



# Tesco in the UK

**The socio-economic  
contribution in  
FY 2016/17**

June 2018

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# 1

## Executive summary

## 1.1 About the study

The UK food and grocery market<sup>(1)</sup> generated sales of over £157.7 billion in 2017, approximately 40 per cent of total UK retail sales<sup>(2)</sup>. The sector is comprised of over 37,400 businesses and employs over 1.4 million people across the UK<sup>(3)</sup>.

While the overall importance of the UK food and grocery sector to the economy has been measured, there is less evidence to explain the contribution that individual firms make toward this. Therefore, to address this gap, and to help Tesco and its stakeholders better understand the overall contribution that it makes in the UK, it commissioned KPMG to conduct an independent study of its economic and social contribution in the UK for financial year 2016/17 ("FY16/17").<sup>(5)</sup>

### 1.1.1 Tesco and the UK food and grocery sector

Tesco, is the largest grocery retailer in the UK with a 28 per cent market share (in terms of sales),<sup>(4)</sup> with operations in the UK including:

- Tesco Retail, with almost 3,200 sites across the country. This is made up of 2,646 stores and 490 petrol filling stations, 25 distribution centres, 13 other stores (such as pharmacies) and one head office site.
- One Stop, a retail convenience business with over 700 shops across England, Wales and Scotland.
- Tesco Bank, which opened in 1997, and provides a range of retail banking and insurance products.
- dunnhumby, a customer science company that analyses data to generate insights to help its clients to improve digital, mobile and retail operations. dunnhumby worked with Tesco in 1994 to develop the Clubcard loyalty programme, with Tesco first buying a stake in the company in 2001.
- Tesco Mobile, the joint venture between Tesco Group and O2 that provides mobile telecommunication services.

### 1.1.2 Scope of the study and approach to assessing impacts

The study covers the gross contributions<sup>(6)</sup> associated with Tesco's UK based operations, specifically: Tesco Retail; One Stop; Tesco Bank; and dunnhumby.<sup>(7)</sup> KPMG's analysis assesses the contribution of Tesco at a national level as well as the distribution of this impact across each of the UK's 650 parliamentary constituencies.

The economic framework that we have applied to assess the contribution of Tesco in the UK captures a wide range of effects but does not attempt to measure all possible economic and social impacts, positive and negative, of Tesco's UK business.<sup>(8)</sup> The scope of impacts analysed in this study were agreed with Tesco at the outset of the project based on the impacts that are generally included within such studies and with a focus on the main channels through which Tesco contributes to the UK. The agreed areas of impact included in the study are:

- economic output in terms of Gross Value Added (GVA);
- employment;
- investment;
- fiscal contributions;
- wider contributions via Tesco's work with suppliers; and
- charitable activities and community initiatives.

The results of KPMG's analysis of Tesco's economic and social contribution are set out in this report.

Note: (1) This market is defined using the Standard Industrial Classification code 47110: Retail sale in non-specialised stores with food, beverages or tobacco predominating. This SIC includes cinema kiosks as well as off-licenses.

(2) ONS. 2017. 'Retail Sales pounds data' for 'Predominantly food stores'.

(3) ONS. 2017. 'Annual Business Survey, Number of enterprises and Total employment in point in time'.

(4) Kantar Worldpanel data. As of January 2018. According to Kantar Worldpanel ("Kantar"), 70 per cent of the market sales are serviced by four retailers. It is important to note that the market definition used by Kantar is narrower than the Office for National Statistics (ONS) definition which also includes, for example, cinema kiosks and other small, independent convenience stores.

(5) This covers England, Scotland, Wales and Northern Ireland. Republic of Ireland is excluded. Tesco's financial year is the 52 weeks ending 25 February 2017. This was the last full year for which the required data were available from Tesco at the time the study was undertaken.

(6) KPMG's analysis assesses the contribution of Tesco in gross terms, i.e. it does not consider how UK resources used by Tesco, for example human capital and physical capital, would have been employed if Tesco did not exist in the UK or any displacement, where Tesco's existence reduces economic activity that may otherwise arise elsewhere. Assessing this displacement would require detailed assumptions about consumers preferences and switching behaviour in the hypothetical scenario that Tesco did not exist in the UK as well as detailed information from its competitors to understand how this may affect their own UK economic activity.

(7) Tesco Mobile is not included within the scope of the analysis given challenges, including data availability, to assessing Tesco's specific contribution given that it is a joint venture with O2. This leads to an underestimation of the overall socio-economic contribution of Tesco in the UK.

(8) The environmental impacts of Tesco's activities are also not included within the scope of this study.



## 1.2 Key findings: Tesco's contribution to the UK's macro economy

### In FY16/17, Tesco's direct UK contribution was:

£6.4 bn

in terms of  
direct GVA

0.3%

as a proportion  
of total UK GVA

193,067

people directly  
employed, in  
headcount terms

0.6%

as a proportion  
of total UK  
employment

### 1.2.1 Contributing to UK economic output (GVA)

Our analysis, detailed in section 3.1 of this report, assesses Tesco's GVA contribution:

- Through Tesco's own activities, adding value to the goods and services provided by its suppliers to then sell on to end consumers, Tesco makes a direct GVA contribution. In FY16/17 this direct GVA contribution in the UK totalled an estimated £6.4 billion, approximately 0.3 per cent of UK GVA. This direct GVA contribution was predominantly driven by Tesco's grocery retail business (both Tesco Retail and One Stop): £5.8 billion of the total direct GVA.
- In addition to the direct GVA generated, Tesco generated a wider economic impact through its supplier spending. We estimate that for Tesco Retail<sup>(9)</sup>, this totalled £25.7 billion of GVA in FY16/17.
- Induced GVA was also generated in the UK economy through Tesco Retail employees and the employees supported within its supply chain spending a proportion of their wages on UK goods and services. This spending of wages added a further estimated £5.2 billion of GVA, in induced terms, to the UK economy in FY16/17.

Our analysis indicates that for every £1 of Tesco Retail direct GVA in the UK in FY16/17, an additional £5.46 of UK GVA was generated in indirect and induced terms.

In total, in FY16/17, Tesco contributed an estimated £37.3 billion in GVA to the UK.<sup>(10)</sup> This represents 2.1 per cent of national GVA.<sup>(11)</sup> To put this in context, this total GVA contribution of £37.3 billion is equivalent to approximately a third of the total GVA of the UK construction sector in 2016.<sup>(12)</sup>

### 1.2.2 Generating employment

As well as contributing to the UK economy through its GVA impact, Tesco contributes to the UK economy through its employment. Our analysis, detailed in section 3.2 of this report, shows that:

- As of April 2017, Tesco directly employed 296,967 people in headcount terms, corresponding to 193,067 full time equivalent (FTE) employees.
- Through Tesco Retail's spending with UK based suppliers, we estimate that it indirectly supported a further 449,301 FTEs in the UK in FY16/17.
- And a further estimated 100,646 induced FTEs were employed in the UK economy as a result of Tesco Retail's direct and indirect employees spending the wages associated with their direct or indirect work for Tesco.

On an FTE-basis, for every one direct FTE employee Tesco Retail had in the UK, we estimate that it supported the employment of a further 2.8 FTEs in the wider UK economy in FY16/17.

In total, Tesco supported an estimated 743,005 FTE jobs in the UK economy in FY16/17, equivalent to approximately 2.3 per cent of total UK employment.<sup>(13)</sup>

Note: (9) Indirect and induced GVA and employment impacts were only estimated for Tesco Retail as per the agreed scope.  
 (10) This is comprised of the direct GVA impact of Tesco Retail, Tesco Bank, dunnhumby and One Stop. It also includes the indirect and induced impact of Tesco Retail.  
 (11) Total GVA for the UK, 2016, in current basic prices. Data sourced from ONS. Dataset: 'Gross Value Added (Average) at basic prices: CP SA £m', published on 22 December 2017.  
 (12) Construction sector is defined as the broad industry group F. Construction. It includes construction of buildings, civil engineering and specialised construction Total GVA activities. Dataset sourced from the ONS. 2016. 'Gross Value Added (Income Approach) by SIC'.  
 (13) Total employment for the UK, February 2017. Data sourced from the ONS. Dataset: 'UK labour market: Apr 2017'. Tesco employment is expressed as a proportion of total number of UK employees.

### 1.2.3 Investing in Tesco's UK business operations

Capital expenditure ('capex') is the spending by a company to acquire or upgrade infrastructure. As explained section 3.3 of this report, it is an important driver of economic growth.<sup>(14)</sup> Investment can stimulate technological improvements or efficiency gains for a business, which can improve profitability and increase its GVA contribution. Similarly, an investment that increases capacity, and therefore increases revenue, will also be associated with larger GVA contributions<sup>(15)</sup>.

In FY16/17, Tesco invested £731 million, in terms of capex, in the UK and Republic of Ireland.<sup>(16)</sup> This accounted for 0.4 per cent of total business investment in the UK in FY16/17.<sup>(17)</sup> The majority of Tesco's UK investment was made in its retail business. The investment was focussed on a wide range of areas, including in property, stores and in energy efficiency improvements. Further details are set out in section 3.3.

### 1.2.4 Contributing to public finances

As a provider of UK goods and services, and an employer, Tesco contributes to UK public finances. Evidence from the 2017 PwC Total Tax Contribution survey of the 100 Group shows that Tesco is one of the most significant contributors of tax in the UK.<sup>(18)</sup>

Our analysis, detailed in section 3.4 of this report, indicates that in FY16/17, Tesco paid a total of £3.4 billion in tax. Of this, £1.2 billion was paid in taxes to the UK Government and a further £2.1 billion was collected on behalf of Government to be paid, including VAT on goods sold and employment taxes paid by Tesco employees.

Of Tesco's total £3.4 billion tax contribution in FY16/17 (paid and collected to be paid), the majority (£3.1 billion) was paid by Tesco Retail.

#### FY16/17:

£731 m

invested, in terms of capex

£1.2 bn

paid in taxes to the UK Government

£2.1 bn

collected on behalf of Government and paid

- Note:
- (14) United Nations. 2017. 'World Investment Report 2017'.
  - (15) ONS. 2016. 'Productivity Handbook – Chapter 4 – Output measures'.
  - (16) The scope of this investment figure is different to the other elements of analysis due to commercial sensitivity. This is for the UK and Republic of Ireland and also includes all Tesco operations. This figure is sourced from Tesco's 2016/17 Annual Report.
  - (17) ONS. 2017. 'Business Investment in the UK: July to September 2017 provisional results'.
  - (18) PwC. 2017. 'Total Tax Contribution 2017 Survey for the 100 Group'. The 100 Group represents the views of the finance directors of FTSE 100 and several large UK private companies. In 2017, Tesco ranked in the top 10 companies. We note that tax contributions can change year-on-year particularly in relation to profit taxes and, for retailers, the sales taxes collected on the goods and services that they sell.





## 1.3 Key findings: Tesco's contribution to local GVA and employment

We have analysed how the total GVA and employment generated by Tesco in FY16/17 is distributed across the UK. This is the local level impact of Tesco as a whole (i.e. the impact of all Tesco UK operations in each individual region and parliamentary constituency), rather than the local level impact of individual Tesco sites only in their own region or constituency.

### 1.3.1 The UK geographic reach of Tesco's GVA impact

Our analysis, detailed in section 4.1.1, indicates that Tesco generated economic activity, in terms of total GVA, in each of the UK's regions and parliamentary constituencies.

Tesco's total economic impact in each region and parliamentary constituency is driven by:

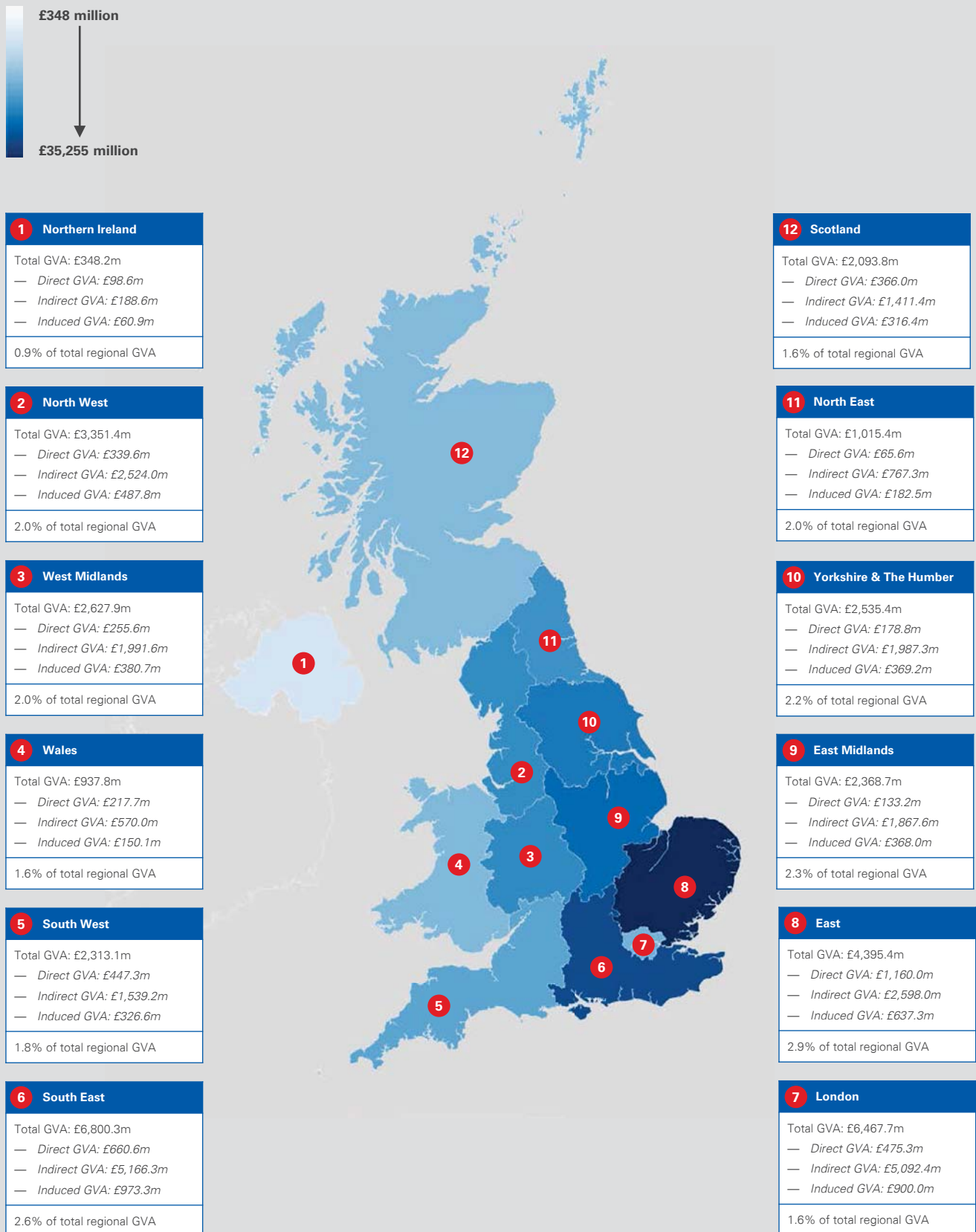
- The direct GVA that is generated by each of the Tesco sites (e.g. stores, petrol filling stations and distribution centres) within that region or constituency;
- The indirect GVA generated by businesses in Tesco's entire supply chain (both Tier 1 suppliers and suppliers in the wider supply chain) that operate in that region or constituency; and
- The additional economic activity that is generated in the region or constituency through Tesco's direct and indirect employees' spending of their wages.

