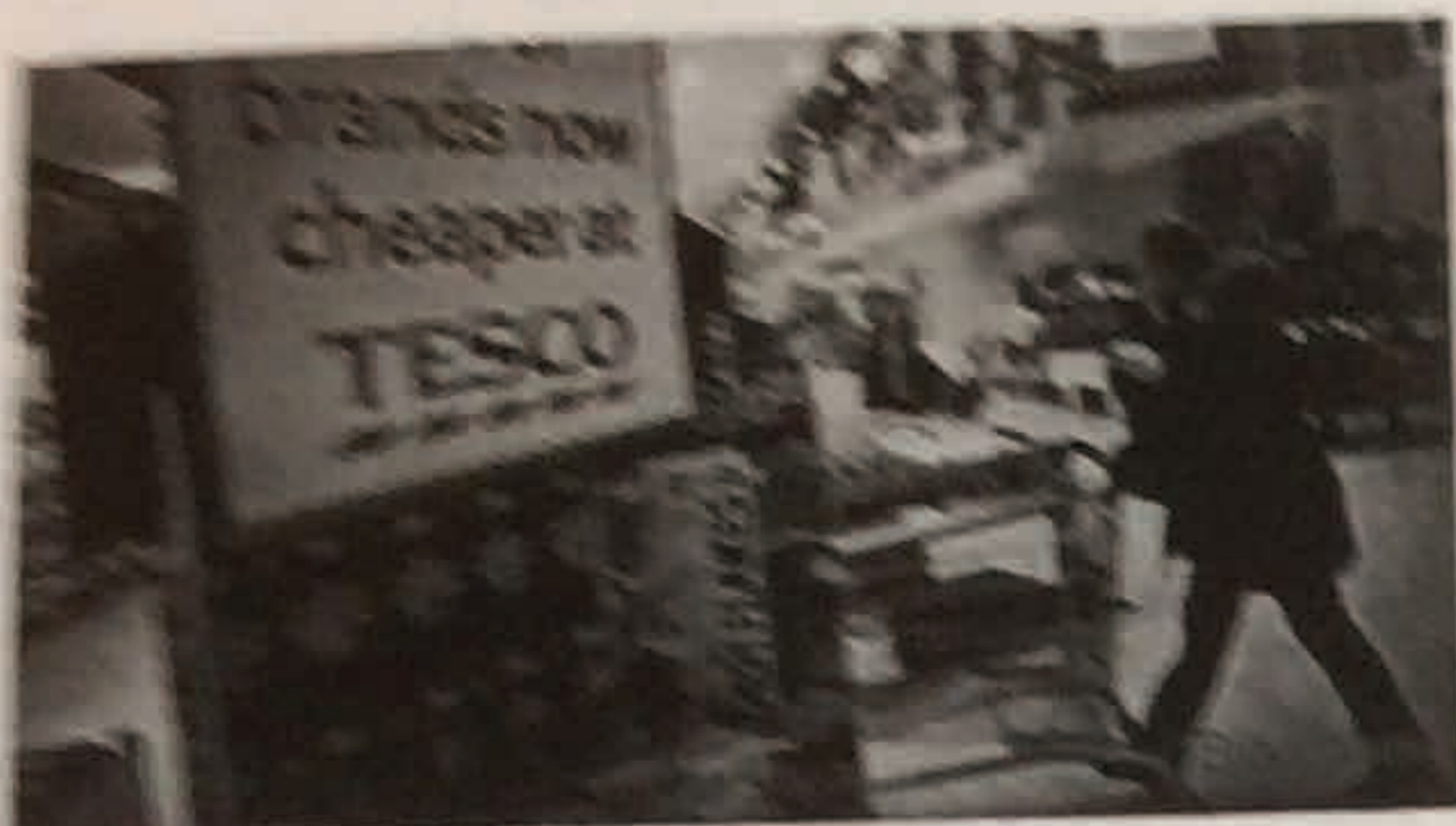


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Watchdog warns UK stores over Tesco probe

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An investigation into Tesco's relations with its suppliers, following accusations of bullying and delayed payments, could drag other British supermarkets into its net after the groceries regulator and government urged suppliers to come forward.

The Groceries Code Adjudicator (GCA) launched a formal investigation into Tesco on Thursday, saying she had

formed a "reasonable suspicion" that the UK's largest retailer had breached the supply code of practice.

Christine Tacon said the investigation could be broadened "if it becomes obvious that another retailer is doing this and if I have evidence of it happening".

Both she and Vince Cable, the business secretary, urged suppliers to speak up. "I would encourage anyone with any evidence of any wrongdoing to come forward and be confident of being able to do so confidentially as their anonymity will be protected by law," said Mr Cable.

