

The Use and Abuse of Power in Retail Supply Chains

Steve Apted brings professional experience to bear on this important but controversial subject, showing the forces which combine to bring misery to small suppliers of large companies. He outlines how recent trends in consumer preference now threaten the more unscrupulous large retailers. He suggests practical and achievable steps in overcoming the evils of the industry, and concludes by giving examples of enlightened programmes by some large retailers.

How cheap is too cheap?

In last few years the multiple high street food and clothing retailers have come under fire for a series of scandals that have severely impacted their reputation. These scandals have included the exposure of horse meat as an undeclared

ingredient in processed foods, and the Rana Plaza factory collapse that occurred in Bangladesh in 2013 which resulted in the deaths of 1110 people and a further 2000 injured. Earlier this year Tesco announced it had overstated its trading performance by anticipating rebates

they expected to receive from suppliers and declaring them as profits before they were received. Other abuses that have emerged in retail supply chains include forcing extended payment terms and charging suppliers fees in order to retain business. As a result of the





Harvesting Cumin in Gujarat, India,
where the crop failed last year

Tesco accounting issue a referral was made to the Serious Fraud Office and an investigation is under way by the Groceries Code Adjudicator.¹

Further up the supply chain multinational food manufacturers such as Heinz have also forced their suppliers to provide extended credit terms before invoices for goods and services supplied to them are paid. In January 2015 it was reported in the Sunday Times that payment terms were being extended from 45 to 97 days, putting great strain on the cash flow of small suppliers. Heinz is jointly owned by 3G Capital and Warren Buffett's company Berkshire Hathaway, hardly an organisation struggling with cash-flow problems, which is the usual reason for asking for extended payment terms. The Federation of Small Businesses commenting on this move said 'We are extremely disappointed that yet another household name is treating its supply chain in this wholly unacceptable manner'.² Dominance at the top of the supply

chain by the big players gets forced down to second and third and fourth tier suppliers who are much less able to respond to these demands.

In recent months peanuts and almonds have been used as replacements for cumin seeds in food and cosmetic products. Cumin is a popular spice used to flavour food; however there was a cumin crop failure in India last year due to high temperatures. As a result of price increases in the commodity, alternatives have been substituted, with consequential health hazards for anyone suffering from a nut allergy.³ Other issues of public concern are global organisations that avoid paying company taxes through the registration of holding companies in offshore low-tax countries such as Luxembourg.

At the root of all these issues is the drive for ever greater profitability and competitiveness in a deflationary market where there is intense

pressure to achieve year-on-year improvements in trading performance, increased shareholder dividends and share prices.

Retail businesses are dependent on the performance of their supply chain operations to deliver ever-increasing efficiency, increased value to consumers and incremental product cost reductions.

These issues have been analysed in depth by Prof Andrew Cox in his co-authored book *Supply Chains, Markets and Power: Mapping Buyer and Supplier Power Regimes*. Cox defines the role of supply chains in helping organisations achieve sustainable competitive advantage in the following way:

The ideal position for a firm to be in to achieve sustainable business success is one in which it has power over others. By power we mean the ability of a firm (or an entrepreneur) to own and control critical assets in markets and supply chains that allow it to

*sustain its ability to appropriate and accumulate value for itself by constantly leveraging its customers, competitors and suppliers. We contend that the successful exploitation and protection of these sources of power will enable a firm to be sustainably successful. Success is represented by the firm's ability to earn rents (profits).*⁴

In the last two decades the supermarket and clothing retailers in particular have refined this model to a point where they have huge dominance and power in the control of their supply chains. The continued quest to extract ever greater profits from an already mature, efficient and competitive supply chain can tip managers over into at best cutting corners and at worst collusive, immoral and illegal practices.

The Bible has plenty to teach on the exploitation of power and responsibility to wider society and of those who are vulnerable to abuse. The Old Testament model of the year of Jubilee was intended to deal with the issue of dominant individuals appropriating more and more power and control to themselves. The Old Testament biblical principle was a periodic resetting the clock to zero.

If you sell land to any of your own people or buy land from them, do not take advantage of each other. You are to buy from your own people on the basis of the number of years since the Jubilee. And they are to sell to you on the basis of the number of years left for harvesting crops. When the years are many, you are to increase the price, and when the years are few, you are to decrease

the price, because what is really being sold to you is the number of crops. Do not take advantage of each other, but fear your God. I am the LORD your God.