We estimate that, at the regional level, Tesco's total GVA contribution ranged from £6.8 billion in the South East of England region to £348.2 million in Northern Ireland.

Figure 1 illustrates Tesco's estimated total GVA contribution (direct, indirect and induced) for each of the 12 UK regions for FY16/17 and the share of total regional GVA that Tesco contributed.





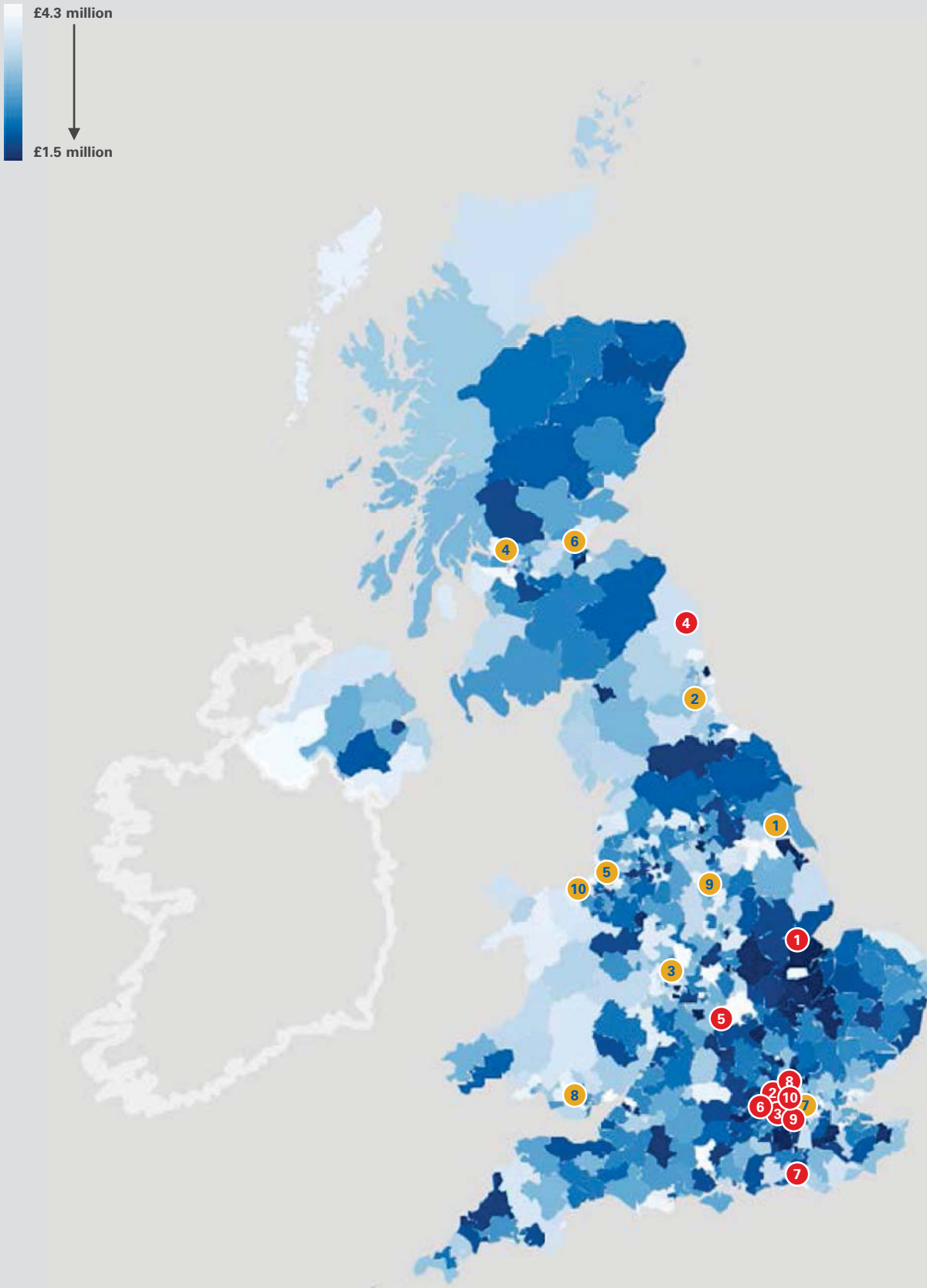
**Figure 1: Tesco total GVA contribution, by UK region, FY16/17**

Source: KPMG analysis. Data provided by Tesco. Regional GVA data sourced from the ONS. 2017. 'Regional gross value added (income approach), GVA by industry'.

Our analysis indicates that while Tesco's GVA contribution at the UK regional level varied quite significantly in absolute terms in FY16/17, as a proportion of total regional GVA Tesco's contribution was less varied, ranging from 0.9 per cent to 2.9 per cent of regional GVA. It contributed the most towards regional GVA (2.9 per cent) in the East of England.

Figure 2 provides a summary of estimates of Tesco’s estimated total GVA contribution (direct, indirect and induced) in the 10 parliamentary constituencies in which Tesco generated the highest and lowest economic contributions, in terms of GVA, in FY16/17.

**Figure 2: Tesco’s total GVA impact in the ten parliamentary constituencies in which Tesco generated the highest and lowest GVA contributions, FY16/17**



Source: KPMG analysis. Data provided by Tesco. Local authority GVA sourced from the ONS. 2017. 'Local authority GVA(I)'.



## Lowest GVA contributions, by parliamentary constituency, FY16/17

<p><b>1</b> Brigg and Goole</p> <p>Total GVA: £8.1m  — Direct GVA: £38.4m  — Indirect GVA: £35.5m  — Induced GVA: £11.0m</p> <p>0.21% of total local authority GVA</p>	<p><b>2</b> South Shields</p> <p>Total GVA: £7.4m  — Direct GVA: £0.6m  — Indirect GVA: £5.8m  — Induced GVA: £1.0m</p> <p>0.35% of total local authority GVA</p>	<p><b>3</b> Birmingham, Hall Green</p> <p>Total GVA: £7.1m  — Direct GVA: £0.5m  — Indirect GVA: £5.6m  — Induced GVA: £1.0m</p> <p>0.03% of total local authority GVA</p>	<p><b>4</b> Glasgow South</p> <p>Total GVA: £6.2m  — Direct GVA: £0.9m  — Indirect GVA: £4.5m  — Induced GVA: £0.8m</p> <p>0.03% of total local authority GVA</p>	<p><b>5</b> Liverpool, West Derby</p> <p>Total GVA: £5.9m  — Direct GVA: £2.9m  — Indirect GVA: £1.9m  — Induced GVA: £1.1m</p> <p>0.05% of total local authority GVA</p>
<p><b>6</b> Edinburgh South</p> <p>Total GVA: £5.8m  — Direct GVA: £1.9m  — Indirect GVA: £3.0m  — Induced GVA: £0.9m</p> <p>0.03% of total local authority GVA</p>	<p><b>7</b> Eltham</p> <p>Total GVA: £5.2m  — Direct GVA: £0.8m  — Indirect GVA: £3.6m  — Induced GVA: £0.8m</p> <p>0.12% of total local authority GVA</p>	<p><b>8</b> Rhondda</p> <p>Total GVA: £5.0m  — Direct GVA: £0m  — Indirect GVA: £4.3m  — Induced GVA: £0.7m</p> <p>0.13% of total local authority GVA</p>	<p><b>9</b> Sheffield, Heeley</p> <p>Total GVA: £4.6m  — Direct GVA: £0m  — Indirect GVA: £4.0m  — Induced GVA: £0.6m</p> <p>0.04% of total local authority GVA</p>	<p><b>10</b> Wirral West</p> <p>Total GVA: £4.3m  — Direct GVA: £0.2m  — Indirect GVA: £3.6m  — Induced GVA: £0.6m</p> <p>0.09% of total local authority GVA</p>

## Highest GVA contributions, by parliamentary constituency, FY16/17

<p><b>1</b> South Holland and The Deepings</p> <p>Total GVA: £311.5m  — Direct GVA: £7.8m  — Indirect GVA: £260.3m  — Induced GVA: £43.4m</p> <p>12% of total local authority GVA</p>	<p><b>2</b> Slough</p> <p>Total GVA: £352.3m  — Direct GVA: £13.1m  — Indirect GVA: £290.6m  — Induced GVA: £48.6m</p> <p>5% of total local authority GVA</p>	<p><b>3</b> Poplar and Limehouse</p> <p>Total GVA: £436.6m  — Direct GVA: £9.3m  — Indirect GVA: £369.6m  — Induced GVA: £57.8m</p> <p>2% of total local authority GVA</p>	<p><b>4</b> Tynemouth</p> <p>Total GVA: £475.4m  — Direct GVA: £6.7m  — Indirect GVA: £372.9m  — Induced GVA: £95.8m</p> <p>11% of total local authority GVA</p>	<p><b>5</b> Warwick and Leamington</p> <p>Total GVA: £612.5m  — Direct GVA: £10.4m  — Indirect GVA: £522.1m  — Induced GVA: £80.1m</p> <p>11% of total local authority GVA</p>
<p><b>6</b> Epsom and Ewell</p> <p>Total GVA: £749.6m  — Direct GVA: £3.1m  — Indirect GVA: £647.6m  — Induced GVA: £98.9m</p> <p>38% of total local authority GVA</p>	<p><b>7</b> Hove</p> <p>Total GVA: £1,030.4m  — Direct GVA: £11.3m  — Indirect GVA: £883.3m  — Induced GVA: £135.8m</p> <p>14% of total local authority GVA</p>	<p><b>8</b> Welwyn Hatfield</p> <p>Total GVA: £1,136.7m  — Direct GVA: £606.9m  — Indirect GVA: £356.1m  — Induced GVA: £173.6m</p> <p>27% of total local authority GVA</p>	<p><b>9</b> Cities of London &amp; Westminster</p> <p>Total GVA: £1,514.9m  — Direct GVA: £23.6m  — Indirect GVA: £1,294.6m  — Induced GVA: £196.6m</p> <p>3% of total local authority GVA</p>	<p><b>10</b> Holborn and St Pancras</p> <p>Total GVA: £1,575.9m  — Direct GVA: £5.1m  — Indirect GVA: £1,363.3m  — Induced GVA: £207.5m</p> <p>5% of total local authority GVA</p>

At the parliamentary constituency level, through the direct, indirect and induced economic activity generated by Tesco, it contributed to the GVA of each of the UK's constituencies in FY16/17. This contribution ranged from an estimated £1.6 billion in the constituency of Holborn and St Pancras to £4.3 million in GVA in Wirral West.

Our analysis, detailed in section 4.1.1, indicates that Tesco's high GVA contributions in the constituencies set out in Figure 2, compared to GVA contributions in other constituencies, is a result of a number of factors, including:

- the high direct GVA generated in some of these constituencies linked to scale and number of Tesco sites located there. For example Tesco's head office is in the constituency of Welwyn Hatfield;
- the high indirect GVA impacts associated with Tesco's procurement from Tier 1 suppliers in constituencies such as Epsom and Ewell, Hove<sup>(19)</sup>, Warwick and Leamington and Tynemouth; and
- the high wider indirect GVA impacts in constituencies such as Holborn and St Pancras, the Cities of London and Westminster and Poplar and Limehouse, associated with the high concentration of UK businesses, in often high value-adding sectors, in these constituencies, which support the wider supply chains of Tesco and its Tier 1 suppliers.

For those parliamentary constituencies in Figure 2 for which we estimate that Tesco generated the lowest levels of GVA in FY16/17, our analysis suggests that this is predominantly a result of Tesco having no, or a limited number of smaller stores, in these constituencies and the lower levels of Tesco spending with Tier 1 suppliers located in these constituencies compared to other constituencies.

### 1.3.2 The UK geographic reach of Tesco's employment impact

Our analysis, detailed in section 4.1.2, indicates that Tesco also supported employment in each of the UK's regions and parliamentary constituencies in FY16/17.

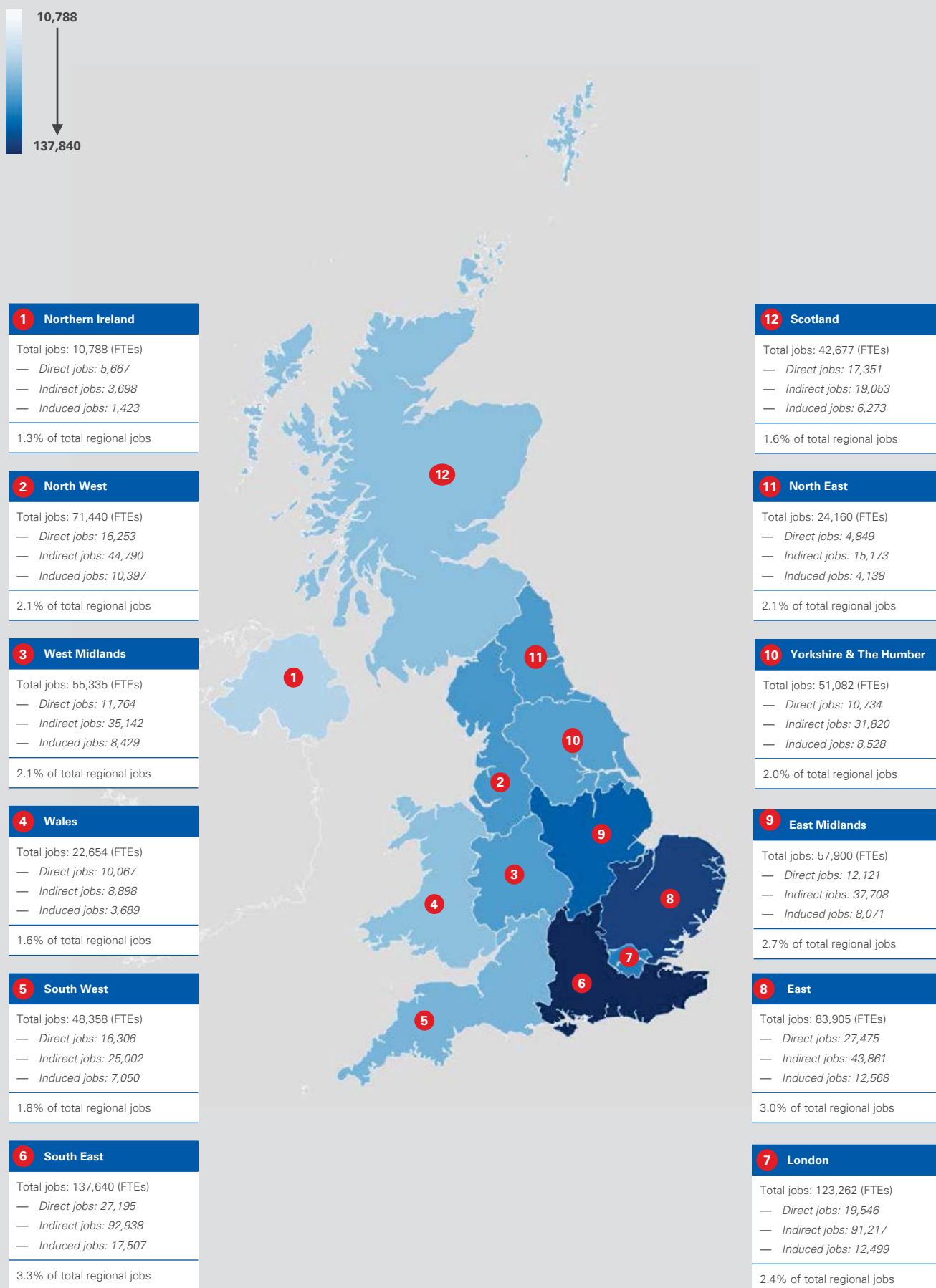
By region, total employment supported ranged from an estimated 137,640 FTEs in the South East of England region to 10,788 FTEs in Northern Ireland.

