

GROCERY

Read more about GCA's findings and
Tesco boss Dave Lewis's comments at:
Retail-week.com/GCA



1 Numerous factors caused payment delays

The Groceries Code Adjudicator (GCA) Christine Tacon's investigation found that reasons for delays in payments made by Tesco to suppliers were of a "varying and widespread nature". A number of factors that caused delays in payments were laid bare in her report.

"Numerous instances" of data input errors resulted in suppliers being overcharged or underpaid, but Tesco failed to correct such errors "within a reasonable time".

Evidence was also found of Tesco issuing duplicate invoices to suppliers and the grocer would "sometimes deduct both invoiced amounts from the total sum it paid to suppliers".

Tesco was found to make unilateral deductions over historic claims, using third-party auditors to review its accounts for historic invoicing errors or omissions where suppliers had underpaid Tesco. Similar unilateral deductions were made over incomplete deliveries and service level charges.

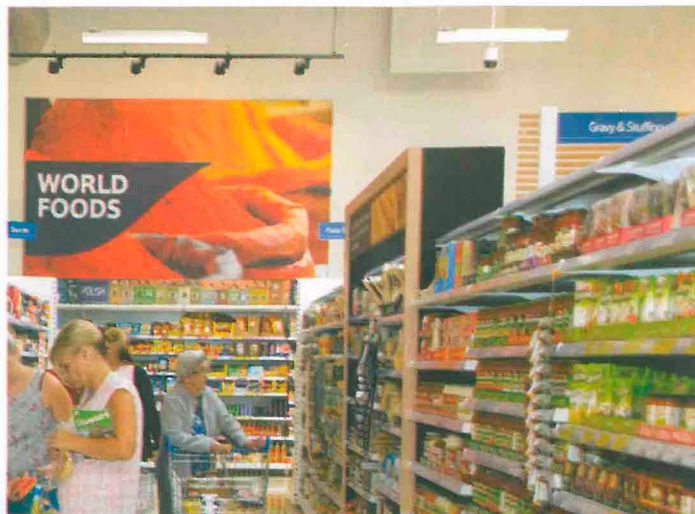
Tacon noted that a "major focus" of the commercial team was to hit budgeted margin targets, which Tesco negotiated with suppliers on a periodic basis. She said there was a "reluctance" among some Tesco buyers to "pro-actively engage in the resolution of payment disputes" and concluded that the supermarket giant "acted unreasonably" by using the cash owed to suppliers as leverage in negotiations for future agreements or promotions.

2 Competition and Markets Authority has been notified

Although the GCA said Tesco did not breach the code by directly requiring suppliers to make payments in order to secure better shelf positioning or a greater amount of shelf space, the retailer did receive payments of this type.

Tacon said this could be "to the detriment of smaller suppliers who cannot offer payments for better positioning, increased shelf space, category captaincy or to participate in range reviews".

However, she observed that the views of retailers and suppliers



Five things we learnt about Tesco's supplier relationships

The Groceries Code Adjudicator unveiled the damning findings of its investigation into Tesco's relationship with suppliers. Luke Tugby analyses the key takeaways from the report

would need to be garnered before any "firm conclusions" were made about these practices.

Tacon also saw evidence that Tesco may be operating without all of its terms of agreement with suppliers being recorded in writing.

As a result of those two findings, Tacon revealed she would be writing to the Competition and Markets Authority – meaning Tesco could now face scrutiny from yet another regulatory body.

3 Some suppliers faced financial impacts

Decisions to delay payments and make unilateral deductions impacted Tesco's suppliers to

varying degrees. While larger suppliers told the GCA that these practices had "minimal impact" on their day-to-day liquidity, they had much greater ramifications for smaller suppliers.

Tacon said some suppliers were concerned that they would "breach bank covenants" or be forced to obtain increased loans.

The impact of any delay in payments was amplified by "the importance of the Tesco relationship". Some suppliers were more heavily dependent on the grocer in order to maintain their financial position and future prospects.

Tacon said this placed Tesco in an even greater position of power

when it came to negotiating deals with suppliers.

4 Tesco faces ongoing scrutiny from GCA

Following the publication of her findings, Tacon will require Tesco to provide a "detailed implementation plan" setting out how it will comply with the recommendations made. This will need to be done in the next four weeks.

The GCA will also require correspondence from Tesco on a quarterly basis, specifically including an analysis of reasons for invoice errors and evidence that such errors are being reduced, the value and number of invoices currently in dispute, and the average length of time that invoices are in dispute. Tacon said Tesco had "already taken steps" to address some issues.

5 Tesco is rebuilding its relationships

Since launching an internal investigation into its dealings with suppliers, Tesco has already rung the changes by reviewing the way it works with its 3,000 UK suppliers.

It has implemented 14 initiatives, including reducing the number of ways in which it calculates income, becoming the first UK retailer to publish its payment terms with suppliers and setting up a supplier helpline.

But boss Dave Lewis highlighted the fact the grocer remained "on a journey" – and that view was backed up by Tacon's report.

She pointed out that the "overwhelming majority" of suppliers said their relationship with Tesco was now "more positive" than it was prior to February 2015.

But the job is far from done. Some suppliers – albeit "a small number" – said they still "experienced difficulties" in their relationships with Tesco, and one in particular claimed the relationship remained a "transactional, conflict based" one.

While Lewis's work to rebuild trust and transparency with Tesco's suppliers is undoubtedly on the right track, there are a few more twists and turns still to be navigated.