIGURE 5: The Food Foundation, Basic Basket Tracker, 2022-2024.



Further analysis of the Basic Basket Tracker shows that, despite food price inflation falling quite consistently since last April, prices have remained fairly level since around November, with the Man's basket starting to rise again. This could be an indication that retailers and manufacturers are delaying passing on input savings (due to reduced inflation).

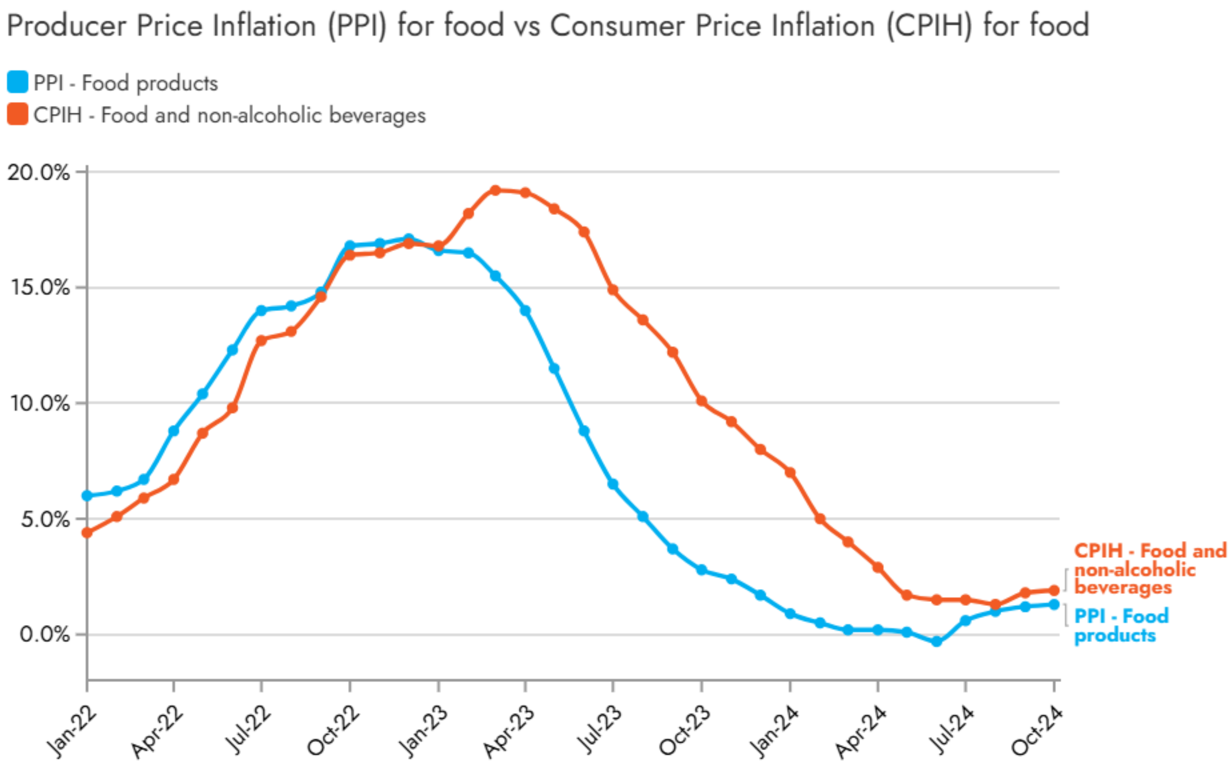
CPI vs. PPI

Our first briefing on these issues in September 2023 looked at ONS Producer Price Inflation (PPI) and Consumer Price Inflation (CPIH) data. PPI data tracks the changes in the prices of goods bought and sold by UK manufacturers, including price indices of materials and fuels purchased (input prices) and factory gate prices (output prices). CPIH data shows the rate at which the prices of goods and services bought by households rise or fall with inflation. The data showed a significant time lag between PPI rates declining and the CPIH starting to reduce.

Our update, in November 2023, showed that this gap was still widening, perhaps as a result of retailers delaying passing on price cuts to customers despite input costs having started to fall, either to recoup losses in profit margins or as a result of a time lag in agreeing new contracts with producers,

However, the latest PPI data from the ONS (as shown on Figure 6) shows that the gap appears to be getting smaller. This suggests that as input costs fall, so too are the prices that consumers are paying for food.