Figure 3 provides a breakdown of the estimated total employment supported by Tesco in FY16/17 across each of the UK's 12 regions, and the share of total regional employment that Tesco supported.



Note: (19) As noted previously, a large supplier in this constituency went into administration in November 2017. As a result, it is unlikely that Tesco's high employment impact in the Hove constituency will be sustained in future years.



**Figure 3: Tesco's total employment impact, by UK regions, FY16/17 (FTEs)**

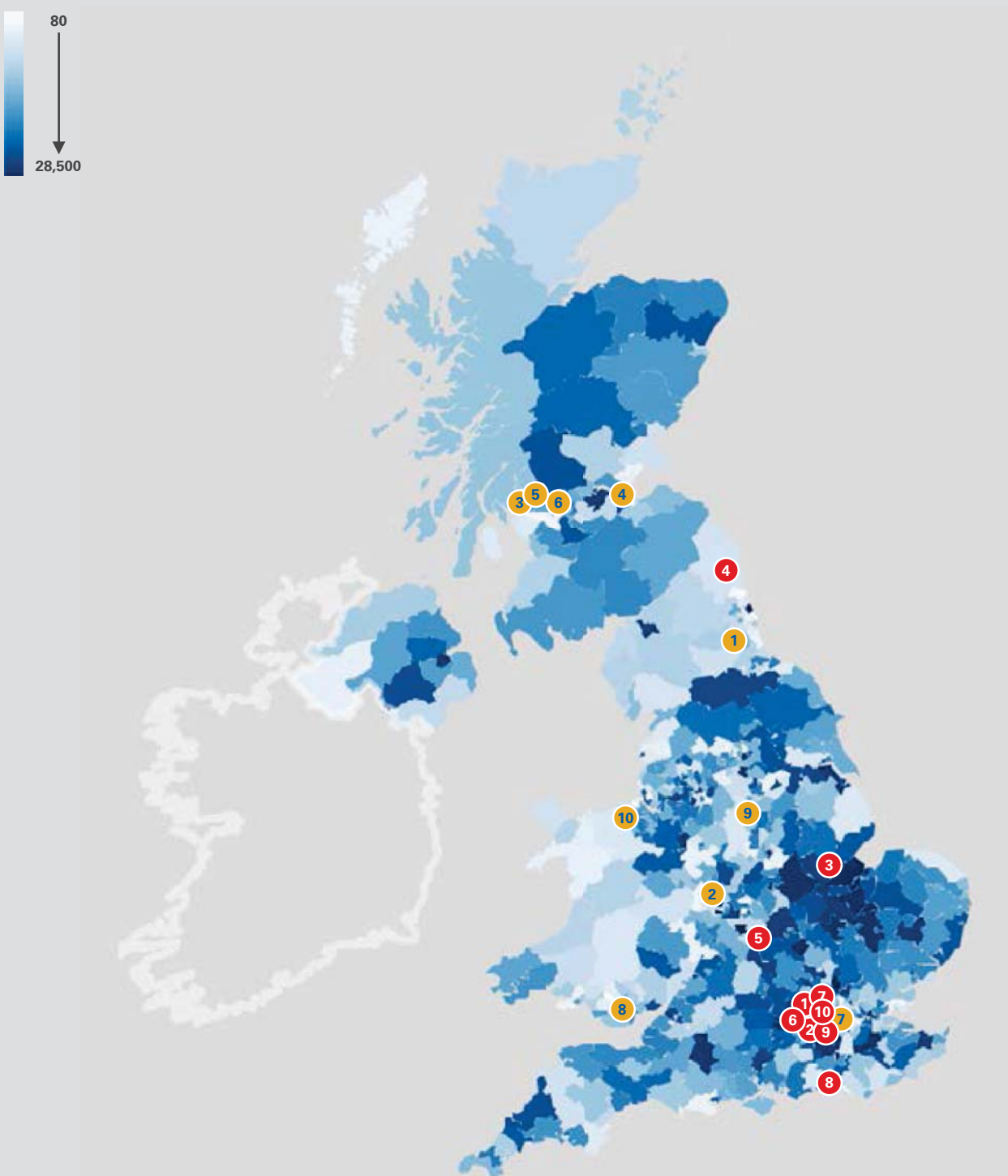
Source: KPMG analysis. Data provided by Tesco. Regional employment sourced from the ONS. 2017. 'Regional labour market statistics in the UK'.

Similar to the GVA analysis, our estimates suggest that Tesco made an employment contribution in each of the UK's regions. Our analysis suggests that in total Tesco supported 1.3 per cent of total employment in Northern Ireland, up to 3.3 per cent of regional employment in the South East of England region.

At the parliamentary constituency level, through the direct, indirect and induced economic activity generated by Tesco, it supported an estimated 729,201 FTE jobs in FY16/17 in total across all constituencies<sup>(20)</sup>, ranging from an estimated 28,458 FTEs in the constituency of Holborn and St Pancras to 82 FTEs in Wirral West.

Figure 4 provides a summary of the estimates of the total employment supported by Tesco for the 10 parliamentary constituencies in which Tesco generated the highest and lowest economic contributions, in terms of employment, in FY16/17.

**Figure 4: Tesco's total employment impact in the 10 parliamentary constituencies in which Tesco generated the highest and lowest employment contributions, FY16/17 (FTEs)**



Source: KPMG analysis. Tesco data provided in January 2018. Parliamentary constituency (PC) employment sourced from the ONS. 2017. 'Employment by parliamentary constituency'

Note: (20) This includes the direct employment by Tesco Retail, dunnhumby, One Stop and Tesco Bank, as well as the indirect and induced employment impact by Tesco Retail. For Tesco Retail only, the total employment impact is 731,764 FTEs.



## Lowest employment contributions, by parliamentary constituency, FY16/17

<p><b>1</b> South Shields</p> <p>Total jobs: 155 (FTEs)</p> <ul style="list-style-type: none"> <li>— Direct jobs: 23</li> <li>— Indirect jobs: 109</li> <li>— Induced jobs: 26</li> </ul> <p>0.70% of total parliamentary constituency jobs</p>	<p><b>2</b> Birmingham, Hall Green</p> <p>Total jobs: 154 (FTEs)</p> <ul style="list-style-type: none"> <li>— Direct jobs: 28</li> <li>— Indirect jobs: 104</li> <li>— Induced jobs: 22</li> </ul> <p>0.53% of total parliamentary constituency jobs</p>	<p><b>3</b> West Dunbartonshire</p> <p>Total jobs: 153 (FTEs)</p> <ul style="list-style-type: none"> <li>— Direct jobs: 13</li> <li>— Indirect jobs: 109</li> <li>— Induced jobs: 31</li> </ul> <p>0.51% of total parliamentary constituency jobs</p>	<p><b>4</b> Edinburgh South</p> <p>Total jobs: 140 (FTEs)</p> <ul style="list-style-type: none"> <li>— Direct jobs: 70</li> <li>— Indirect jobs: 52</li> <li>— Induced jobs: 17</li> </ul> <p>0.50% of total parliamentary constituency jobs</p>	<p><b>5</b> Wansbeck</p> <p>Total jobs: 136 (FTEs)</p> <ul style="list-style-type: none"> <li>— Direct jobs: 0</li> <li>— Indirect jobs: 107</li> <li>— Induced jobs: 29</li> </ul> <p>0.52% of total parliamentary constituency jobs</p>
<p><b>6</b> Glasgow South</p> <p>Total jobs: 108 (FTEs)</p> <ul style="list-style-type: none"> <li>— Direct jobs: 35</li> <li>— Indirect jobs: 56</li> <li>— Induced jobs: 17</li> </ul> <p>0.64% of total parliamentary constituency jobs</p>	<p><b>7</b> Eltham</p> <p>Total jobs: 106 (FTEs)</p> <ul style="list-style-type: none"> <li>— Direct jobs: 34</li> <li>— Indirect jobs: 60</li> <li>— Induced jobs: 11</li> </ul> <p>0.56% of total parliamentary constituency jobs</p>	<p><b>8</b> Sheffield, Heeley</p> <p>Total jobs: 93 (FTEs)</p> <ul style="list-style-type: none"> <li>— Direct jobs: 0</li> <li>— Indirect jobs: 79</li> <li>— Induced jobs: 14</li> </ul> <p>0.52% of total parliamentary constituency jobs</p>	<p><b>9</b> Rhondda</p> <p>Total jobs: 89 (FTEs)</p> <ul style="list-style-type: none"> <li>— Direct jobs: 0</li> <li>— Indirect jobs: 73</li> <li>— Induced jobs: 16</li> </ul> <p>0.63% of total parliamentary constituency jobs</p>	<p><b>10</b> Wirral West</p> <p>Total jobs: 82 (FTEs)</p> <ul style="list-style-type: none"> <li>— Direct jobs: 10</li> <li>— Indirect jobs: 60</li> <li>— Induced jobs: 12</li> </ul> <p>0.43% of total parliamentary constituency jobs</p>

## Highest employment contributions, by parliamentary constituency, FY16/17

<p><b>1</b> Slough</p> <p>Total jobs: 5,822 (FTEs)</p> <ul style="list-style-type: none"> <li>— Direct jobs: 445</li> <li>— Indirect jobs: 4,503</li> <li>— Induced jobs: 874</li> </ul> <p>8% of total parliamentary constituency jobs</p>	<p><b>2</b> Poplar and Limehouse</p> <p>Total jobs: 7,459 (FTEs)</p> <ul style="list-style-type: none"> <li>— Direct jobs: 344</li> <li>— Indirect jobs: 6,313</li> <li>— Induced jobs: 802</li> </ul> <p>19% of total parliamentary constituency jobs</p>	<p><b>3</b> South Holland &amp; The Deepings</p> <p>Total jobs: 7,664 (FTEs)</p> <ul style="list-style-type: none"> <li>— Direct jobs: 213</li> <li>— Indirect jobs: 6,499</li> <li>— Induced jobs: 952</li> </ul> <p>19% of total parliamentary constituency jobs</p>	<p><b>4</b> Tynemouth</p> <p>Total jobs: 11,634 (FTEs)</p> <ul style="list-style-type: none"> <li>— Direct jobs: 235</li> <li>— Indirect jobs: 9,227</li> <li>— Induced jobs: 2,171</li> </ul> <p>27% of total parliamentary constituency jobs</p>	<p><b>5</b> Warwick and Leamington</p> <p>Total jobs: 11,787 (FTEs)</p> <ul style="list-style-type: none"> <li>— Direct jobs: 283</li> <li>— Indirect jobs: 9,732</li> <li>— Induced jobs: 1,772</li> </ul> <p>18% of total parliamentary constituency jobs</p>
<p><b>6</b> Epsom and Ewell</p> <p>Total jobs: 14,191 (FTEs)</p> <ul style="list-style-type: none"> <li>— Direct jobs: 69</li> <li>— Indirect jobs: 12,343</li> <li>— Induced jobs: 1,779</li> </ul> <p>35% of total parliamentary constituency jobs</p>	<p><b>7</b> Welwyn Hatfield</p> <p>Total jobs: 14,445 (FTEs)</p> <ul style="list-style-type: none"> <li>— Direct jobs: 6,836</li> <li>— Indirect jobs: 4,186</li> <li>— Induced jobs: 3,423</li> </ul> <p>18% of total parliamentary constituency jobs</p>	<p><b>8</b> Hove</p> <p>Total jobs: 19,454 (FTEs)</p> <ul style="list-style-type: none"> <li>— Direct jobs: 279</li> <li>— Indirect jobs: 16,733</li> <li>— Induced jobs: 2,442</li> </ul> <p>50% of total parliamentary constituency jobs</p>	<p><b>9</b> Cities of London &amp; Westminster</p> <p>Total jobs: 23,868 (FTEs)</p> <ul style="list-style-type: none"> <li>— Direct jobs: 816</li> <li>— Indirect jobs: 20,322</li> <li>— Induced jobs: 2,731</li> </ul> <p>32% of total parliamentary constituency jobs</p>	<p><b>10</b> Holborn and St Pancras</p> <p>Total jobs: 28,458 (FTEs)</p> <ul style="list-style-type: none"> <li>— Direct jobs: 152</li> <li>— Indirect jobs: 25,424</li> <li>— Induced jobs: 2,882</li> </ul> <p>9% of total parliamentary constituency jobs</p>

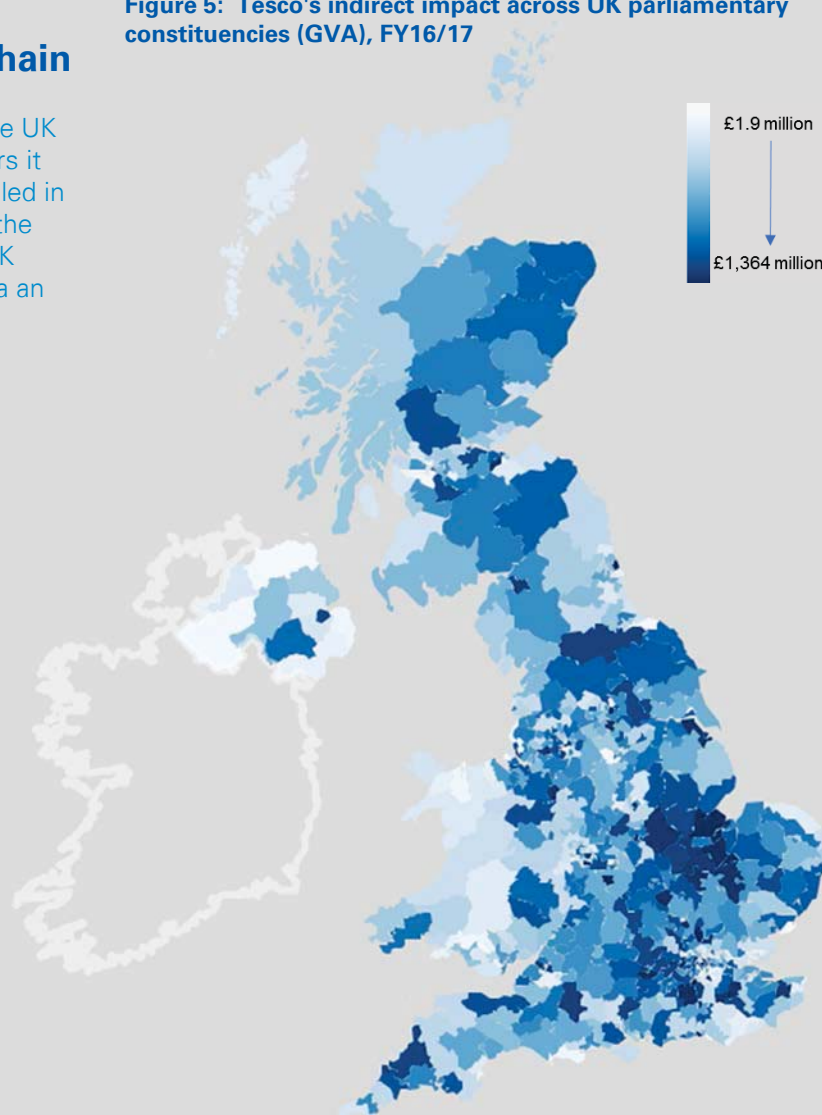
The 10 parliamentary constituencies for which we estimate that Tesco's total employment contributions were the highest and lowest in FY16/17 are predominantly the same constituencies for which Tesco's GVA contributions were estimated to be the highest and lowest.

