

Tesco delayed payments to suppliers to boost profits, watchdog finds

Groceries code adjudicator finds supermarket failed to pay back multi-million pound sums owed for up to two years, but regulator is unable to levy fine



Tesco CEO David Lewis says his company is changing the way it deals with suppliers

The grocery market watchdog has ordered Tesco to make “significant changes” in the way it deals with suppliers after finding the supermarket had deliberately delayed payments to boost its profits.

Christine Tacon, the groceries code adjudicator (GCA), said Tesco had seriously breached the legally binding code governing the grocery market. She said some suppliers had to wait two years for millions of pounds owed by the grocer.

However, Tacon is unable to fine the supermarket as the breaches took place before her power to levy fines came into force in April last year.

“I was troubled to see Tesco at times prioritising its own finances over treating suppliers fairly,” Tacon said.

She added that she had seen internal emails suggesting payments should not be made ahead of a certain date in order to avoid missing targets promised to City investors. In some cases this occurred despite suppliers’ requests for payment, at other times it was with their consent.

“The pressure on buyers and finance teams to meet margin targets was the overriding pressure within the business. It was widespread. It was everywhere,” she said.



Dave Lewis, chief executive of Tesco. Photograph: Toby Melville/Reuters

Tacon also criticised the company for unilaterally making deductions from invoice payments. Even when Tesco acknowledged a debt, Tacon said that on some occasions the money was not repaid for more than a year, or as long as two years.

The adjudicator launched the investigation in February last year after Tesco admitted it had overstated profits in a scandal [that has also led to a Serious Fraud Office investigation](#).

Dave Lewis, Tesco chief executive, who [joined the business in September 2014](#) just a few days before the accounting scandal emerged and was in post for only four months of the period investigated by Tacon, apologised to suppliers and said the retailer had now “fundamentally changed”.

“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 [under former boss Phil Clarke] had damaging consequences for the business and our relationship with suppliers,” he said.

Tacon said Tesco had “acted unreasonably” by delaying payments to suppliers, often for lengthy periods and sometimes deliberately to support its profits ahead of key financial reporting periods. For example, a list of methods for meeting a half-year profit target seen by Tacon included “not paying back money owed”.

She considered Tesco’s breach of the code to be serious because of the varied and widespread nature of the delays in payment.

“The most shocking thing I found was how widespread it was. Every supplier I spoke to had evidence of delays in payments,” Tacon said.

One supplier was owed several million pounds as a result of price changes being incorrectly applied over a long period, but Tesco took two years to refund the money.

“The sums were often significant and the length of time taken to repay them was too long,” she said at the launch of her 60-plus page report.

While in some cases the delays were due to deliberate policy, Tacon found buyers were given “contradictory and unclear” guidance about the importance of hitting margin targets. Some delays were the result of poor administration and communication and Tesco had “inadequate processes” for correcting errors, for example where data had been input wrongly.

She has given the retailer a month to say how it plans to implement her recommendations, which include paying suppliers in accordance with agreed terms, correcting pricing errors within a week of notification by a supplier, and calling a halt to unilateral deductions from invoices. Suppliers will now have 30 days to challenge any proposed deduction.

The adjudicator also said Tesco must improve its invoices, making them clearer and more transparent for suppliers, and train its finance teams and buyers. She said many of the problems encountered related to unclear terms in Tesco’s agreements with suppliers and deals not being put into writing – something she has referred to the competition watchdog, the CMA.

Tacon said many suppliers had reported an improvement in relations with Tesco since the period under investigation, June 2013 until February 2015.

She said she had found no evidence that Tesco had required suppliers to make payments to secure better shelf positioning or to increase the amount of space allocated to them on shelves.



Anna Soubry, the business minister. Photograph: Rex/Shutterstock

However, she will now launch an industry-wide consultation examining payments made by suppliers in order to participate when Tesco reviewed the range of products stocked in a particular category or in order to be made a “category captain”, where they could advise on how best to display products. Tesco also asked for “investment” from suppliers to help underpin profits in a particular category. Tacon said such payments could amount to tens or even hundreds of thousands of pounds per supplier.

Tacon said: “There were a range of practices that I am concerned could amount to an indirect requirement for payment [related to positioning of products on shelves], contravening the code.”

Lewis said: “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.

We accept the report’s findings, which are consistent with our own investigation.

He said Tesco had already implemented all the recommendations of the GCA and had completely changed its practices since January 2015. He said Tesco had also stopped asking for payments related to “category captain” status or range reviews, but the company would look at making further changes in the light of Tacon’s planned consultation.

“We have changed the way we work by reorganising, refocusing and retraining our teams and we will continue to work in a way which is consistent with the recommendations,” Lewis said.

While Tesco could not be fined, it could have been required to take out newspaper advertisements laying out its apology. Tacon said she had not used this power as Lewis had publicly apologised and Tesco’s suppliers gave evidence that dealings had now improved.

The supermarket must now report quarterly to the GCA on the measures she has asked it to introduce and Tacon can launch a new investigation if she finds her recommendations have not been followed through.

Anna Soubry, the business minister, said: “Christine Tacon has done a thorough and fearless investigation into a scandalous situation. Tesco say they have changed their practices and I very much hope they have. Paying smaller suppliers on time and treating them fairly is good and proper business. Late payment can hinder the growth and productivity of these suppliers and can threaten their existence.”

Sarah Butler

@whatbutlersaw

Tuesday 26 January 2016 10:14 GMT



Welcome to the Guardian. This site uses cookies, [read our policy here](#)

Save for later

The Guardian view on Tesco: every little (bit of scrutiny) helps

Editorial: At last the groceries code adjudicator has found evidence that the country’s biggest supermarket is short-changing its suppliers

[Read more](#)

Unfair practices

Tesco took more than two years to pay back a “multi-million pound” sum owed to a supplier as a result of price changes being incorrectly applied over a long period

It took about two years to repay a supplier who was owed a multi-million pound sum for products it never supplied, due to data input errors

A supplier waited for more than a year for a £2m repayment due because of duplicate invoicing

Tesco required one supplier to pay more than £1m to maintain its target profit margin on the account

A seven-figure sum was unilaterally deducted from a supplier in order to meet a margin target

Tesco deliberately delayed payments at key financial reporting periods to bolster its bottom line, even if suppliers requested payments.



Tesco shareholders could sue for 'millions lost' after it overstated profits

[Read more](#)



Suppliers scared to blow the whistle on supermarkets

[Read more](#)