FIGURE 6: Producer Price Inflation (PPI) vs Consumer Price Inflation (CPIH) for food. Source: ONS.



Government interventions in Europe: what are other governments doing against a backdrop of high inflation?

In January, the French supermarket Carrefour took a stand against manufacturers raising prices, refusing to continue to stock products supplied by PepsiCo (Guardian, 2024). Unusually for Europe, France strongly regulates the retail sector; in an attempt to protect its agricultural industry and food culture it regulates supermarkets so that they are only able to negotiate once a year with food and drink producers, locking in prices for the year ahead. Since last year, president Macron has been pushing to get France's high food prices down, saying they should reflect the fact that the prices of many raw materials have recently declined (Vice, 2024).

The French government has also brought in measures to protect consumers against deceptive packaging – as of July supermarkets have to label products with 'shrinkflation' stickers if the amount of goods being offered is lower than it was previously despite the price of the product having stayed the same or having risen (EuroNews, 2024).France have also brought in measures to protect farmers; the EGalim 3 law (2023, an extension of the Egalim law introduced in 2018) aims to increase the protection of farmers in their trade relations with the large retail sector (République française, 2024). It ensures that production costs are considered when setting prices, and that prices must be renegotiated if the costs of raw materials increase (The Connexion, 2024). President Macron has since called for greater protections for food producers through a 'European Egalim' law (Euractiv, 2024a).

In February, the Romanian government extended their cap on food mark-ups for two months. According to their prime minister, the measure has contributed to reducing inflation, curbed speculative price increases and safeguarded the population's purchasing power (Euractiv, 2024b).

Conclusion

Overall, despite some positive developments since our last briefing on profits during the cost-of-living crisis – with inflation slowing and CPIH and PPI rates both falling – for many UK households change is happening far too slowly. A fall in inflation is not yet translating into lower food bills, and low-income households continue to disproportionately bear the brunt of price rises.

This briefing clearly shows the endemic power imbalances within the UK's food system. Profits and power are concentrated in the middle of the food chain, leaving farmers and citizens feeling the squeeze. This is an arguably an example of market failure, with high levels of food insecurity and increasing numbers of farmers and growers going out of business – a predictable outcome of a food system geared toward profit-making rather than incentivising businesses to support people, planet and health.

While more action from food businesses is absolutely needed, big shifts in the food environment can only be achieved by shifting the incentives and standards in the system within which businesses operate. Fixing the system so that it serves wider interests than those only of corporate shareholders will require bold action but is not impossible. The government is responsible for changing these incentives, but over the past few years has consistently failed to engage with the need to shift UK food environments towards more healthy and sustainable dietary patterns. The new Government offers a window of opportunity to fix the food system and enable a new model of business to succeed.

Recommendations

RETAILERS SHOULD:

- Accredit as a Living Wage employer, so all staff (including third-party contractors) are guaranteed a real living wage that considers the cost of living.
- Introduce own-brand first infant formulas and/or insulate prices on first infant formula from the worst of food price inflation, in line with our Kids Food Guarantee asks.
- Continue to promote the Healthy Start scheme to low-income customers to ensure families are able to access sufficient, nutritious foods. This could include:
    - Labelling - include Healthy Start information and QR codes on those products that are within scope of the scheme (fruit and veg, pulses, cow's milk)
    - Use of loyalty programmes - targeted email communication to low-income customers promoting the scheme. An additional option for those with the functionality would be to offer coupons or money off vouchers for Healthy Start products (excluding first infant formula)
    - Targeted in store and online communication - promote the scheme to customers of stores in areas with low levels of uptake/high numbers of eligible families.

POLICYMAKERS SHOULD:

- Ensure that benefit levels and wages take into account the cost of affording a healthy diet. The new government should deliver on their manifesto commitment to ensure the minimum wage is a real living wage that takes into account the cost of living and that it is properly enforced, make work more secure and to work with the Low Pay Commission to address the ongoing issue of low pay.
- Expand existing nutritional safety net schemes to ensure that low-income households can afford and access nutritious food. Specifically, the Healthy Start and Free School Meal schemes should be expanded to all families in receipt of Universal Credit.
- Consider implementing the recommendations from the final CMA report on the supply of infant formula in the UKwhen it is published in February.

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