Our analysis, detailed in section 4.1.2, indicates that generally the same factors that drive Tesco's relatively high and relatively low total GVA contributions in these constituencies compared to other constituencies, also drive the relatively high and low levels of employment supported by Tesco.

## 1.4 Key findings: Tesco's contribution via the supply chain

A key way in which Tesco contributes to the UK economy is through the network of suppliers it procures goods and services from. As detailed in section 5 of this report, this spending, and the way Tesco works with suppliers, adds to UK economic activity, with multiplier effects via an extensive supplier value chain.

Figure 5: Tesco's indirect impact across UK parliamentary constituencies (GVA), FY16/17



Source: KPMG analysis. Data provided by Tesco.

Over  
**9,000**  
suppliers

**£32.7bn**  
spent with UK  
based suppliers,  
approximately

**90%**  
of total  
spend with  
UK suppliers

### 1.4.1 The geographic and sector spread of Tesco's UK supply chain impacts

In FY16/17 Tesco's supply chain included over 9,000 suppliers that it directly procured £36.1 billion of goods and services from (Tier 1 suppliers). Of this, approximately £32.7 billion was spent with UK based suppliers (approximately 90 per cent of the total)<sup>(21)</sup> located across 643 of the UK's 650 parliamentary constituencies.

This wide dispersion of Tier 1 suppliers across the UK means that Tesco's procurement generates indirect economic impacts throughout the country, enhanced further when the wider supply chains are taken into account as seen in Figure 5.

And in line with the wide range of products and services that Tesco sells, and the inputs needed in order to operate as a business, Tesco's supply chain economic impacts span across a broad range of sectors in the UK.

Our analysis, set out in detail in section 5.1.2, indicates that its impacts are most significant in the ONS Standard Industrial Classification (SIC) code categories of wholesale and retail trade and manufacturing, reflecting Tesco direct supplier spending with wholesalers, manufacturers and processors of food, drink and grocery products.<sup>(22)</sup>

Note: (21) As explained in section 5.1, this spending relates to procurement from Tier 1 (direct) suppliers to Tesco only. The geographic location of these suppliers (i.e. UK based or international) is based on the invoicing address to which Tesco made payments to the suppliers. In some cases, these Tier 1 suppliers may act as agents, aggregators or packers, with their own supply chains based predominantly internationally. Our analysis of wider supply chain impacts takes account of 'leakages' of economic impacts out of the UK that occur as a result of this.

(22) For the purposes of discussion, we have grouped the figures into broad industry groups. Our analysis has been undertaken using a more granular SIC categorisation.

### 1.4.2 Driving economic contributions through ways of working with suppliers

By procuring goods and services from UK based suppliers Tesco generates contributions to the economy in terms of indirect GVA and employment. The impacts arising from this spending are captured in section 3 of the report.

It is also helpful to consider the way in which Tesco works with its suppliers in order to understand how the economic contributions have been generated over time and/or may have been affected by working practices.

We have not conducted a full analysis of Tesco's overall relationship with suppliers or a quantification of the additional economic impacts generated through its ways of working with them. Our assessment is based on a review of Tesco's practices and ways of working with suppliers; analysis of data relating to Tesco's supplier relationships; research based on relevant academic and empirical evidence; and supplier case studies.<sup>(23)</sup>

We have identified a number of examples of the way in which Tesco may have helped to increase suppliers' economic contributions through its ways of working, including:

- Providing market access and growing consumer demand. This includes, for example, providing market opportunities to suppliers, thereby supporting business growth; working with suppliers to identify market trends, ensuring suppliers are positioned to meet future demand; and increasing the overall market size for certain products via promotional activities.
- Providing increased certainty and helping to generate efficiencies, for example, via long term relationships with suppliers, supported by contractual arrangements. This helps suppliers plan with certainty as well as providing incentives to be more efficient (such as the 'average cost plus' pricing in place for the 720 dairy farmers supplying milk to Tesco). Specific initiatives also help to unlock efficiencies, such as work with suppliers to minimise food waste (e.g. by using edible but visually imperfect vegetables as inputs to other processed foods).
- Fostering supplier innovation and investment, linked to the certainty and improved collaboration that contractual arrangements and long-term relationships with Tesco can enable. Each of the case studies suggests that suppliers' confidence to invest in their businesses is linked to their relationship with Tesco.



Note: (23) The selection of case studies was made by Tesco. While these can provide insights in to how Tesco's working practices with suppliers can lead to positive impacts in the UK economy, the findings cannot be viewed as representative of the impact of Tesco's relationship with other suppliers.



## 1.5 Key findings: Tesco's contributions to UK communities through charitable activities and community initiatives

Through wider activities that form part of Tesco's Corporate Responsibility (CR) commitments, Tesco also has a broader impact on the local communities in which it operates, beyond its GVA and employment impacts. We were asked by Tesco to assess the scale and, where possible, the monetary value of Tesco support related to charitable activities and community initiatives in the scope of our socio-economic impact study.

Our approach to assessing Tesco's contributions to UK communities through charitable activities and community initiatives follows guidance set out in the SROI Network's 'A guide to Social Return on Investment'.<sup>(24)</sup> This includes adopting an "impact mapping" approach to identify, for the selected charitable and community initiatives, the main Tesco inputs and activities (for example donations and employee volunteering); the associated outputs and outcomes; and resultant the socio-economic impacts for the beneficiaries and the wider community.

We agreed with Tesco the scope of community and charitable initiatives and activities to assess<sup>(25)</sup>, as it was not possible to analyse the contributions associated with every scheme Tesco operates at the national and local level. The selected initiatives were:

- Tesco's National Charity Partnership and partnership with Race for Life;
- Tesco "Bags of Help" scheme;
- Community Food Connection (CFC) and Neighbourhood Food Collection (NFC); and
- Wider community focused initiatives, specifically Community Champions and Community Spaces.

Further details of our "impact mapping" approach and our findings are detailed in full in section 6 of this report.

In summary we found that:

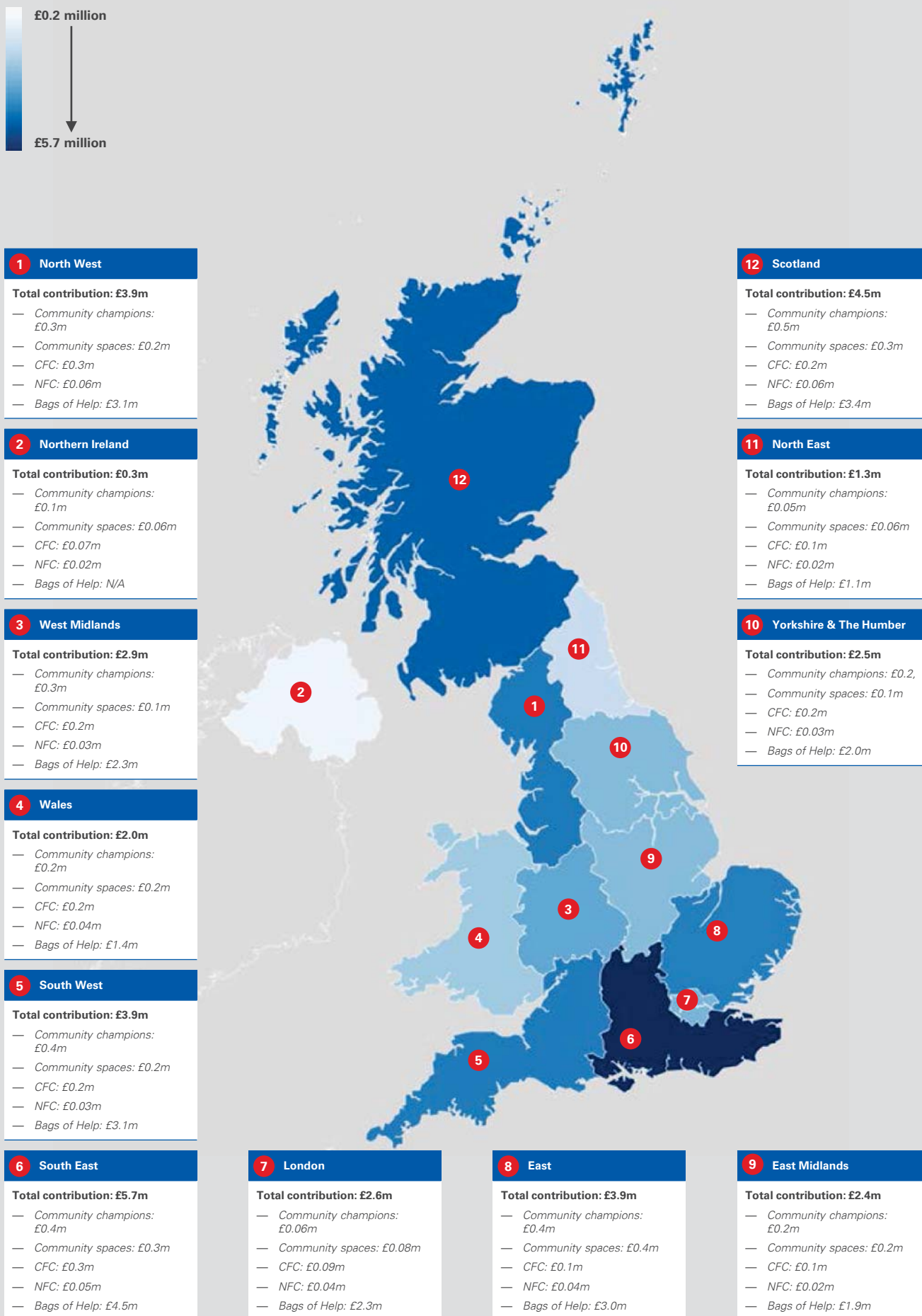
- Excluding Tesco's employee and customer donations (in line with the LBG approach to measuring, and comparing across companies, corporate giving in the UK<sup>(26)</sup>), Tesco's own contribution through the charitable/ community initiatives considered in the scope of this study was approximately £9.4 million in FY16/17.<sup>(27)</sup> This includes the estimated value of financial donations, in-kind donations and volunteering.
- This contribution was equivalent to 1.2 per cent of Tesco's UK operating profit for FY16/17; slightly lower than the average corporate giving by FTSE 100 companies in the UK in 2017.<sup>(28)</sup>
- When taking account of the full value of charitable/community initiatives that Tesco supported in FY16/17, including those generated by its customers and employees, the total value rose to an estimated £50.9 million in FY16/17. While a large proportion of these contributions were made by Tesco employees and customers, given the initiatives in place to generate these donations it is unlikely that the same scale of employee and customer contributions would have been made without Tesco support.

Our findings, for each of the selected initiatives, is detailed in section 6.

Figure 6 shows the estimated value of Tesco's community and charitable community initiatives by region for FY16/17.

Note: (24) Cabinet Office. 2012. 'A guide to Social Return on Investment'. See: [https://www.bond.org.uk/data/files/Cabinet\\_office\\_A\\_guide\\_to\\_Social\\_Return\\_on\\_Investment.pdf](https://www.bond.org.uk/data/files/Cabinet_office_A_guide_to_Social_Return_on_Investment.pdf)  
 (25) This selection was based on the initiatives and activities that Tesco considered to be its most significant and those that are adopted most widely across its UK sites  
 (26) LBG Framework and Measurement. 2018. 'The LBG Framework'. See: <http://www.lbg-online.net/framework/>  
 (27) This excludes Tesco's own donations to Cancer Research UK Race for Life and Tesco's National Charity Partnership. Due to data constraints, for these initiatives it was not possible to separate the value of Tesco donations from those of its employees and customers.  
 (28) Charities Aid Foundation. 2018. 'Corporate giving by the FTSE 100: Bigger impact through better business'. See: <https://www.cafonline.org/about-us/publications/2018-publications/corporate-giving-by-the-ftse-100>. The average level of corporate giving, as a proportion of operating profit, was just over 2.5 per cent.

Figure 6: Estimated value of Tesco's community and charitable community initiatives by region, FY16/17



Source: KPMG analysis. Data provided by Tesco.





# 2

## About the study



## 2.1 Tesco and the UK's food & grocery sector

The UK food and grocery market<sup>(29)</sup> generated sales of over £157.7 billion in 2017, approximately 40 per cent of total UK retail sales.<sup>(30)</sup> The sector is comprised of over 37,400 businesses and employs over 1.4 million people across the UK.<sup>(31)</sup>

### The UK food & grocery market in 2017:

£157.7bn

generated  
in sales

Comprised of over

37,400

businesses

Employment of over

1.4m

people across the UK.

