



## NEWS

# Grocery regulator launches inquiry into Tesco's treatment of suppliers

BY WILL GREEN | 05.02.2015



Groceries Code Adjudicator Christine Tacon has launched her first investigation into the treatment of suppliers by a retailer. © Peter Searle

**The supermarket watchdog has launched an investigation into Tesco's treatment of suppliers.**

Groceries code adjudicator (GCA) Christine Tacon said she had "formed a reasonable suspicion" that Tesco had breached the Groceries Supply Code of Practice (GSCOP) after "considering information submitted to her relating to practices associated with the profit over-statement announced by the retailer in September 2014".



Earlier this week it was announced that the regulator is close to getting the power to impose penalties of up to 1 per cent of the supermarket's annual UK turnover, depending on the severity of the breach of the code.

In September Tesco admitted it had overstated profits for the first six months of 2014 by £250 million, principally due to "delayed accrual of costs" and "accelerated recognition of commercial income", which the supermarket defined as "promotional monies, discounts and rebates receivable from suppliers".

Tacon said the investigation, the first she has undertaken since taking up the post in June 2013, would take six to nine months and she "now needs more information from direct suppliers and others to determine what further action to take".

Speaking to *SM*, she said had spent the first months of the role in a collaborative mode working with the supermarkets, adding "some people may wonder if I've got the balls to launch an investigation, well I have" but that she relied on having evidence of a potential breach. "I have to have reasonable suspicion in order to launch an investigation, I cannot do it based on the fact that people have told me things. I need documentary evidence that gives me sufficient suspicion."

The investigation will focus on the parts of the code related to delays in payments and payments "for better positioning of goods unless in relation to promotions". It will cover delays in payment related to short deliveries, and the imposition of penalties, and delays related to invoice discrepancies and consumer complaints. It will also investigate deductions for unknown or unagreed terms, deductions for incorrect promotional costs (gate fees), and deductions in relation to historic promotions that had not been agreed. Tacon will also consider the "existence and extent" of practices where suppliers have been required to make payments for better shelf positioning.

"I have applied the GCA published prioritisation principles to each of the practices under consideration and have evidence that they were not isolated incidents, each involving a number of suppliers and significant sums of money," she said.

At this stage the investigation will centre solely on Tesco but Tacon said if evidence emerged that other retailers had carried out the same practices "consideration will be given to extending the scope of the investigation to include them".

All of the 10 supermarkets regulated by the adjudicator (Aldi, Asda, Co-operative, Iceland, Lidl, Marks & Spencer, Morrisons, Sainsbury's, Tesco, Waitrose) have previously been warned about the practice of requiring suppliers to pay for better shelf positioning. A case study on Tesco published on the GCA website has already highlighted this issue. Speaking to *SM*, Tacon said: "I've told everyone about these case studies. They are the first strike of something I consider to be wrong. Everybody has been put on notice about what I consider to be a breach of the code."



Responding to the launch of the investigation, a Tesco spokeswoman said: "We have worked closely with the office of the adjudicator since its creation to put in place strong compliance processes. Following our announcement last September regarding commercial income, we have worked with her to identify any relevant GSCOP issues. An internal review we carried out and shared with the GCA identified some areas of concern.

"We have taken action to strengthen compliance and, as we have announced, we are changing the way we work with suppliers. We will continue to cooperate fully with the GCA as she carries out her investigation and welcome the opportunity for our suppliers to provide direct feedback."

Mark Johnson, associate professor of operations management at Warwick Business School, said: "With Tesco suffering in the battle with the discounters, and the cost of running a retail operation now so super-efficient, where can a firm that requires profit go? The option is - unfortunately - to the supply chain where they can seek price reductions for increased profit, receive payments for favourable shelf position or indirectly influence profit by improving their liquidity by delaying payments.

"But at the root of all of this it is not just Tesco. It's the shareholders who require dividends and the customers who want low prices. Caught in this crossfire are the suppliers who, in many cases, are not powerful enough to fight back."

• *A full interview with GCA Christine Tacon will appear in the retail special issue of Supply Management, out in March*

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Additional reporting by Rebecca Ellinor Tyler