The Federation of Small Businesses (FSB) welcomed the investigation, but said it should be broader. John Allan, FSB chairman, said: "We would encourage the GCA to use its new powers and include the major supermarket chains in the scope of the investigation. Late payment can have disastrous effects on a small firm's cash-flow and pushes many businesses to the brink."

This is the first big investigation by the adjudicator and comes days after the government finally agreed to give Ms Tacon the powers to fine Britain's 10 big grocery retailers up to 1 per cent of their annual sales should they breach the code.

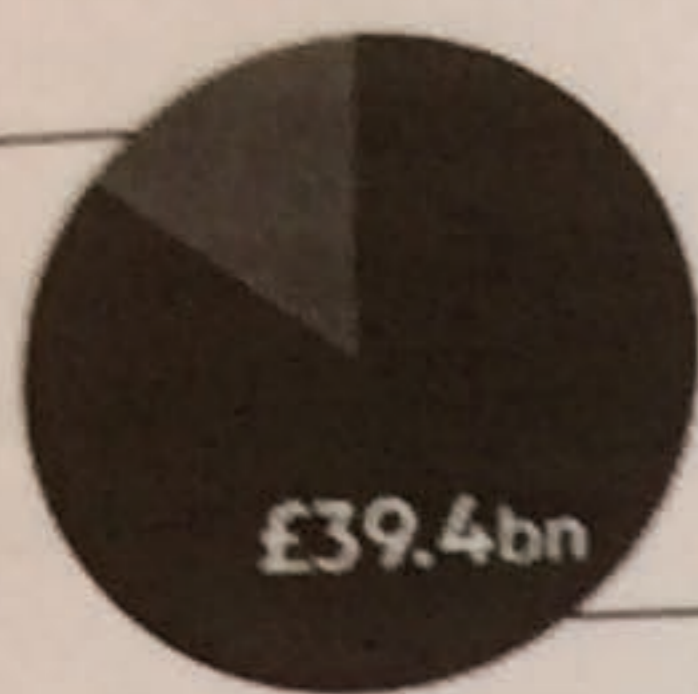
"We have created a regulator that has real teeth," said Mr Cable, pointing to the new fine system and increased funding for Ms Tacon's office. In the Financial Times last week, Ms Tacon warned that proposed fines must be big enough to be seen as "weapons" against retailers, adding that "it has got to hurt if I use it".

However, Tesco, which is grappling with continuing store closures, boardroom turmoil and the aftermath of its £263m profit overstatement, will escape financial penalty, should it be found guilty of

Debt burden

UK companies face a late payment burden of **£46.1bn**

Large companies **£6.7bn**



Additional costs caused by late payments



Source: BACS

FT

breaching the code, because the fine cannot be applied retrospectively.

A government official pointed out that the investigation could still have significant reputational implications for Tesco. If the retailer is found in breach of the code, Ms Tacon has the power to issue best-practice guidance to the rest of the industry.

If it is found in serious breach, it would have to take out full-page apologies.

The retailer said it had improved its compliance and was "changing the way we work with suppliers". It would "co-operate fully with the GCA as she carries out her investigation, and welcome the opportunity for our suppliers to provide direct feedback".

Ms Tacon said the probe, which is expected to take six to nine months, would "consider the existence and extent of practices which have resulted in delay in payments to suppliers".

The retailer will now face a series of allegations, including the bullying of suppliers, demanding rebates in exchange for prominent positioning on the shelves, invoicing discrepancies and deductions for unknown or unagreed items between June 2013 and this February.