The sector buys from a range of suppliers throughout the food value chain – from the wholesalers of food and drink through to the farmers, growers and producers. Most recent ONS figures estimate that the food and grocery market spent over £130.9 billion throughout the supply chain in 2016.<sup>(32)</sup>

In 2017, UK households spent over 10 per cent of their average household income on groceries.<sup>(33)</sup> Shifts in their needs and expectations, as well as advances in technology, have driven changes in the sector. For example, the online grocery retail market has continued to expand and discount supermarket chains have experienced increased growth.<sup>(34)</sup> With food price inflation,<sup>(35)</sup> price remains an important factor for consumers as well as the quality, taste and freshness of products and the availability of healthy options.<sup>(36)</sup> This means grocery retailers increasingly need to adapt to ensure that they meet consumers' needs, working closely with suppliers in the value chain.

Consumers are served by a range of supermarkets, hypermarkets, convenience stores, discounters and online retailers. According to Kantar Worldpanel ('Kantar'), 70 per cent of UK grocery market sales are accounted for by four retailers.<sup>(37)</sup> It is important to note that the market definition used by Kantar is slightly narrower than the Office of National Statistics (ONS) definition which also includes, for example, cinema kiosks and other small, independent convenience stores.

Tesco is the largest grocery retailer in the UK with a 28 per cent share of the market (in terms of sales) as of 2017.<sup>(38)</sup>

Tesco's rise to become the UK's largest grocery retailer started from a market stall in the East End of London in 1919 where Jack Cohen began selling surplus groceries. He went on to open the first Tesco store in North London in 1929. Following this, Tesco continued to expand through the building of a new headquarters and a warehouse in 1934 and the purchases of additional land and stores to expand in to the London suburbs. Tesco Stores (Holdings) was floated on the London Stock Exchange in 1947.<sup>(39)</sup>

Growth continued thereafter, through a combination of acquisitions and organic growth.

While the core of Tesco's business remains focussed on grocery retail, following the establishment of its first supermarket in Maldon, Essex in 1958, the Group has also diversified and expanded to provide products and services beyond its traditional business. This includes provision of financial services, mobile telecommunications products and services and data analytics capabilities.

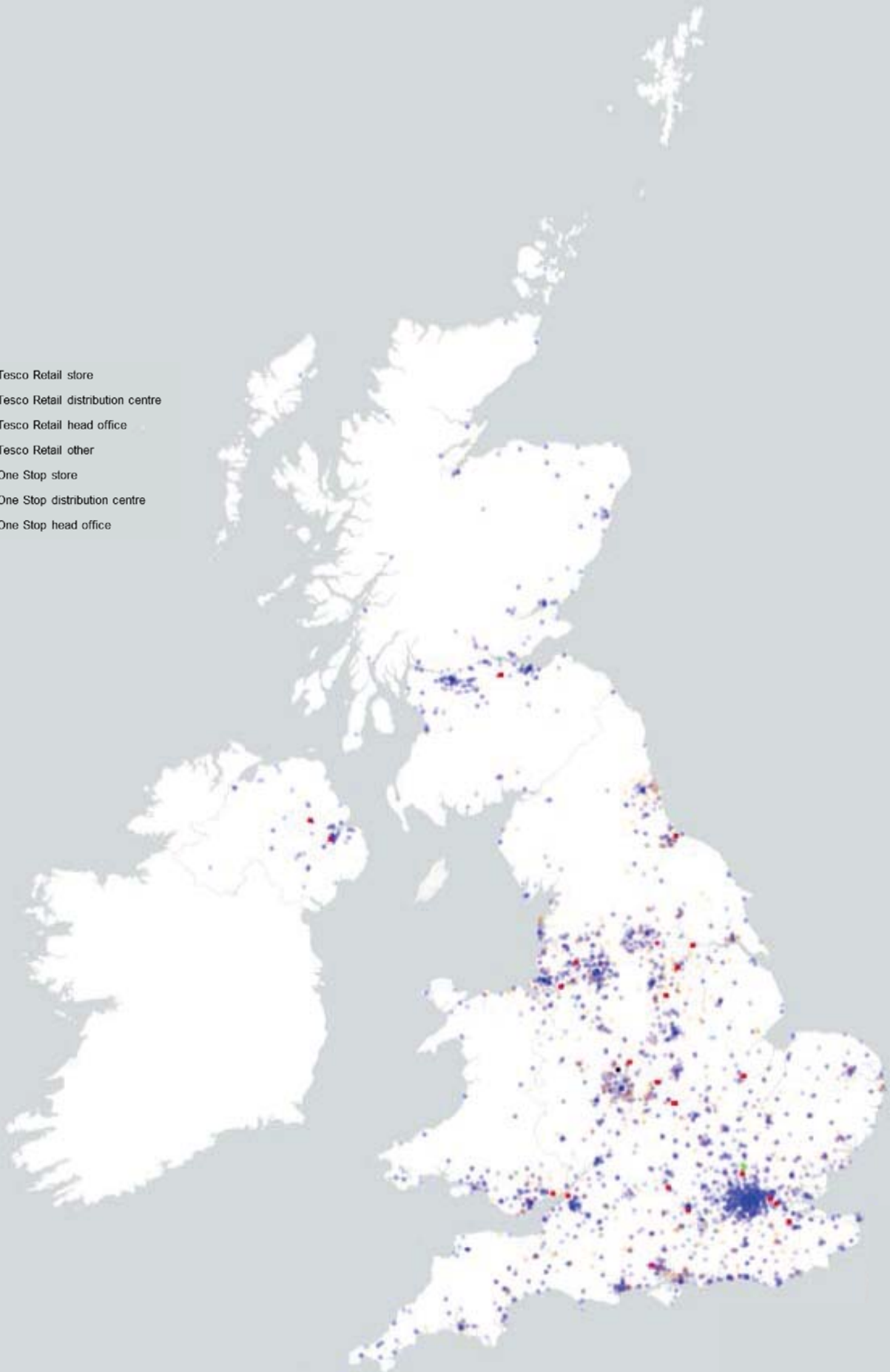
Today, Tesco is a leading global company operating in eight countries<sup>(40)</sup> with revenues of 55.9 billion internationally.<sup>(41)</sup>

In the UK, Tesco Group's operations include:

- Tesco Retail, with almost 3,200 sites across the country. This is made up of 2,646 stores and 490 petrol filling stations, 25 distribution centres, 13 other sites (such as, for example, pharmacies) and one head office site.
- One Stop, a retail convenience business with over 700 shops across England, Wales and Scotland.
- Tesco Bank was formed in 1997 as Tesco Personal Finance, a joint venture between Tesco plc and Royal Bank of Scotland plc. In 2008, Tesco bought out RBS's share of the business and introduced the new name, Tesco Bank. Today, Tesco Bank is a wholly-owned subsidiary of Tesco.
- dunnhumby, a customer science company that analyses data to generate insights to help its clients to improve digital, mobile and retail operations. dunnhumby worked with Tesco in 1994 to develop the Clubcard loyalty programme, with Tesco first buying a stake in the company in 2001.
- Tesco Mobile, the joint venture between Tesco Group and O2 that provides mobile telecommunication services to approximately five million customers in the UK via the mobile virtual network operated by Tesco using the O2 network as its carrier.<sup>(42)</sup>

Figure 7: Map of Tesco Group's operations across the UK, FY16/17

- Tesco Retail store
- Tesco Retail distribution centre
- Tesco Retail head office
- Tesco Retail other
- One Stop store
- One Stop distribution centre
- One Stop head office



## 2.2 The framework for assessing Tesco's impact

While the overall importance to the economy of the UK food and grocery sector has been measured, there is less evidence to explain the contribution that individual firms make toward this. Therefore, to address this gap, Tesco commissioned KPMG to conduct an independent study of its economic and social contribution in the UK. The study aims to help Tesco and its stakeholders better understand the overall contribution that Tesco makes to the UK economy and the communities in which it serves customers, buys from suppliers and undertakes charitable and community initiatives.

### 2.2.1 Scope of the study and approach to assessing impacts

Our analysis primarily relates to the socio-economic impacts generated in FY16/17. This was the last full year for which the required data were available from Tesco at the time the study was undertaken. It is important to note that, in general, the analysis presents a snapshot in time view of the contribution Tesco made within this year and does not consider the longer-term impacts of its activities or the socio-economic contributions realised in previous years or accrued over time.

The study covers contributions associated with Tesco's UK based operations, specifically:

- Tesco Retail, including stores, petrol filling stations, other types of site such as pharmacies and dotcom centres, distribution centres and the head office
- One Stop
- Tesco Bank
- dunnhumby

Tesco Mobile is not included within the scope of the analysis given challenges, including data availability, to assessing Tesco's specific contribution given that it is a joint venture with O2. However, as there is economic activity associated with this venture, including employment and the sale and provision of mobile communications goods and services, if this were included within the scope of the study, it would add to the overall contribution that Tesco makes in the UK.

KPMG's analysis assesses the contribution of Tesco in gross terms, i.e. it does not consider how UK resources used by Tesco, such as human capital and physical capital, would be employed if Tesco did not exist in the UK or any displacement, where Tesco's existence reduces economic activity that may otherwise arise elsewhere.<sup>(43)</sup>

It considers the economic impact of Tesco in the UK only, excluding any 'leakages' of impacts outside of the UK. This means it excludes economic contributions made in any international countries from which Tesco and its supply chain source goods and services.

The economic framework that we have applied to assess the contribution of Tesco in the UK captures a wide range of effects, reflecting the breadth of ways in which Tesco as a company contributes to the economy and communities. KPMG's analysis assesses the economic and social contribution of Tesco as a whole, in addition to the contribution made by individual stores (where data allows). It considers the impacts at a national level as well as the distribution of this impact across each of the UK's 650 parliamentary constituencies.<sup>(44)</sup>

The impacts assessed in this study were agreed with Tesco at the outset of the project based on the areas of impacts that are generally included within such studies and with a focus on the main channels through which Tesco contributes to the UK. The study does not attempt to measure all possible economic and social impacts, positive and negative, of Tesco's UK business. The environmental impacts of Tesco's activities are also not included within the scope of this study.



**The agreed areas of Tesco's impact included in this study, and the overarching framework used to assess each, are outlined below.**

### Economic output in terms of Gross Value Added (GVA)



The core measure of economic activity generated by a company is its overall contribution to the UK in terms of GVA. GVA is a measure of the economic value of the goods and services produced at an individual company, industry or sector level, net of intermediate consumption (e.g. the goods and services that are used in the production process). It estimates the difference between the value of goods and services produced and the cost of inputs, such as unprocessed materials, used to create those goods and services. A nation's gross domestic product (GDP) includes the sum of the GVA of all economic agents in the economy.<sup>(45)</sup>

The GVA contribution of Tesco is assessed via three main routes:

- Direct: the first round effects where the demand for Tesco products and services generates business activity and output in its stores, distribution centres, pharmacies, dotcom centres, head office and at Tesco Bank, dunnhumby and One Stop.
- Indirect: the second round effects through the activity and output supported in Tesco's UK based supply chain as a result of its procurement of inputs of goods and services to its own operations (including both goods for resale and goods not for resale)<sup>(46)</sup>,<sup>(47)</sup>
- Induced: the multiplier effects that arise in the UK economy as a result of Tesco's direct employees and those employees in Tesco's UK supply chain spending a proportion of their Tesco related wages in the UK.<sup>(48)</sup> This spending generates additional economic activity for those businesses from which these employees buy goods and services and these businesses' own wider supply chains.<sup>(49)</sup>

The direct GVA impacts are measured using the income approach to calculation.<sup>(50)</sup> The indirect and induced impacts are assessed based on an input-output modelling approach.<sup>(51)</sup> Our analysis draws on a bespoke analysis of Tesco's specific supply chain and uses ONS input-output tables and the Type I and Type II multipliers derived from these.<sup>(52)</sup> These tables show, in matrix form, the inter-linkages between sectors of the economy in terms of the value of goods and services (inputs) that are required to produce each unit of the output in given sectors of the economy.

To analyse the distribution of these impacts across the UK, local level input-output models were developed, adapting the national level input-output modelling approach by reflecting the ratios of local level economic activity (GVA and employment) to national level economic activity, at the sector level.<sup>(53)</sup> These ratios are referred to as location quotients. Adjustments were also made in the modelling to reflect differences in labour productivity across local areas.

The analysis assesses the local level impact of Tesco as a whole, rather than the local level impact of individual local Tesco sites.

### Employment



Generating employment is a key channel through which a company, such as Tesco, contributes to the economy.

We report employment in full-time equivalent (FTE) terms. This adjusts part time or temporary staff into an annual full-time equivalent based on the proportion of full-time hours worked over a year.

Employment impacts are also assessed in direct, indirect and induced terms:

- Direct: the individuals that Tesco employs itself in its stores, distribution centres, pharmacies, dotcom centres and at Tesco Bank, dunnhumby and One Stop as at February 2017.
- Indirect: the employment supported as a result of the economic activity generated through Tesco's UK based supply chain.<sup>(54)</sup>
- Induced: the employment supported through the additional economic activity generated in the UK by direct and indirect employees spending a proportion of their Tesco related wages in the UK.<sup>(55)</sup>

The indirect and induced employment impacts are assessed in a similar way to the GVA contributions, adopting an input-output modelling approach.

### Investment



Investment activity is an important determinant of economic contribution given that it is recognised as an important driver of economic growth.

Tesco's level of investment is captured through its own capital expenditure ('capex') in FY16/17.

### Fiscal contributions



Tesco contributes to UK public finances via the wide range of taxes it pays, the taxes paid by its employees and the suppliers that it supports and the taxes collected on behalf of Government such as Value Added Tax (VAT) and duties on products such as petrol and alcohol.

The taxes paid by Tesco, its employees and those collected on behalf of Government are assessed within this study, split by type of tax.

## Wider contributions via Tesco's work with suppliers



The main impacts associated with Tesco's supply chain are the indirect GVA and indirect employment generated. We assess these impacts at the Tier 1 (direct) supplier level as well as the multiplier effects through the wider supply chain, analysing the impacts by sector of the UK economy as well as geographic location.

These impacts represent the supply chain impacts at a snapshot in time, during FY16/17. Therefore, within our study we also examine how working with Tesco has impacted on specific suppliers over time and over and above the core measures of GVA and employment, for example in terms of supplier investment, innovation and growth.

We also analyse key metrics associated with Tesco's supplier relationships, including supplier survey results, payment terms and engagement via a range of Tesco supplier focused initiatives.

## Charitable activities and community initiatives



KPMG's 2017 Survey of Corporate Responsibility Reporting<sup>(56)</sup> indicated that corporate responsibility (CR) reporting is standard practice for large and mid-cap companies<sup>(57)</sup> around the world. However, traditionally this reporting has focussed on statistics rather than communicating impact.

The definition of CR is broad: defined as the responsibility of an organisation for the impacts of its decisions on society and the environment above and beyond its legal obligations, through transparent and ethical behaviour.<sup>(58)</sup>

Our framework for assessing the contributions associated with the selected community and charitable initiatives and activities, follows guidance set out in the SROI Network's 'A guide to Social Return on Investment.'<sup>(59)</sup> We use an "impact mapping" approach to identify the key Tesco inputs and activities in relation to charitable and community initiatives and the associated outputs, outcomes and end impacts for the beneficiaries and the wider communities in which they take place. Where possible, the outcomes and impacts are estimated in monetary terms and wider statistics provided by Tesco relating to the scale and volume of support (the outcomes) are assessed.