Leviticus 25:14-17

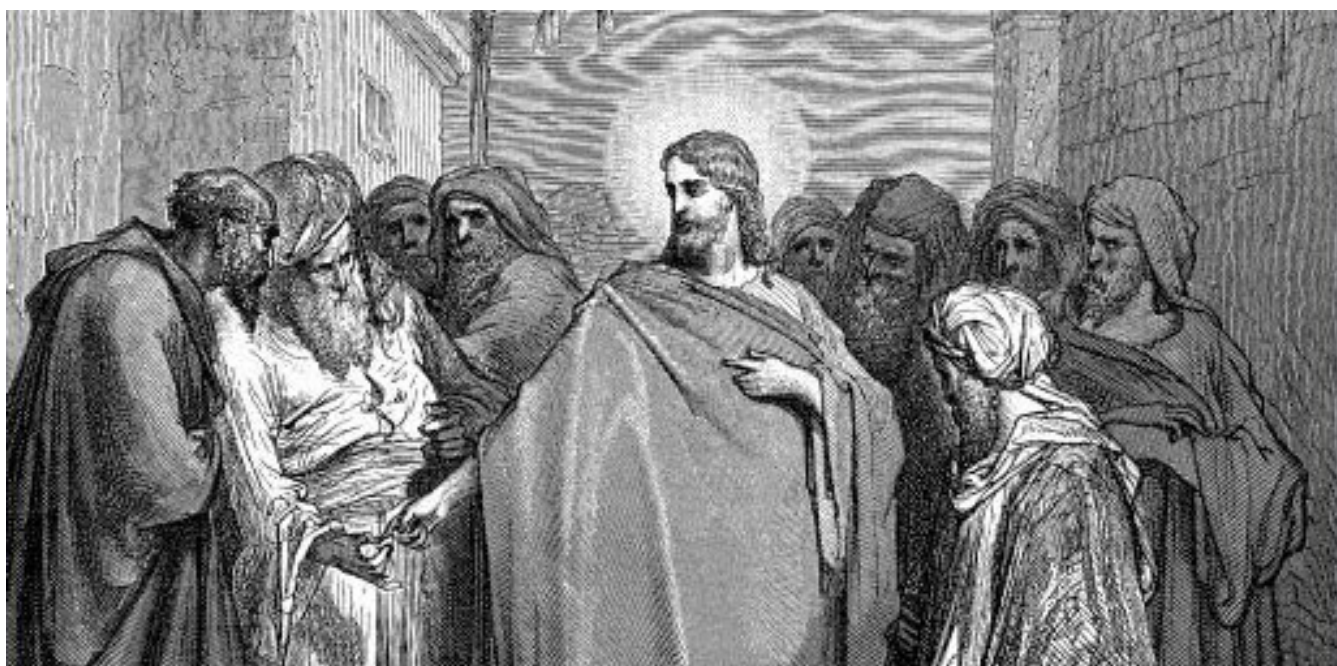
The concept of allowing the poor to glean crops at the side of the field after the harvest was intended to address the dominance of a few individuals controlling the supply chain for food and counter-acting the maximisation of profit at the expense of the poor.

When you reap the harvest of your land, do not reap to the very edges of your field or gather the gleanings of your harvest. Do not go over your vineyard a second time or pick up the grapes that have fallen. Leave them for the poor and the foreigner. I am the LORD your God.

Leviticus 19:9-10



Jean-François Millet (1814-1875) *The Gleaners* (1857) in the Musée d'Orsay, Paris



Render unto Caesar: Paul Gustave Doré, *Christ And The Tribute Money* (detail) Illustrations in the Holy Bible, 1866

An Old Testament example of abuse by a dominant individual exercising power to control a supply chain is the story of Naboth's vineyard (1 Kings 21:1 ff). Naboth is a small-scale wine manufacturer who happens to have his family-owned manufacturing facility located near to a dominant landowner (King Ahab) who wants to control the critical assets and switch production from grapes to vegetables. When the purchase negotiation breaks down the king, at the suggestion of his wife, uses his dominance to step in and seize the land and use it for his own purposes. As a result Naboth is framed by two false witnesses and murdered.

In the New Testament we see Jesus implying the appropriateness of paying taxes where they are due. (Matthew 22:21). Paul speaks even more explicitly about the obligation to pay taxes:

This is also why you pay taxes, for the authorities are God's servants, who give their full time to governing. Give to everyone what you owe them: If you owe taxes, pay taxes; if revenue, then revenue; if respect, then respect; if honour, then honour.

