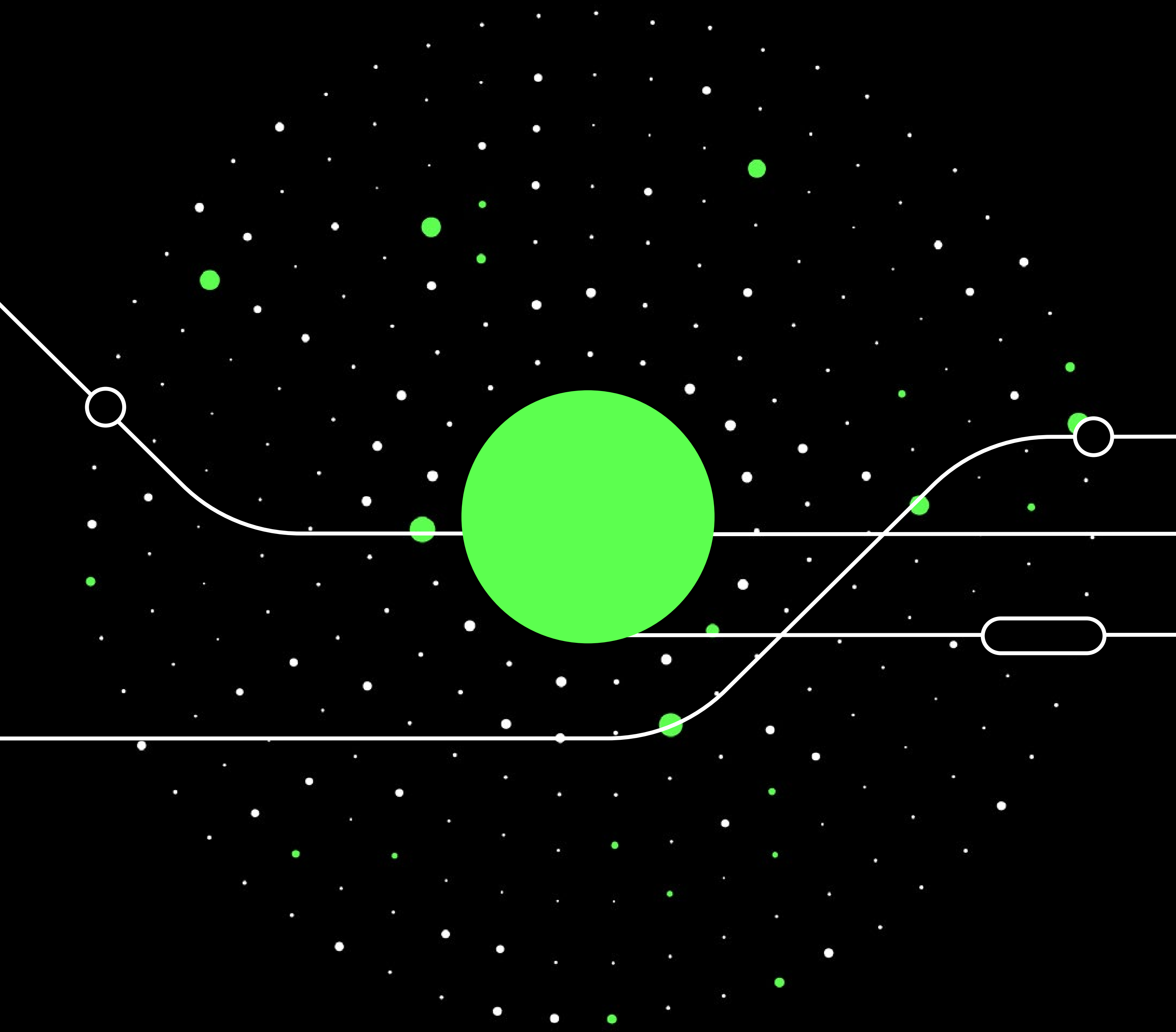
The burden of proof

A grocers guide to better process management for GSCOP compliance



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Introduction

As the Grocery Code of Conduct (GSCOP) publishes its latest report under new adjudicator Mark White, and as the UK Government launches a major overhaul of the audit regime, it is clear that the pressure on grocers to build stronger relationships with suppliers and manage them efficiently will intensify.

Adjudicator Mark White, who took over last year from Christine Tacon, revealed the proportion of suppliers experiencing issues at any stage in the past year was down to 29%, compared to 36% in 2020, despite the survey covering a brutal period of trading in the coronavirus crisis which saw thousands of products delisted.

The findings come after more than 2,500 responses were received by the adjudicator's official YouGov survey, which launched in January.