It was not possible to analyse the contributions associated with every scheme Tesco operates at the national and local level. Therefore, at the outset of the project, we agreed with Tesco the specific community and charitable initiatives and activities to assess within the scope of KPMG's study. This selection was based on the initiatives and activities that Tesco considered to be its most significant, those that are adopted most widely across its UK sites, and those for which data were available.

## 2.2.2 Sources of information

Our analysis of the economic and social contribution of Tesco in the UK is primarily based on data from Tesco's internal systems, including financial data obtained from its financial management accounts, till data relating to sales in store, supplier purchases of goods for resale and goods not for resale, and HR data relating to employees and payroll.

We supplemented these data with information obtained directly from across the Tesco business, including through discussions with key individuals from Tesco's Finance, People and Product teams

Information and data were also collected related to key partners and suppliers of Tesco as part of the case studies included in this report. This was obtained from Tesco buyer teams and from case study participants.

In order to assess the contributions associated with Tesco's wider charitable activities and community initiatives, we drew on data and information provided by Tesco relating to the financial contributions made as well as details about the specific initiatives and number of Tesco employees involved. Third party information from Groundwork, the national charity involved in administering Tesco's Bags of Help scheme, was also provided to us by Tesco. This included a number of case studies relating to specific projects supported by the scheme.

Additionally, we sourced data and information from a number of external public sources. This includes official statistics published by the ONS and the Ireland Central Statistics Office (CSO) and existing research, analysis and economic literature from a range of sources.

A full list of sources of information used in the study is provided in Appendix 2.



3

Contributing to  
the UK's macro  
economy



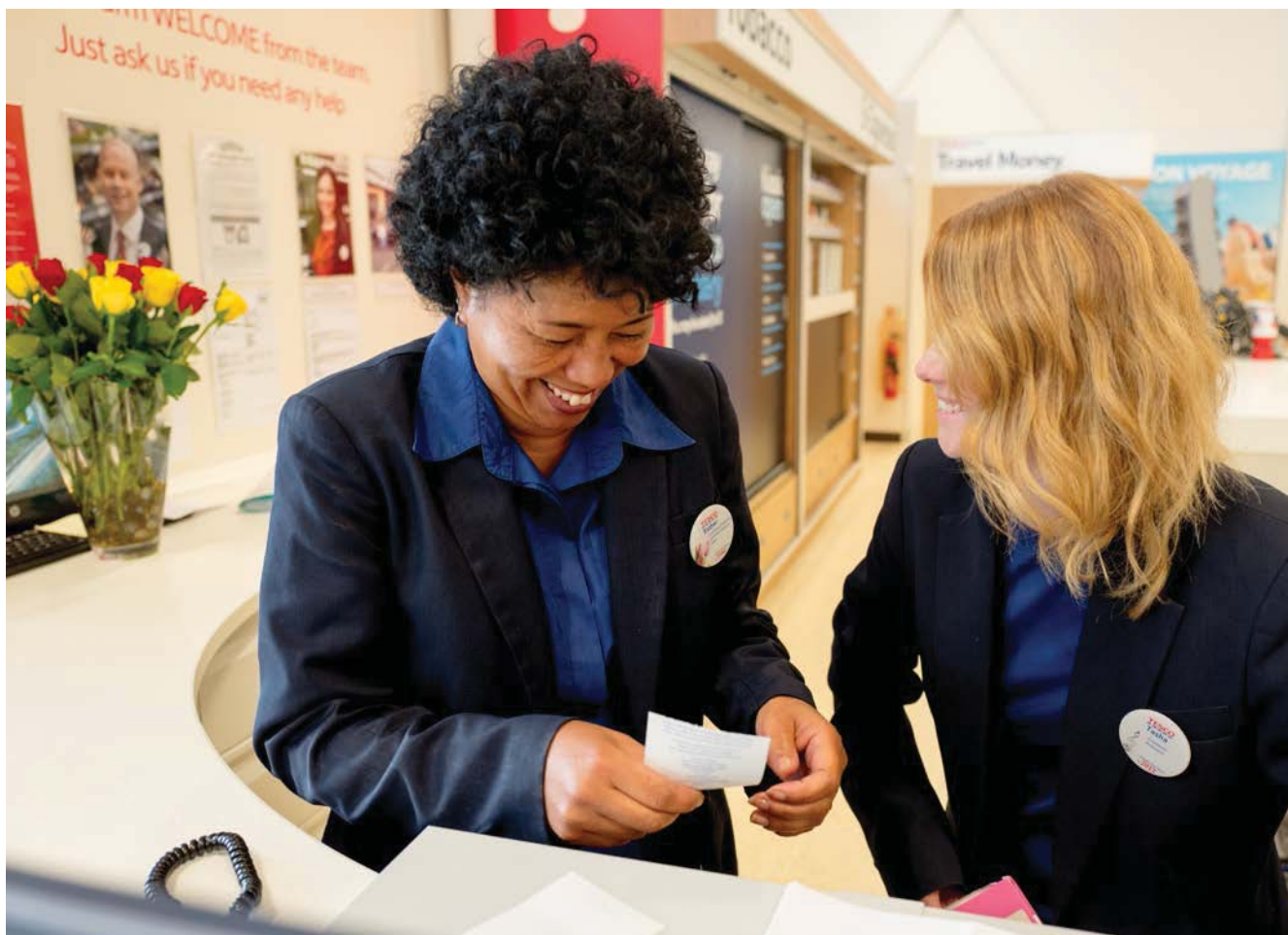
A vibrant grocery retail sector is important to the UK economy, not only in terms of providing food, groceries, and other products, such as clothing, to the nation, but in terms of generating economic growth, creating jobs and supporting the provision of public goods and services via the payment of taxes.

We assess below the contribution of Tesco in the UK driven by its footprint of:

- 2,646 Tesco superstores, express, metro and extra stores, 490 petrol filling stations, 25 distribution centres, 13 other sites and a Head Office, collectively serving millions of retail customers every week<sup>(60)</sup>
- Over 700 One Stop stores and three One Stop distribution centres
- Financial services provision met through three Tesco Bank sites, serving 5.5 million retail banking customers<sup>(61)</sup>
- dunhumby's headquarters in London and its additional site in Manchester

The contributions of Tesco in the UK analysed in this section of KPMG's socio-economic impact study include the GVA, employment, investment and fiscal contributions of Tesco at the national UK level.

Further analysis of the geographic areas within which these impacts are realised is detailed in section 4.



### 3.1 Contributing to UK economic output (GVA)

As explained in section 2.2, one way to measure Tesco's contribution to the UK is through the economic activity it generates, in terms of direct, indirect and induced GVA.

Through Tesco's own activities, adding value to the goods and services provided by its suppliers to then sell on to end consumers, Tesco makes a direct GVA contribution. In FY16/17 this direct GVA contribution in the UK totalled an estimated £6.4 billion, approximately 0.3 per cent of UK GVA.

This direct GVA contribution was predominantly driven by Tesco's grocery retail business (both Tesco Retail and One Stop): an estimated £5.8 billion of the total direct GVA. This accounted for 22.3 per cent of total GVA for the comparable sector in the UK (retail sale in non-specialised stores with food, beverages or tobacco predominating<sup>(62)</sup>).

Tesco Bank contributed an estimated £471.2 million in direct GVA: 0.7 per cent of the GVA of banks.<sup>(63)</sup> And dunnhumby contributed a further £104.5 million, also 0.3 per cent of its sector's GVA.<sup>(64)</sup>

In addition to the direct GVA generated, Tesco generated a wider economic impact through its spending of £36.1 billion with suppliers in FY16/17 for Tesco Retail.

Based on our analysis of this spend, approximately £32.7 billion was with UK based suppliers (91 per cent of the total), generating UK indirect GVA. It should be noted that this spending with UK based suppliers relates to procurement from Tier 1 (direct) suppliers to Tesco only. The geographic location of these suppliers (i.e. UK based or international) is based on the invoicing address to which Tesco made payments to the suppliers. In some cases, these Tier 1 suppliers may act as agents, aggregators, processors or packers, with their own supply chains based predominantly internationally. Our analysis of wider supply chain impacts takes account of 'leakages' of economic impacts out of the UK that occur as a result of this.

Tesco's spending with its UK Tier 1 (direct) suppliers generated indirect GVA within these suppliers, within the Tier 1 suppliers' own suppliers, and throughout the wider UK supply chains. This total indirect GVA generated by Tesco Retail was approximately £25.7 billion in FY16/17, of which £14.6 billion was with the UK Tier 1 suppliers and a further £11.1 billion through the full value chain of suppliers in the UK.

This means that for every £1 of Tesco Retail direct GVA in the UK in FY16/17, an additional £3.55 of UK GVA was generated indirectly through its spending with UK suppliers.

Induced GVA was also generated in the UK economy through Tesco Retail employees, and the employees supported within its supply chain, spending a proportion of their wages on UK goods and services. This spending of wages added a further £5.2 billion of GVA, in induced terms, to the UK economy in FY16/17.

For every £1 of Tesco Retail direct GVA in the UK in FY16/17, an additional £5.46 of UK GVA was generated in indirect and induced terms.

Overall, taking into account the direct GVA, the indirect impacts through the supply chain and the induced impacts, we estimate that the total GVA generated through Tesco's operations in FY16/17 was an estimated £37.3 billion.<sup>(65)</sup> This represents 2.1 per cent of national GVA.<sup>(66)</sup> To put this in context, this total GVA contribution of £37.3 billion is equivalent to approximately a third of the UK construction sector in terms of total GVA for 2016.<sup>(67)</sup>

We estimate that Tesco Retail generated £36.5 billion of Tesco's total GVA in FY 16/17, with this GVA contribution spread across the UK:<sup>(68)</sup>

- £33.0 billion of GVA was generated in England, equivalent to approximately 2.1 per cent of England's GVA;
- £2.2 billion of GVA was generated in Scotland, equivalent to approximately 1.6 per cent of Scotland's GVA;
- £1.0 billion of GVA was generated in Wales, equivalent to approximately 1.6 per cent of Wales' GVA; and
- £0.4 billion of GVA was generated in Northern Ireland, equivalent to approximately 0.9 per cent of Northern Ireland's GVA.

### 3.2 Generating employment

As of February 2017, Tesco directly employed 296,967 people in headcount terms. This included full-time and part-time employees. Converting this to full time equivalent (FTE) employees, Tesco's employment in the UK was equivalent to 193,058 FTEs.

As well as contributing to the UK economy through its GVA impact, Tesco contributes to the UK economy through its direct employment. The majority of this employment was within Tesco Retail (181,817 FTEs), with the remaining 11,250 FTEs employed across One Stop, Tesco Bank and dunnhumby.

Tesco also supports UK employment within its supply chain. Through Tesco Retail's spending with UK based suppliers, we estimate that it indirectly supported a further 449,301 FTEs in the UK in FY16/17.

And an estimated 100,646 induced FTEs were employed in the UK economy as a result of Tesco Retail's direct and indirect employees spending the wages associated with their direct or indirect work for Tesco.

This means that in FY16/17, we estimate that Tesco supported a total of 743,005 FTE jobs in the UK economy. This represents approximately 2.3 per cent of national employment.<sup>(69)</sup>

For every one direct FTE employee Tesco had in the UK, we estimate that it supported the employment of a further 2.8 FTEs in the wider UK economy.

Our analysis shows that Tesco supported an estimated 743,005 jobs (FTE) in the UK in FY16/17.

We estimate that Tesco Retail supported 731,764 FTEs, with employment generated across the UK:<sup>(70)</sup>

- 655,377 FTE jobs were supported in England, equivalent to approximately 2.4 per cent of total employment in England;
- 42,827 FTE jobs were supported in Scotland, equivalent to approximately 1.6 per cent of total employment in Scotland;
- 22,734 FTE jobs were supported in Wales, equivalent to approximately 1.6 per cent of total employment in Wales; and
- 10,826 FTE jobs were supported in Northern Ireland, equivalent to approximately 1.3 per cent of total employment in Northern Ireland.

### 3.3 Investing in Tesco's UK business operations

In FY16/17, Tesco invested £731 million, in terms of capex, in the UK and Republic of Ireland,<sup>(71)</sup> representing an estimated 0.4 per cent of total UK business investment for 2016.<sup>(72)</sup>

Capital expenditure is the spending by a company to acquire or upgrade physical infrastructure. It is an important driver of economic growth.<sup>(73)</sup> Investment can stimulate technological improvements or efficiency gains for a business, which can improve profitability and increase its GVA contribution.<sup>(74)</sup> Similarly, an investment that increases capacity, and therefore increases revenue, will also be associated with larger GVA contributions.

For the whole of the UK for FY16/17, total business investment across all sectors was £182 billion.<sup>(75)</sup> This means Tesco's investment of £731 million contributed an estimated 0.4 per cent of the total.

The majority of Tesco's UK investment was made in its retail business.

Tesco Retail invested in a wide range of areas, including as part of its plans to 'maximise value from property... [by] releasing value from the estate and repurposing space to enhance [Tesco's] customer offer'.<sup>(76)</sup>

Tesco data and business cases for investment also indicated that it invested to reduce its energy consumption to become more sustainable and achieve long term cost savings as part of its commitment to reducing CO2 emissions. This included capex on LED lighting on sales floors and the replacement of existing equipment with more energy efficient alternatives. Tesco stated that this investment would be 'sustainable but also cost-saving in the long term'.<sup>(77)</sup>

### 3.4 Contributing to public finances

In FY16/17, Tesco paid £1.2 billion in taxes to the UK government. It also collected £2.1 billion on behalf of Government, including VAT and the taxes paid by Tesco employees.

As a provider of UK goods and services, and employer, Tesco contributes to UK public finances. Taxes collected by Her Majesty's Revenues and Customs (HMRC) from companies and employees go towards the funding of public services.<sup>(78)</sup>

Evidence from the 2017 PwC Total Tax Contribution survey of the 100 Group shows that Tesco is one of the most significant contributors of tax in the UK.<sup>(79)</sup>

The tax contribution of Tesco is comprised of a number of different taxes, both those that it pays linked to its own operations, including direct taxes and those collected on behalf of Government, such as excise duty and VAT on sales, and the taxes paid by its 193,058 UK employees.

Of Tesco's £3.4 billion tax contribution in FY16/17 (paid and collected to be paid), the majority (£3.1 billion) was paid by Tesco Retail, with a further £67.0 million by One Stop, £37.2 million by Dunhumby and £138.4 million by Tesco Bank. Tesco Bank's contribution included the 8 per cent supplementary surcharge on bank profits, introduced in January 2016.<sup>(80)</sup>

For Tesco Retail, the breakdown of these tax contributions is shown in Figure 8.