Romans 13:6-7

Where does this leave individual Christians in middle or even senior management positions who are seeking to live according to biblical principles but find themselves caught up in intensely competitive multi-billion pound international supply chain operations over which as an individual they have little or no control? One way for individuals to gain collective influence is to support the move to apply peer group pressure through professional organisations such as the Chartered Institute of Purchasing and Supply that seek to encourage and influence organisations to operate to a rigorous and enforceable code of ethical conduct. The institute is actively moving towards a licence to operate as a professional procurement practitioner which would mean that in the event of being implicated in proven unethical practice the individual would lose their livelihood. More than 85% of professional supply chain managers believe that professional

procurement training and qualifications are a key way to avoid abuse in supply chains.

Another option is for individual Christians to make informed choices about whom they choose to work for. Companies that do not operate ethical supply chains may find they are unable to employ the best people. These companies may find themselves in the same category as the tobacco and some armaments companies.

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Robert Peston, the BBC Business Editor commented: 'Companies perceived by people, politicians and media as, in some sense, not making a proper contribution to the societies from which they extract their revenues and profits, will over time become marginalised within those societies'.⁵

Media reports make it clear there is widespread concern over a number of these ethical and moral issues and it is felt much more widely than just by those seeking to live by the principles of scripture.

The March 2015 edition of Supply Management, the professional journal for the Chartered Institute of Purchasing and Supply, was devoted to the ethics of retail supply chain operations. In a survey of over 1000 professional buyers 88% felt that the behaviour of supermarket chains accused of 'bullying' suppliers was giving the reputation of the procurement profession a bad name. The survey also identified other 'bullying' tactics that professional buyers felt to be unacceptable included:

Pay to Stay (the practice of asking for payments to remain on supermarket shelves)	49%
Late payment	18%
Lengthy payment terms	17%
Retrospective discounts	7%
Payment for point of sale promotions	3%
Early payment discount	1%
Other	5%

When professional buyers and supply chain managers were asked what they considered to be the worst scandals to hit the retail

sector in recent times they responded as follows:

The reported incidences of modern slavery or use of child labour	31%
The horse meat scandal	21%
Supermarkets being accused of treating suppliers like cannon fodder	19%
The Rana Plaza garment factory collapse in Bangladesh	15%
Employee suicides at manufacturer Foxconn	8%
The use of conflict minerals from Africa in electronic components	2%
Other	4%

Food critic Jay Rayner contributing to the Supply Management article uses some interesting language:

The reality is that they [the supermarkets] have reaped what they have sown. Incidents like the horse meat scandal made consumers aware that the pressure on price is not necessarily a good thing. The mass retailers should not be surprised if people have lost faith in them. One of the reasons discounters have done so well is that their

economies of scale enable them to do really good deals with their suppliers. The great mistake the big full service supermarkets made was to think the consumer would be wary of a drop off in quality. The consumer has been quite smart and worked out that there was no drop off in quality and all they were trading down to was a drop off in choice. Choice is not the key thing. They want a good price and quality but also want to feel suppliers are not getting stiffed in the deal. ⁶

When the survey asked what retailers could do to improve their reputation these were the responses:

Increased transparency and traceability of supply chains	44%
Helping customers to understand that there can be a human cost to cheap goods	28%
Better relations with suppliers	23%
Other	5%

In order to paint a balanced picture it must be recognised that the big supermarket retailers have made a





huge contribution to innovation, the creation of new supply markets in developing countries and improvements in the overall quality and consistency of food consumed. They are also major employers and trainers of young people.

When professional buyers were asked what they most admired about retailers they advised:

Speed to market	35%
Development of international suppliers and supply bases	22%
Innovation and creativity	21%
Low costs offered to consumers	6%
Other	6%

The pension and insurance institutions are major shareholders of retail stock and a major failure of one of the big supermarket chains would have serious financial implications to these providers and to the growth in value of personal pension plans.

All of the major retailers operate charitable foundations. The Sainsbury Family Charitable Trust is

the operating office of 18 grant-making trusts established by three generations of the Sainsbury family. The Trust's donations to charitable causes over several decades represent one of the leading examples of sustained philanthropy in Britain.

The Tesco Charity Trust aims to help support the local communities in which they operate, supporting both national and local community not-for-profit organisations, and adding a 20% top-up to employee fundraising.

