
How the Tesco fraud case improved supplier relations

13 Dec 2018 | By Ian Quinn



A month before a financial black hole emerged at Tesco, The Grocer was reporting horror stories from suppliers of the supermarket's notoriously aggressive buying operations spiralling out of control.

An organisation already known for putting suppliers through the wringer in negotiations was now issuing unprecedented demands so it could hit its financial targets, as the previously all-conquering supermarket giant struggled amid increasing competition from the discounters.

Now, after the two men accused of being behind the £263m profit overstatement were cleared and the case thrown out last week for lack of evidence, The Grocer looks back at the run-up to the scandal and explores the aftermath.

PRESSURE ON SUPPLIERS

In 2014, with half-year results imminent, "huge gaps" in Tesco's financial targets had prompted the supermarket to once again ask suppliers to dig deep. The retailer was hell-bent on delivering a profit to the City, and this was a business that was used to being able to boss negotiations.

Tesco had pressurised suppliers in the past but now there was a whole new level of desperation in the demands.

"I cannot overstate the amount of pressure Tesco buyers have been under," a commercial director at one of the leading fmcg ambient suppliers told us at the time.

"I know of several buyers who have been asked to make up such gaps because their colleagues in other sectors have fallen massively short. We are talking about absolutely huge gaps to close. Fundamentally Tesco has been robbing Peter to pay Paul and now Peter has run out of money."

[Read more: Tesco fraud trial is thrown out... so who was to blame?](https://m.thegrocer.co.uk/home/topics/tesco-fraud-trial/how-the-tesco-fraud-case-improved-supplier-relations/574833.article#)

David Sables, CEO at sales negotiation experts Sentinel Management Consultants, says: “The Tesco of five years ago was truly out of control. They would shamelessly deduct £200k from a soup supplier for miss-supply of chocolate, then refuse to give it back.”

Payments were brought forward, according to negotiation expert John Butler. “It got to the point where category directors were demanding money from suppliers and saying ‘we’ll make it back for you in the next year’s figures’. But the money wasn’t real.

“Some suppliers realised that what they were being asked to do was illegal and didn’t go along with it, but most of the branded manufacturers coughed up. In their heads they thought they would get something back but they were haemorrhaging their future.”

CHANGE OF CULTURE

While “some might feel bitter that nobody’s been held up to justice” according to Ged Futter, a former senior buying chief at Asda turned GSCOP expert, “at least you can argue that Tesco is a far different business than it was back then.

“If it was not for this scandal, I don’t think they would have changed,” he adds.

The change has come from nothing short of a “top to bottom” restructure. “What Tesco has done is brought in outsiders,” says Futter. “People like Dave Lewis and Matt Davies who brought in a new way of working.

“It gave Dave Lewis permission to kitchen sink the business. A huge number of buyers have left the business and now they have what is a young, and perhaps you could say inexperienced group of buyers, but you have groups of buyers that Tesco can mould and ones that aren’t all tainted by the past.

“Businesses still don’t get an easy ride at Tesco but negotiations are far more structured and less brutal and based around data and how their brands are performing - not hitting targets at all costs.”



STILL PAINFUL BUT FAIRER

Tension has remained a near constant feature of Tesco’s relations with suppliers since 2014, thanks to its Project Reset strategy. But the process is a world away from what was going on before, says Sables.

“It’s fair to say suppliers are reeling a bit from the reset. But you have a natural tendency to see things in a negative way when you are the one losing the business. Tesco has been looking for further range simplicity and suppliers have gone through a painful experience. But it’s nothing like what happened in the dark days.” In the case of Project Reset, “in the long term suppliers will look back and say it was entirely justifiable”.

WIDER IMPLICATIONS

As well as causing Tesco to examine its own practices, the case laid the foundations for the Groceries Code Adjudicator, Christine Tacon, to begin cleaning up dodgy supermarket practices.

Her subsequent investigation, enabled by virtually the same dossier of evidence as that handed over by Tesco to the SFO, found the retailer had systematically breached the Code by delaying payments to suppliers. But it also warned of practices that were rife across the industry, suggesting that several retailers were indirectly forcing suppliers to pay for the best positions on the shelf.

Since the scandal, Tacon has reported sweeping improvements in such behaviour across the board.

In 2016, she found Asda had bullied and threatened suppliers with delisting in a bid to hit its financial targets, in a case which had all the echoes of the Tesco scandal. Asda escaped without a full-blown investigation and unlike Tesco did not find any of its executives in the dock.

In March this year Tacon launched an investigation into the Co-op amid reports it had been systematically delisting suppliers in breach of the Code.

Tacon said she had formed a reasonable suspicion that the retailer may have broken the Code. The inquiry, set to stretch into 2019, sees the Co-op facing a possible fine of up to 1% of its annual turnover.

Tacon's powers to fine came too late for the Tesco probe, her only previous investigation, but she too believes the case has led to a change in relations between retailers and suppliers.

"An enormous amount has changed as a result of what happened and not just at Tesco - it has had enormous repercussions at other retailers too," she says.

"I now know to the second decimal point how many suppliers are being paid on time. I know when unilateral deductions are being made. Prior to this case they didn't measure these things at all. They didn't measure how fast they paid.

"Every retailer now knows that if I am not happy with their behaviour then I will investigate."

Of course there may still be trouble ahead for suppliers.

"You only have to look at what is coming over the horizon with the Sainsbury's-Asda merger, where they have come out already and said they expect to make savings from their suppliers," says Futter.

"Suppliers are scared of being delisted, which is why they won't openly object to the merger."

But in the case of Tesco at least, it appears supplier suffering was not in vain.

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