**Figure 8: Tesco Retail's tax contribution, tax paid, FY16/17**



Source: KPMG analysis. Data provided by Tesco..

As shown Figure 3, of the taxes paid by Tesco in FY16/17, business rates accounted for the largest amount, due to Tesco's extensive footprint of stores across the UK. This was followed by the large tax contribution linked to Tesco's UK employment, e.g. National Insurance contributions and other associated employment taxes.

While Tesco's profit tax contribution was negative in FY16/17 (i.e. it received a refund from HMRC), this was linked to losses accrued by the company in previous years. We understand from Tesco that this refund was calculated by HMRC. It is line with Corporation Tax Law whereby losses arising can be carried forward in to subsequent tax years and reduce the eligible taxable profits. In some cases this can lead to a company paying no tax in a year that it made a profit.<sup>(81)</sup> This was the case for Tesco in FY16/17.

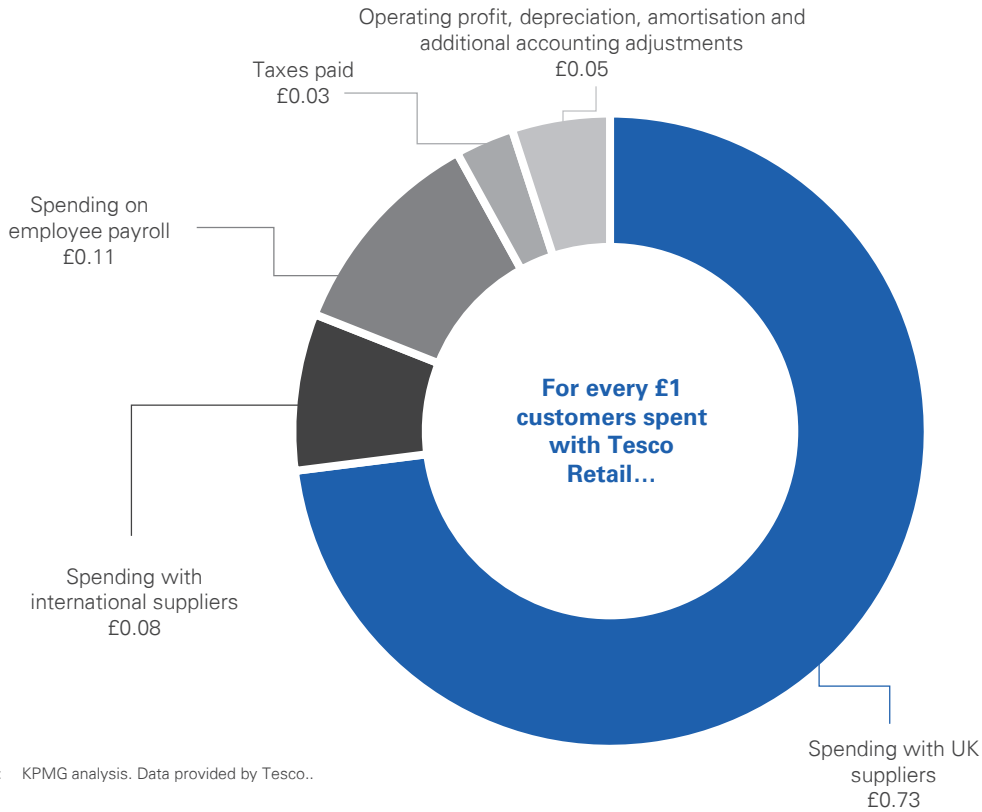
Of the taxes collected on behalf of, and paid to, Government, excise duties and employee related taxes (i.e. PAYE and NICs) accounted for the largest share of Tesco's FY16/17 contribution (£978 million and £650 million respectively). While these contributions are not paid by Tesco directly, they arise from its activities and would likely not be collected or generated to the same extent if Tesco did not employ the individuals or sell the taxed goods and services.



### 3.5 The impact of customer spending with Tesco Retail

We have analysed the breakdown of how the revenues Tesco Retail receives from customer purchases of goods and services are distributed in the wider economy and the way in which this generates economic contributions.

**Figure 9: The distribution of Tesco Retail revenues, FY16/17**



Source: KPMG analysis. Data provided by Tesco..

Figure 9 shows that for every £1 customers spent with Tesco Retail in FY16/17:

73p	was spent with UK suppliers, which generated UK indirect GVA and employment
8p	was spent with international suppliers, generated international indirect GVA and employment (which is not captured within our study as it represents a 'leakage' from the UK economy)
11p	was paid to Tesco employees, which generated UK induced GVA and employment
3p	was paid to the Government in taxes, which supported the provision of public services
5p	of Tesco Retail operating profit, depreciation and amortisation and other accounting adjustments.









## 4.1 Contribution of Tesco to local GVA and employment

In the UK Government's Industrial Strategy, it is recognised that local economic performance is important, not just the national level performance of the UK.<sup>(82)</sup>

ONS data shows that economic performance differs quite substantially across the UK's regions and local areas.<sup>(83)</sup> And the disparities have widened over the last thirty to forty years.<sup>(84)</sup>

Local economic performance is driven, among other factors, by the economic activity of the businesses located within each local area. Tesco, therefore, plays an important role in supporting the economic contribution in the areas in which it operates, as well as more widely through sourcing of goods and services from suppliers.

In this section of the report, we assess how Tesco's national economic contribution, estimated to be £37.3 billion of GVA and 743,005 jobs in FY16/17<sup>(85)</sup>, is generated by Tesco at the local level, in the UK's 650 parliamentary constituencies.

As detailed in section 3, Tesco has an extensive footprint of stores, distribution centres and wider operations across the UK. Each of these generates economic activity and jobs in their local areas.

There are over 7,000 UK-based suppliers in Tesco's supply chain extending across a range of sectors: from agriculture, to manufacturing, to professional services. Through this extensive supply chain Tesco contributes to local areas. Additional contributions are also generated at the local level by Tesco's direct and indirect employees spending their wages (induced impacts).

We detail below our estimates of the economic contribution that Tesco makes locally to the UK, in terms of GVA and then employment. We consider this at both the regional<sup>(86)</sup> and parliamentary constituency level. This is the local level impact of Tesco as a whole (i.e. the impact of all Tesco operations across the UK on each individual constituency), rather than the local level impact of individual local Tesco sites only in their own constituencies or regions.

We also compare our estimates of the GVA and employment generated by Tesco in each parliamentary constituency/region to the total GVA and employment in that region, parliamentary constituency or wider Local Authority area, based on ONS data.<sup>(87)</sup>

### 4.1.1 The UK geographic reach of Tesco's GVA impact

We estimate that Tesco generated economic activity, in terms of GVA, in each of the UK's regions and parliamentary constituencies. By region, this ranged from £6.8 billion in South East England to £348.2 million in Northern Ireland.

And by parliamentary constituency, this ranged from £1.5 billion in the constituency of Holborn and St Pancras to £4.3 million in GVA in Wirral West<sup>(88)</sup>.

Tesco's total economic impact in each region and parliamentary constituency is associated with:

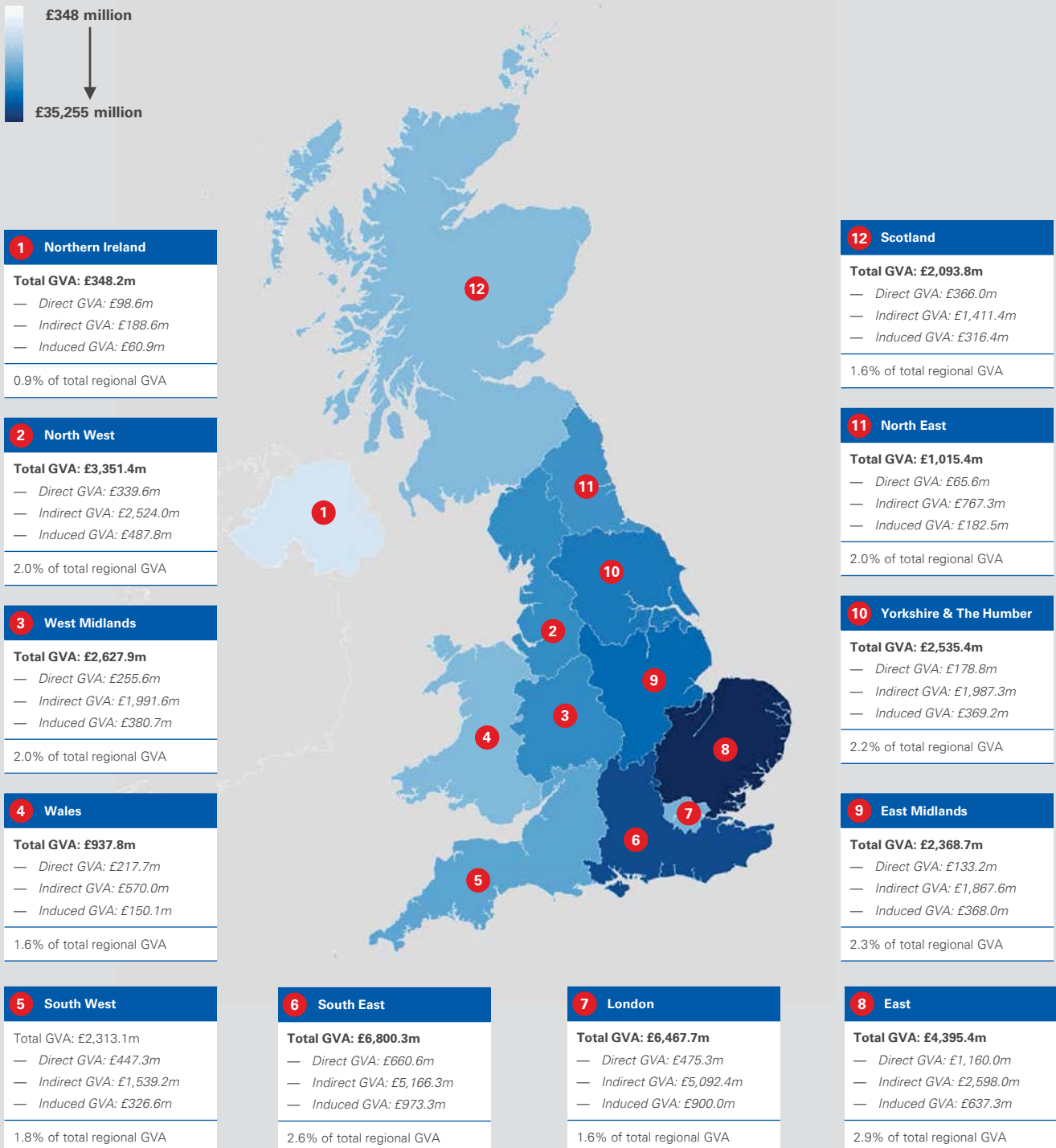
- The direct GVA that is generated by each of the Tesco sites (e.g. stores, petrol filling stations and distribution centres) within that region or constituency;
- The indirect GVA generated by businesses in Tesco's entire supply chain (both Tier 1 suppliers and suppliers in the wider supply chain) that operate in that region or constituency; and
- The additional economic activity that is generated in the region or constituency through Tesco's direct and indirect employees' spending of their wages.

### 4.1.1.1 Breakdown of GVA by region

There are 12 ONS regions of the UK: East, East Midlands, London, North East, North West, Northern Ireland, Scotland, South East, South West, Wales, West Midlands and Yorkshire and the Humber. Each of these regions vary in geographical size, population and concentration of industries. For example, economic activity in London is predominantly driven by real estate, financial and insurance activities, professional services and information and communication. These four sectors account for over half of regional GVA for London.<sup>(89)</sup> In comparison, in Yorkshire and The Humber there is a different industry mix, with wholesale and retail trade, human health, education and real estate accounting for 40 per cent of the regions GVA.<sup>(90)</sup>

The contribution in terms of total GVA that Tesco makes across regions will therefore be dependent on the firms and industries in Tesco’s full supply chain located there, the relative value-added of different industries compared to others and the overall size of the region.

**Figure 10: Tesco's total GVA contribution as a proportion of total regional GVA, by region, FY16/17**



Source: KPMG analysis. Data provided by Tesco. Regional GVA data sourced from the ONS. 2017. 'Regional gross value added (income approach), GVA by industry'.

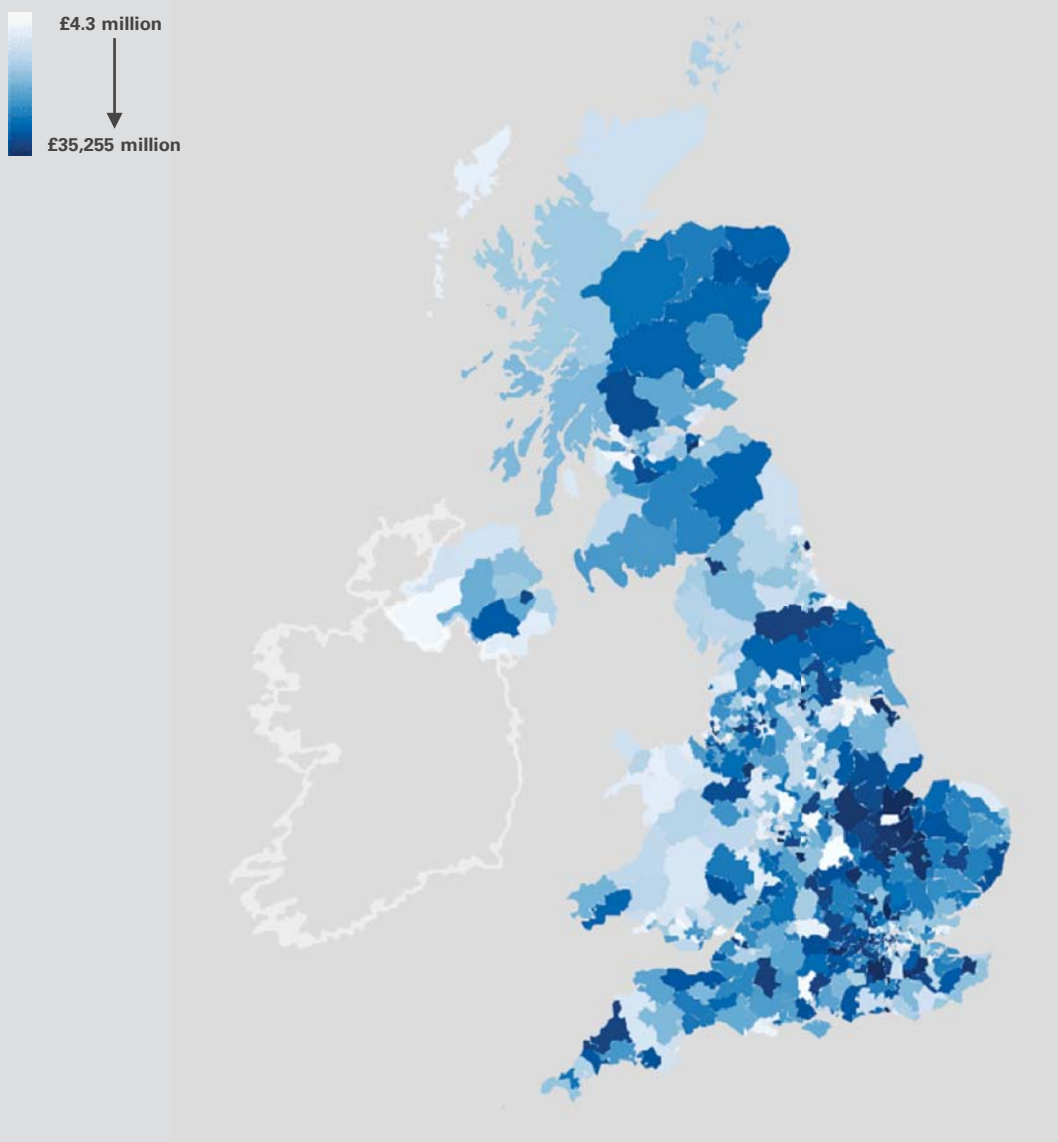
Our analysis indicates that the total contribution made by Tesco varies across regions, both in absolute terms and as a proportion of the total GVA of the region. In absolute terms, Tesco's total contribution to GVA in FY16/17 was highest, compared to GVA contributions in other regions, in the South East and London regions at £6.8 billion and £6.5 billion respectively. However, when Tesco's GVA contribution is expressed as a proportion of the total GVA of the region, Tesco had the largest economic impact in the East of England region and East Midlands regions, in comparison to other regions, at approximately 2.9% and 2.3% of regional GVA respectively.

