



SRC RESPONSE TO THE SCOTTISH GOVERNMENT CONSULTATION ON MINIMUM UNIT PRICING OF ALCOHOL

ABOUT SRC

1. Retail is an exciting, diverse and dynamic industry undergoing transformational change. The SRC is at the forefront – enhancing, assisting, informing and shaping. Our mission is to make a positive difference to the retail industry and to the customers it serves. Our broad range of stakeholders demonstrates how retailing touches almost every aspect of our culture. The SRC leads the industry and works with our members to shape debates and influence issues and opportunities that will help make that positive difference. We care about the careers of people who work in our industry, the communities retail touches and competitiveness as a fundamental principle of the industry's success – our 3Cs.
2. In addition to publishing leading indicators on Scottish retail sales, footfall and shop vacancies in town centres, our policy positions are informed by our 200-strong membership and determined by the SRC's Board.

A RETAIL INDUSTRY IN TRANSITION

3. A successful retail industry is a great route to better paid jobs, more private sector investment¹, and additional tax revenues for the public sector. It also keeps down prices for households, supports communities² and helps everyone saving for a pension³. The industry is crucial to supporting Scottish businesses, with billions of pounds of Scottish products exported by retailers every year to the rest of the UK and beyond. The industry provides a key market for many other indigenous suppliers, from logistics companies moving products to electricians and plasterers resolving issues in physical stores.
4. Scotland's retail industry is in transition. The industry is one of the most dynamic and innovative, accounting for 13% of all new firms formed last year. This innovation can be seen through significant new investment in online retailing, in-store technology and order points, home delivery and logistics capabilities, digital customer loyalty and payment arrangements, and new and refreshed own-brand products. The industry is in the midst of a customer led revolution, and all of its investment - from new ways of working to sharpening prices – is because customers are changing and demanding it.
5. However, these are testing times. Retail sales growth has been at a low ebb over the past three years. Retailers are working ever harder to maintain let alone grow sales, at a time of profound structural⁴, economic and regulatory change. Retail is currently Scotland's largest private sector employer, employing 250,000 people directly, 13 per cent of the private sector work-force. However recent official data highlighted a drop of 16,400 posts over the past eight years, down 6.3 per cent. During the same period there were 1,831 fewer

¹ 14 per cent of private sector investment in the UK comes from the retail sector including investment in buildings, vehicles, software and hardware

² Independent research shows that the public rate retailers as the top sector for getting involved in their local communities

³ 4 per cent of dividends into pension funds come from the retail industry

⁴ E.g. 21% of all non-food retail sales are online

shops⁵, a 7.5 per cent reduction. Meanwhile net profitability in the industry has dipped to around 5 per cent of the value of sales. Embracing these changes and becoming more productive requires retailers to invest in new technology, a higher skilled workforce, revamped warehouses and transformed logistics capabilities.

COMMENTS ON THE PROPOSED MINIMUM PRICE OF 50 PENCE PER UNIT

6. The Scottish Retail Consortium will look to work constructively with the Scottish Government to ensure MUP is implemented in a cost effective and reasonable manner.
7. Implementing Minimum Unit Pricing is a challenging endeavour for retailers. It doesn't just involve direct changes to the listed price, but interacts with many other facets of retail operations. These include promotions, loyalty schemes, supplier listings, and staff discounts. Furthermore, there is the added complexity of creating a Scottish-specific system for retailers who operate across the UK.
8. The priority for retailers is clarity over the Minimum Unit Price. We don't take a view on whether 50p is the correct level for the price in an economic or health context. However, in the current circumstances where retailers face significant challenges to implementation, we believe the preferred price provides clarity for retailers and allows them to start planning for implementation. We therefore believe MUP should be brought in at the preferred price of 50p.
9. The SRC would also note the modelling for MUP was conducted on the basis of a 50p MUP. It's therefore not clear there is any relevant evidence at this time for a different price. This further affirms the rationale for keeping the preferred price at 50p.
10. The Scottish Government is, understandably, committed to implementing MUP as swiftly as possible. The Scottish retail industry will do everything possible to ensure that implementation is successful. However, the timetable is very tight. There will be around three months from the Scottish Government response to this consultation, which will include the proposed MUP which will be submitted to Parliament, to the first day the policy comes into force.
11. If the proposed MUP is different from the current preferred price of 50p, that will effectively negate any planning or preparation retailers have been able to start between November and January; as retailers must amend systems, re-examine listings, and take other actions. Such changes make the process of preparing for MUP immeasurably more difficult, and consequently increase the likelihood of there being challenges when the policy comes into force. Consequently, setting the MUP at 50p is the approach most likely to ensure a smooth implementation when this new policy comes into force.
12. The SRC would further note there is already significant pressure for the MUP to be increased, either now or in the future. We are concerned there is no formal mechanism for this to be considered, and that therefore a debate not grounded in either health or economic outcomes could take place. The SRC recognises any future changes to the MUP would require public consultation, and of course will be dependent on robust relevant economic and health information provided by independent analysis.