The Grocer, April 13, 2021

GSCOP's public statements and articles in the media reflect a desire by regulators as well as consumers for more sensitivity in the way grocers work with suppliers, partners and employees, and transparency in how they demonstrate it.

Despite progressively improving indicators reported back by suppliers in key areas around issue management, on time payments and delisting behaviour, GSCOP has made it clear that there is still a great deal of work to do.

The 2020 report shows that, while the number of suppliers reporting they had experienced Code-related issues at any stage in 2020 had fallen, it still stands at 29%.

2 The burden of proof weighs heavy

The new adjudicator has a legal background which industry analysts suggest may mean a stricter regulatory environment. And because the burden of compliance falls entirely on grocers, they are certain to see changes in what is required of them.

Suppliers are now more likely to raise an issue. Work by GSCOP since 2014 has created a growing awareness among suppliers of their rights and their willingness to act - the percentage of suppliers that said they would not raise an issue fell significantly, from 18% in 2018 to 10% in 2019 and 11% in 2020.

Some of these issues relate to delisting which grocers were obliged to accelerate in order to guarantee supply of key items during the pandemic. Delisting, whilst a commercial imperative, has already resulted in supplier push back and while in 2020 GSCOP did not get actively involved, in the future the media suggests they are likely to.

And yet, supermarkets will not want to see a curtailing of their freedom to delist; even as the pandemic passes, they will still need to retain flexibility around listing in order to support margins and also meet customer demand which has become so much more unpredictable as a result of the pandemic.

A total of 1,628 respondents took part in the GSCOP survey, including 1,480 direct suppliers, 118 indirect suppliers and 30 trade associations.

36% of suppliers stated they had experienced issues at any stage during the previous 12 months.

The most common Code-related issues experienced by suppliers in 2020 were:

- No compensation for forecasting errors/not preparing forecasts with due care
- Delay in payments
- Not meeting duties in relation to De-listing

3 Compliance costs will eat into already tight margins

In a low margin industry where competition has started to re-intensify as the UK emerges from the covid pandemic, these costs are unsustainable unless new benefits can be found to justify the investment.

This problem has been made worse by Covid. The UK grocery industry rose to the challenges posed by the virus and the need to keep the country fed as well as catered for in their everyday needs. This only added to their costs, as grocers' recent financial results demonstrate.

According to a report by **McKinsey**, several retailers are easing payment terms, widening delivery-appointment windows, and relaxing on-time, in-full (OTIF) requirements.

Tesco for instance, reporting in mid April 2021, saw sales rise nearly 7% but its profits fall nearly 20% or £825m for 2020 due to £900m in extra costs caused by Covid. Around 50,000 temporary staff were taken on during the pandemic, of which 20,000 joined permanently.

These costs have possibly barely begun to register given the scale of changes in shopper behaviour. According to data from **ThoughtWorks**, two-thirds of people in the UK have adopted new food buying habits that they intend to stick with in the long term. Four in five people, meanwhile, have changed the way they think about and consume their food due to repeated lockdowns.

Environmental issues were shown to be important to consumers: the data found that more than a third of people now say they will reduce the amount of food waste they produce, while just under a quarter of people said they had become more conscious of the environmental impact of their food while in lockdown.

4 For grocers, consumer demand at this level equates to higher costs.

Another high cost area driven by consumers during the pandemic is on line grocery. Growing rapidly before Covid and then accelerated during the pandemic, Nielsen quoted in **Ecommerce News** predicts that it will rise by 66% to 2023; it also predicts 70% of consumers will shop for groceries online by 2024.

However, it is not profitable. Analysis from consultancy Bain & Company in 2020 found that hand-picking online orders from a physical store, delivering it and charging no customer fees 'typically' has an operating margin of minus 15%. This rises for click and collect, but is still minus 5%.

The clear conclusion is that the complexity that grocers are already dealing with in their supplier management will intensify across the product lifecycle (buying, assortment, allocation, promotion and markdown) as channel mix, fragmenting fulfilment, changing shopper behaviour and onerous regulatory requirements combine to break current cost models and the IT systems that support them.

Fixing the problem to improve operational efficiency is a challenge because there is a paradox at the heart of supplier management : With costs rising, margins continually under pressure and the regulatory environment tightening (with the attendant risks of fines for non-compliance), there seems to be no room for manoeuvre.

Grocers lack the data and visibility into that data that will give them a single version of the truth. Different departments and disciplines are unable to collaborate to solve the biggest areas of cost bleed – forecasting, listing/delisting management, supplier management particularly deliveries and payments – because they are typically using their own data sets, applications and processes.

A lack of governance and efficient processes, many of which are handled manually, across these disciplines and an attendant lack of transparency, all result in higher costs, a greater number of issues being raised and the risk of fines where non-compliance is discovered.