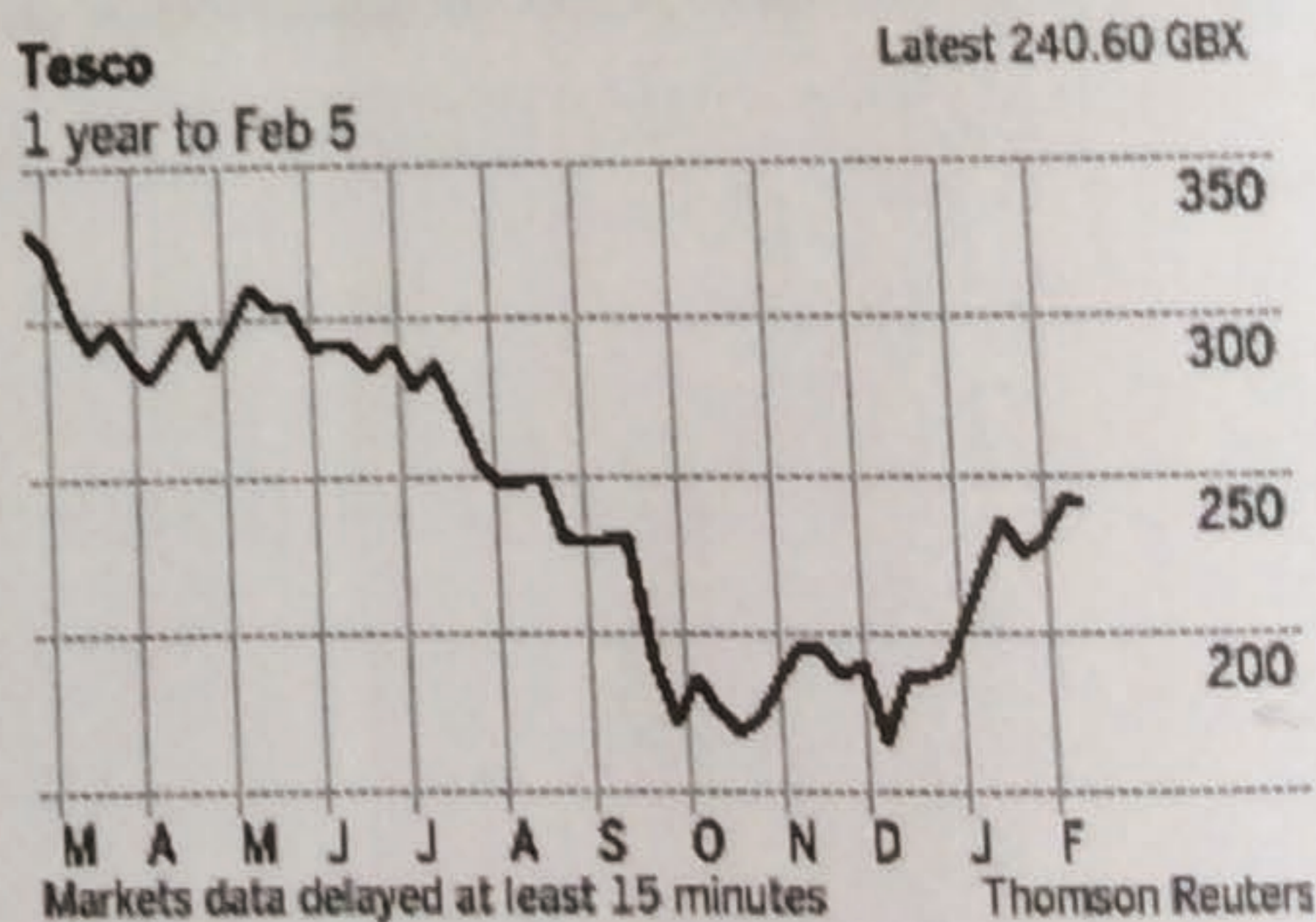
The adjudicator follows the Serious Fraud Office and the Financial Reporting Council in investigating the supermarket chain.

The Chartered Institute of Procurement and Supply said Britain was suffering from a culture of late payment that extended beyond the supermarkets to the food industry as a whole.

One controversial case involved Premier Foods, maker of Mr Kipling cakes and Hovis bread, which told suppliers last year that they could lose the chance of new contracts unless they made cash payments. It later backed down, saying it would revert "to a more conventional type of discount negotiation".

Last week, Diageo, the world's largest distiller and owner of Johnnie Walker Scotch whisky, said it would in future look to new contract terms and take 90 days to pay suppliers instead of 60.

Other food and drinks manufacturers, including Heinz, the baked beans and ketchup company, and 2 Sisters Food Group, the UK's biggest Christmas pudding maker, have sought to extend new payment terms.



The government is trying to strengthen its voluntary code of good practice — the prompt payment code — by setting up an advisory board to see how this could be made more effective.

Mike Cherry, head of policy at the FSB, said this was not enough and called for an independent inquiry.

He said: “What has come out with 2 Sisters and Premier Foods — and then since then with multinationals such as Heinz, Diageo and Cadbury — it does beg the question that there needs to be some action on this.”

The post of adjudicator was set up in 2013 to monitor the relationship between the retailers and their suppliers, over concerns that the latter were being increasingly squeezed amid a vicious supermarket price war.

The GCA’s office has five staff, of which two, including Ms Tacon, work three days a week. Julie Palmer, partner and retail expert at Begbies Traynor, the insolvency specialist, questioned whether this was enough: “It’s a small department dealing with a large problem.”

The adjudicator’s office said it was adequately resourced and could call in outside expertise.

Tesco shares, which have fallen 26 per cent in the past 12 months, closed 1.2 per cent higher at 232.40p, suggesting investors were unfazed by news of the probe.