

Tesco 'Prioritised Finances' Over Suppliers

Tesco deliberately delayed payments to suppliers "to improve its own financial position", an industry watchdog finds.



Video: Tesco Rapped For Payment Delays



By Poppy Trowbridge, Consumer Affairs Correspondent

Britain's largest supermarket Tesco has "seriously breached" a legally-binding code to protect grocery producers by prioritising its own finances over the fair treatment of its suppliers, a new report has found.

The Groceries Code Adjudicator (GCA) ruled the supermarket chain must introduce "significant changes" as a result of the breaches - some of which were found to be "intentional".

However, no financial penalty could be imposed because that power was only granted after the failures took place.

The investigation was launched in February last year after a historic Tesco accounting error, linked to its handling of suppliers under the tenure of former chief executive Philip Clarke, came to light.

Tesco revealed a **£250m profit overstatement** - a figure that was later upwardly revised to £326m and the accounting issue remains subject to an investigation by the Serious Fraud Office.



Video: Tesco Boss: Business Has Changed

It is also facing the prospect of legal action on behalf of shareholders linked to share price falls which followed the disclosure.

Adjudicator, Christine Tacon, said today: "The length of the delays, their widespread nature and the range of Tesco's unreasonable practices and behaviours towards suppliers concerned me."

The investigation concluded that Tesco acted unreasonably when it delayed payments to suppliers "for lengthy periods of time" in a bid to improve its margins.

The code breaches were widespread, according to the adjudicator's report, with every supplier spoken to by the adjudicator having evidence of delayed payments.

As a result, the supermarket is now banned from deducting money owed for goods supplied - so it could not just make a unilateral decision to lower an agreed price.

It must also give suppliers 30 days to challenge any proposed deduction and correct pricing errors within seven days and improve its invoicing - with some disputes being found to take years to resolve.

One supplier was owed a multi million pound sum by Tesco which the supermarket took more than two years to repay, the report said.

While the adjudicator found Tesco guilty of delaying payments, it said the chain had not breached the code in relation to payments from suppliers in return for better positioning of goods on shelves.



Video: Suppliers Feared Challenging Tesco

However, Ms Tacon indicated there would be more work industry-wide on such practices.

Tesco chief executive, Dave Lewis, said he accepted the findings: "In 2014 we undertook our own review into certain historic practices, which were both unsustainable and harmful to our suppliers.

"We shared these practices with the adjudicator, and publicly apologised.

"Today, I would like to apologise again. We are sorry."

He added: "Over the last year we have worked hard to make Tesco a very different company from the one described in the GCA report.

"The absolute focus on operating margin had damaging consequences for the business and our relationship with suppliers. This has now been fundamentally changed."

Duncan Swift, head of the food advisory group at accountancy firm Moore Stephens, said the report made a statement but did not go further than that - with the prospect of a supplier taking legal action low.

"Can suppliers expect any redress? No. Also, the review only covers the second half of Tesco's mis-statement period and is silent on the probability that these bad behaviours went on much earlier."