Low visibility into supply chain performance is generally down to aged and fragmented system landscapes that result in execution gaps, a lack of appetite/ budget to drive full transformation, an imperative to get the most out of current investments despite their limitations, and a lack of data-driven tools. As a result, GSCOP code compliance officers are hobbled from the get go.

Online sales for all grocers grew dramatically; at Tesco they rose by 77% during the year to £6.3bn while in the last quarter of the year online groceries made up 18% of sales as shoppers stayed home.

5 Solving the paradox is all about Data and Process

Key areas of cost bleed for grocers working with suppliers

- Early deliveries from vendor which in turn cause additional inventory holding cost, more waste due to excess stock and often lead to invoices being billed and paid earlier.
- Late deliveries which affect consumer expectations (brand equity + spend), cause expensive buffer/safety stock levels
- Late payments that impact supplier relationships and possible costs through penalties
- Early payments due to In-frequent and non-optimised payment runs (and manual payments) that impact working capital
- Lack of forecast & replenishment transparency leads to process variability and therefore errors orders
- Inefficient supplier management (SLA adherence, queries, approvals, incidents) is costly and time-consuming

“Suppliers reported that they experienced problems where there was a disparity between what suppliers said they had delivered and invoiced, and what the relevant regulated retailer said had been received. In some cases, retailers appeared to make automatic deductions from invoices for alleged shortages. These deductions were difficult to challenge, depending on the haulage method and particularly where no proof of delivery had been issued. Suppliers informed the GCA that this was a major issue for them. There appeared to be different patterns of deductions among retailers in respect of the same suppliers; and varying error rates being recorded despite suppliers using the same processes with each retailer. Drop and drive continues to be considered as an example of a practice which can lead to delay in payments.”

The GSCOP report 2020

6 The Celonis solution

Celonis helps grocers to improve Code compliance and achieve a higher ranking by focusing on current supplier management processes that most often lead to fractures in supplier relationships as well as high costs.

Better GSCOP compliance and higher ranking starts with having insight into supplier management processes and data that will identify problems that can then be re-engineered/optimised and automated.

We enable better data access and visibility, analyse process gaps and benchmark for best practice to enable new processes to be modelled, designed and automated.

We provide real time access to data, along with x-ray visibility and control of key processes from Purchase to Pay to Order to Cash, notably in areas most affected by industry trends and now Covid, to enable:

- Management of costs relating to the complexity arising from an increasing range of order fulfilment options, new channels and new competitors.
- Replenishment optimisation for fresh goods, the largest area of margin opportunity for most grocers, which enables large amounts of data needs to be processed and supply chain planning and forecast capabilities to be improved.
- Effective exploitation of disruptive business models that are emerging to take advantage of demand for sustainable products, functional foods, health and wellness, while recognising customer price sensitivity.

What the EMS does

Visualize your processes in real time

See your process as it really runs and all the deviations that are happening along the way - such as invoices going back and forth in your AP process or delays in ticket resolution in customer service operations.

Detect execution gaps automatically and fix them

Critical gaps and inefficiencies are surfaced in real-time, alongside the recommended next-best-actions to tackle them - so you can fix issues before they impact KPIs.

Automate what can be automated

Automated approvals, conflict resolutions, and self-service options boost productivity and ensure your people can concentrate on high-value work.

Reduce operational costs

Cut down rework and manual changes for faster, more accurate - and ultimately cheaper - processes.

How it does it

Measure

The Celonis EMS leverages Process Mining technology to extract data in real-time from source systems and measure capacity. It identifies and visualises execution gaps - like manual rework and increased cycle times - that limit your execution capacity.

Know

The EMS knows the right course of action to eliminate the most impactful execution gaps. Based on machine learning and best-practices, it suggests the best steps - such as updating master data - to help maximise execution capacity.

Act

The EMS takes action in a number of ways. It automates real-time actions across systems - such as paying an invoice or escalating a service ticket - as well as deploys the right people to remove gaps - highlighting a pattern of non-compliant behavior, for example.

Celonis solutions deliver the following benefits:

Better processes for supplier management will improve relationships and have reputational benefits in terms of suppliers wanting to work collaboratively with the grocer.

Better conformance with GSCOP regulations will lead to less breaches of the code, cutting both management costs to deal with issues and also mitigate fines.

Better processes around deliveries and payments will increase working capital, result in less waste, a leaner operational infrastructure due to automation and mitigation of issues handling, and a more predictive rather than reactive way of working.

This level of automation will in turn lead to lower labour costs currently committed to fixing issues arising. It will also mean that the high cost of maintaining older, often unintegrated systems can be removed.

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