The Costa Coffee Foundation is an independent charity that aims to relieve poverty in coffee-growing communities. Its objective is to improve the life chances of boys and girls by providing them with the opportunity for a quality education. Farmers are seen as a critical element in the brand's success and the foundation aims to relieve

poverty, advance education and by doing so, improve health and protect the environment of coffee-growing communities around the world.

Whitbread, owners of Costa Coffee and Premier Inns, have also launched a sustainable supplier initiative. All its suppliers will be required to sign up to a responsible

'Farmers are seen as a critical element in the brand's success'

sourcing policy encompassing child labour and freedom of association (ie trade union membership) as well as commodity specific requirements. This

includes a ban on sourcing cotton (used in hotel linen) from Uzbekistan as students and public employees are forced out into the growing fields every summer to pick cotton.

The answer to these abuses at a national level is an increased level of vigilance from industry watchdogs and legislators, enhanced industry

self-regulation and professional bodies such as the Chartered Institute of Purchasing Supply driving professional training and accreditation

As a result of the Rana Plaza tragedy Primark, which was seriously implicated, has been a founding member of the Bangladesh Accord which is a legally binding agreement between global brands, retailers and trade unions to raise standards in the garment industry. The accord is pursuing a standardised approach to improving safety and working conditions including the structural safety of buildings. Issues such as child labour and working hours are also being addressed. Unannounced visits take place and factories are visited late at night. Workers are interviewed anonymously off-site so they cannot be victimised in the event of whistle blowing. The primary focus is on Issues such as wages, factory safety, human rights and trade union rights at work.

The Food Standards Agency has awarded a grant to Manchester University's food fraud and supply network which aims to help


regulators and retailers take appropriate action to avoid food fraud and contribute to consumer confidence and trust in UK food supply chains.

At the organisational level industry professionals need the courage to speak truth to power and discriminate about who they are

'At the organisational level industry professionals need the courage to speak truth to power'

prepared to work for. At the individual level each of us needs to act and shop responsibly. A number of major food and drink manufacturers and retailers provide evidence on their websites of their efforts to maintain ethical supply chains. For example, Premier Foods have set up an ethical supply chain working group and provide details on their website. A number of the supermarket chains also place evidence on line although it may take some hunting out and is usually found in the corporate social responsibility section of company websites. Mitchells and Butlers who operate restaurant brands such as Harvester and All Bar One make clear statements on how it sources its food. Other restaurant operators are members of the Sustainable

Restaurants Association which works to ensure food is sustainable and promote environmentally positive farming, local and seasonal food, sustainable fish, ethical meat and dairy.

The Christian church has a long history of speaking out and acting on issues of social justice and oppression. Men and women like Newton, Wilberforce, Nightingale and Barnardo stand out as role models and examples to us. The issues faced in this generation are no less pressing but are removed from our sight and as a result feel as if they are beyond our sphere of influence or control. We need to be careful that in our desire for a bargain we are not tacitly condoning the exploitation of others who are not in a position to speak out and do not have others to champion their cause. Wilberforce acted in his generation through the law. Most of us individually do not have the power to change institutional structures but collectively the power of consumer influence and mass consumer pressure through social media has the potential to drive huge change. Christian consumers and business people need to recognise their social responsibilities in this area and act accordingly. 

1. Kiki Loizou 'Tesco Threatens New Squeeze on Suppliers', Sunday Times Business Section 8th February 2015
2. Oliver Shah, 'Beanz Meanz Long Waitz to be Paid', Sunday Times Business Section 18th January 2015
3. Nick Martindale, 'Safety First', Supply Management March 2015
4. Andrew Cox, Paul Ireland, Chris Lonsdale, Joe Sanderson and Glyn Watson, *Supply Chains, Markets and Power: Mapping Buyer and Supplier Power Regimes* Routledge, 2002, p.3.
5. www.bbc.co.uk/news/business-20639123
6. www.supplymanagement.com/news/2015/news-focus-supermarket-supply-chain-bullying-harming-procurements-reputation



Steve Apted has a background in supply chain, procurement and operations management having worked in a number of industry sectors. He held senior supply chain roles with Whitbread Plc and is a member of the Chartered Institute of Purchasing and Supply. He is currently a Non-Executive Director and Trustee of CWR and a member of the leadership team of Faith in Business. He now works as an interim operations and supply chain executive and his latest assignment is interim General Manager for IVP Books (UK). Steve can be contacted on s.apted@sky.com