⁵ Scottish Government's Annual Business Statistics published 30 August 2017

13. We would further note that changes to pricing of alcoholic products is a complicated business, and any future changes in the price should be announced in advance to allow retailers time to adjust. Similarly, it would be unhelpful if price changes come in ahead of particularly high trading periods (such as December).

COMMENTS ON THE IMPLEMENTATION OF MINIMUM UNIT PRICING IN SCOTLAND

14. The SRC would like to take this opportunity to make a few further points relating to the implementation of MUP.
15. Firstly, we would urge the Scottish Government to publish draft guidance as early as possible to allow retailers and other businesses to understand exactly how the policy is to be administered, and to provide clarity over several specific issues. The SRC would recommend that Government uses the Home Office Guidance⁶ which was issued in England for the implementation of Duty + VAT as a template for this process. That guidance was the result of significant engagement between industry and government, and most retailers will already be both familiar, and more importantly compliant, with the principles.
16. The ten largest retailers all work within the prescriptions of the Grocery Supply Code of Practice⁷ (GSCOP). This states: *"A Retailer must at all times deal with its Suppliers fairly and lawfully. Fair and lawful dealing will be understood as requiring the Retailer to conduct its trading relationships with Suppliers in good faith, without distinction between formal or informal arrangements, without duress and in recognition of the Suppliers' need for certainty as regards the risks and costs of trading, particularly in relation to production, delivery and payment issues."*
17. The Home Office Guidance for Duty + VAT specifically states in relation to GSCOP that: *"If the retailer believes that they need to vary a supply agreement to comply with new legislation, section 3(2)(a) of part 3 of Code allows retailers to vary supply agreements retroactively to allow for circumstances outside their control. To comply with section 3(3) of part 3 of the Code, the retailer must give the supplier reasonable notice of any variation. A rise in duty rates may be a situation to which this part of the Code could apply."*⁸ The SRC believe the inclusion of similar guidance for Minimum Unit Pricing would be reasonable and sensible to aid retailers who may need to change product listings because of Minimum Unit Pricing.
18. We would further note that due to the very limited timescale, and the complexity of the policy, that it is plausible individuals in the retail industry may inadvertently face challenges at a store level when this policy first comes in. It would be valuable if the Scottish Government, and Licensing Standards Officers, could take a proportional approach to issues in the first few months as retailers adapt to the new legislation.

⁶ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/619234/2017-03-13_HO_Guidance_on_BBCS_1.pdf

⁷ <https://www.gov.uk/government/publications/groceries-supply-code-of-practice/groceries-supply-code-of-practice>

⁸ Home Office Guidance on Duty+ VAT: P17

19. Whilst Minimum Unit Pricing of Alcohol is a very familiar topic for those working in Scottish public policy, it's likely the public, and indeed some businesses, may not fully appreciate both the implementation or the full consequence of the policy. The SRC would urge the Scottish Government to put resource behind a communications campaign to raise awareness to ensure the public understand and appreciate the changes which will occur.
20. The SRC would finally note the openness of Scottish Government officials to engage with the retail industry over the implementation of this policy, and hope we can continue to discuss how to make the implementation of MUP a success.

Scottish Retail Consortium
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