This variation in Tesco's contribution is driven by a range of factors including, the presence of Tesco stores and wider operations in the region, the value of direct spending with suppliers and through the supply chain and the industry composition of the region.

#### 4.1.1.2 Breakdown of GVA by parliamentary constituency

Figure 11 shows the estimated Tesco total GVA generated in each of the UK's parliamentary constituencies in FY16/17.

**Figure 11: Tesco's total GVA contribution, by parliamentary constituency, FY16/17**



Source: KPMG analysis. Data provided by Tesco.

A Tesco site is located in 640 of the 650 UK parliamentary constituencies. Through each of these sites, Tesco generated direct GVA in FY16/17.

Our analysis indicates that Tesco's largest direct GVA impact was in the parliamentary constituency of Welwyn Hatfield. This is the constituency in which Tesco's head office is located. In this constituency Tesco's direct GVA impact was £606.9 million in FY16/17.



In 10 parliamentary constituencies (West Bromwich West, Staffordshire Moorlands, Walsall South, Penrith and The Border, Washington and Sunderland West, Derbyshire Dales, Blyth Valley, Wansbeck, Rhondda and Sheffield, Heeley) Tesco did not have a direct GVA impact in FY16/17. This lack of direct impact was a result of Tesco not having operations located in those local areas. However, in each of these areas Tesco's total GVA contribution (taking account of direct, indirect and induced GVA) was positive.

For example, it was:

- £4.6 million in Sheffield, Heeley;
- £42.5 million in West Bromwich West; and
- £21.8 million in Washington and Sunderland West.

The 10 parliamentary constituencies for which we estimate that Tesco generated the highest total GVA contributions in FY16/17, compared to GVA contributions in other constituencies, are shown in Figure 12 below. This Figure also shows the proportion of total local authority area GVA that Tesco contributes.

Local Authority areas are generally larger than parliamentary constituencies. It was not possible to analyse Tesco's total GVA contribution as a proportion of total parliamentary constituency GVA as the ONS does not report total GVA at the parliamentary constituency level.<sup>(91)</sup>

As shown in Figure 12, in the parliamentary constituencies for which we estimate that Tesco made the highest GVA contributions in FY16/17 were Holborn and St Pancras and the Cities of London and Westminster.

The high Tesco total GVA contribution in these constituencies was driven by indirect GVA arising from the wider supply chains of Tesco's suppliers. This is also the case for the London constituency of Poplar and Limehouse. ONS data indicates that these constituencies have a high concentration of UK businesses, across a broad range of sectors.<sup>(92)</sup> Therefore, while these are the constituencies in which Tesco's GVA impact is greatest, overall Tesco's GVA contribution accounts for a relatively small proportion of the total local authority area GVA.

**Figure 12: Tesco's total GVA impact in the 10 parliamentary constituencies in which Tesco generated the highest GVA contributions, FY16/17**

Parliamentary constituency	Tesco sites	Tesco total GVA (£m)	Tesco total GVA in parliamentary constituency as a % of local authority GVA
<b>Holborn and St Pancras</b>	1 Metro Store 6 Express Stores	£1,576m	5%
<b>Cities of London and Westminster</b>	8 Metro Stores 21 Express Stores	£1,514.9m	3%
<b>Welwyn Hatfield</b>	1 Head Office <sup>(93)</sup> 1 Distribution Centre 1 Extra Store 1 Express Store	£1,136.7m	27%
<b>Hove</b>	2 Superstores 5 Express Stores	£1,030.4m	14%
<b>Epsom and Ewell</b>	5 Express Stores	£749.5m	38%
<b>Warwick and Leamington</b>	2 Superstores 1 Express Store	£612.5m	11%
<b>Tynemouth</b>	1 Extra Store 3 Express Stores	£475.4m	11%
<b>Poplar and Limehouse</b>	1 Superstore 1 Metro Store 10 Express Stores	£436.6m	2%
<b>Slough</b>	1 Extra Store 4 Express Stores	£352.3m	5%
<b>South Holland and The Deepings</b>	2 Superstores 1 Express Store	£311.5m	12%

Source: KPMG analysis. Data provided by Tesco. Local Authority GVA sourced from the ONS. 2017. 'Regional GVA by local authority in the UK'.

As noted above, Tesco's largest direct GVA contribution is in the constituency of Welwyn Hatfield, linked to Tesco's UK head office being located there, along with a number of stores and a distribution centre. As a result of this, it is the parliamentary constituency in which Tesco generated the third highest GVA contribution in FY16/17. Tesco also accounted for a high proportion of the total GVA of this local authority area (an estimated 27%).

Tesco's high total GVA contribution in FY16/17 in other parliamentary constituencies, such as Epsom and Ewell, Hove<sup>(94)</sup>, Warwick and Leamington and Tynemouth was linked to the Tier 1 Tesco suppliers based and/ or headquartered<sup>(95)</sup> in these constituencies. As a result of this, high levels of Tesco indirect GVA were generated in these constituencies.

The 10 parliamentary constituencies for which we estimate that Tesco generated the lowest total GVA contributions in FY16/17, compared to GVA contributions in other constituencies, are shown in Figure 9. Again, this also shows the proportion of total local authority area GVA that Tesco contributes.

Tesco's relatively low levels of GVA contribution in these parliamentary constituencies compared to Tesco's GVA contributions in other constituencies is a result of both lower levels of direct GVA and indirect GVA.

As can be seen in Figure 13, Tesco does not have any sites in the parliamentary constituencies of Sheffield, Heeley and Rhondda. Therefore, it does not generate direct GVA in these constituencies. In other constituencies, such as: Wirral West; Eltham; and Birmingham, Hall Green, Tesco has a limited number of smaller stores, generating low levels of direct GVA compared to the direct GVA Tesco generated in other constituencies.

Tesco's low total GVA in the 10 parliamentary constituencies shown in Figure 13 is also driven by the low indirect GVA associated with its spending with suppliers located in these constituencies, both Tier 1 (direct) Tesco suppliers and suppliers in the wider supply chain. In the Eltham parliamentary constituency, Tesco did not have any Tier 1 suppliers. And in the other 9 constituencies, Tesco had low levels of total Tier 1 supplier spending compared to Tesco's spending with Tier 1 suppliers in other constituencies. For the 10 constituencies in which Tesco generated the lowest GVA impacts in FY16/17, we estimate that Tesco's indirect GVA ranged from approximately £3 million to £5.5 million, which is below the mean and median level estimated across all parliamentary constituencies.

In each of the parliamentary constituencies shown in Figure 9, Tesco's GVA contribution was very low as a proportion of total local authority area GVA.

**Figure 13: Tesco's total GVA impact in the 10 parliamentary constituencies in which Tesco generated the lowest GVA contributions, FY16/17**

Parliamentary constituency	Tesco sites	Tesco total GVA (£m)	Tesco total GVA in parliamentary constituency as a % of local authority GVA
Wirral West	1 Express Store	£4.3m	0.09%
Sheffield, Heeley	No stores	£4.6m	0.04%
Rhondda	No stores	£5.0m	0.13%
Eltham	3 Express Stores	£5.2m	0.12%
Edinburgh South	1 Metro Store 2 Express Stores	£5.8m	0.03%
Liverpool, West Derby	1 Superstore 3 Express Stores	£5.9m	0.05%
Glasgow South	3 Express Stores	£6.2m	0.03%
Birmingham, Hall Green	2 Express Stores	£7.1m	0.03%
South Shields	2 Express Stores	£7.4m	0.35%
Brigg and Goole	2 Superstores 1 Distribution Centre 1 Extra Store 2 Express Stores	£8.1m	0.21%

Source: KPMG analysis. Data provided by Tesco. Local Authority GVA sourced from the ONS. 2017. 'Regional GVA by local authority in the UK'.

### 4.1.2 The UK geographic reach of Tesco's employment impact

We estimate that Tesco supported employment in each of the UK's regions and parliamentary constituencies for FY16/17. By region, total employment supported ranged from 137,640 FTEs supported in the South East to 10,788 FTEs supported in Northern Ireland.

By parliamentary constituency, total employment supported by Tesco ranged from a total of 28,458 FTEs supported in the constituency of Holborn and St Pancras to 82 FTEs in Wirral West.

Similar to the distribution of Tesco's GVA impact in the UK, Tesco's total employment impact in each region and parliamentary constituency is associated with:

- The direct employment at each of the Tesco sites (e.g. stores, petrol filling stations and distribution centres) within that constituency;
- The indirect employment supported in the businesses in Tesco's entire supply chain (both Tier 1 suppliers and suppliers in the wider supply chain) that operate in that constituency; and

- The additional induced employment as a result of the economic activity that is generated in the constituency through Tesco's direct and indirect employees' spending of their wages.

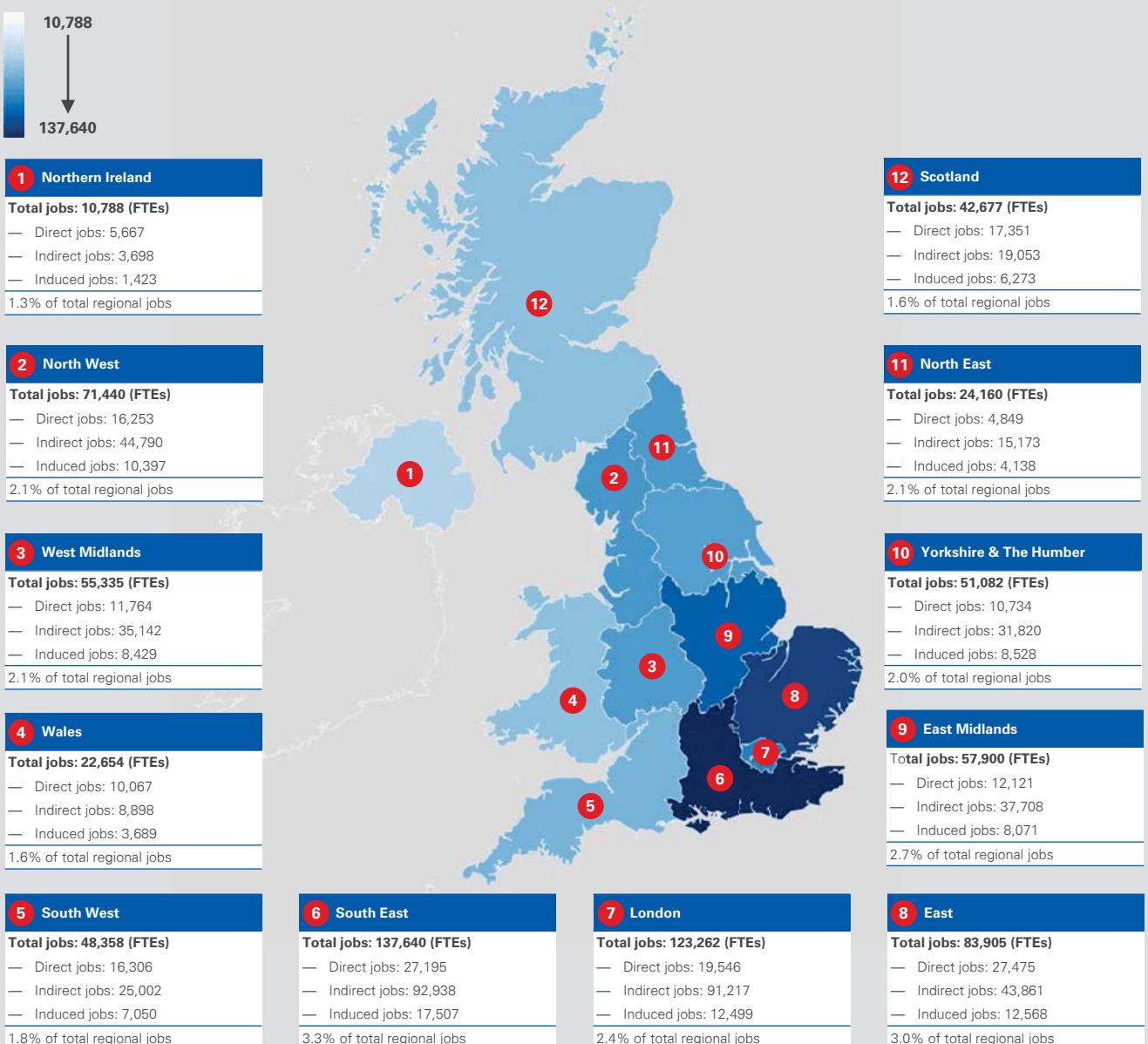
#### 4.1.2.1 Breakdown of employment by region

Similar to GVA, each of the 12 UK region's differs in population and employee numbers, as well as industry make-up. Because of this, Tesco's total employment impact will also vary by region.

Figure 10 shows how the total employment, supported by Tesco, is distributed by UK regions as a proportion of regional employment. Figure 14 provides a breakdown of total employment by region.

As can be seen, similar to the total GVA impact, the contribution Tesco has in both the South East and London is more significant as a proportion of regional employment.

**Figure 14: Tesco's total employment contribution as a proportion of total regional employment, by region, FY16/17 (FTEs)**



Source: KPMG analysis. Data provided by Tesco. Regional employment sourced from the ONS. 2017. 'Regional labour market statistics in the UK'.



#### 4.1.2.2 Breakdown of employment by parliamentary constituency

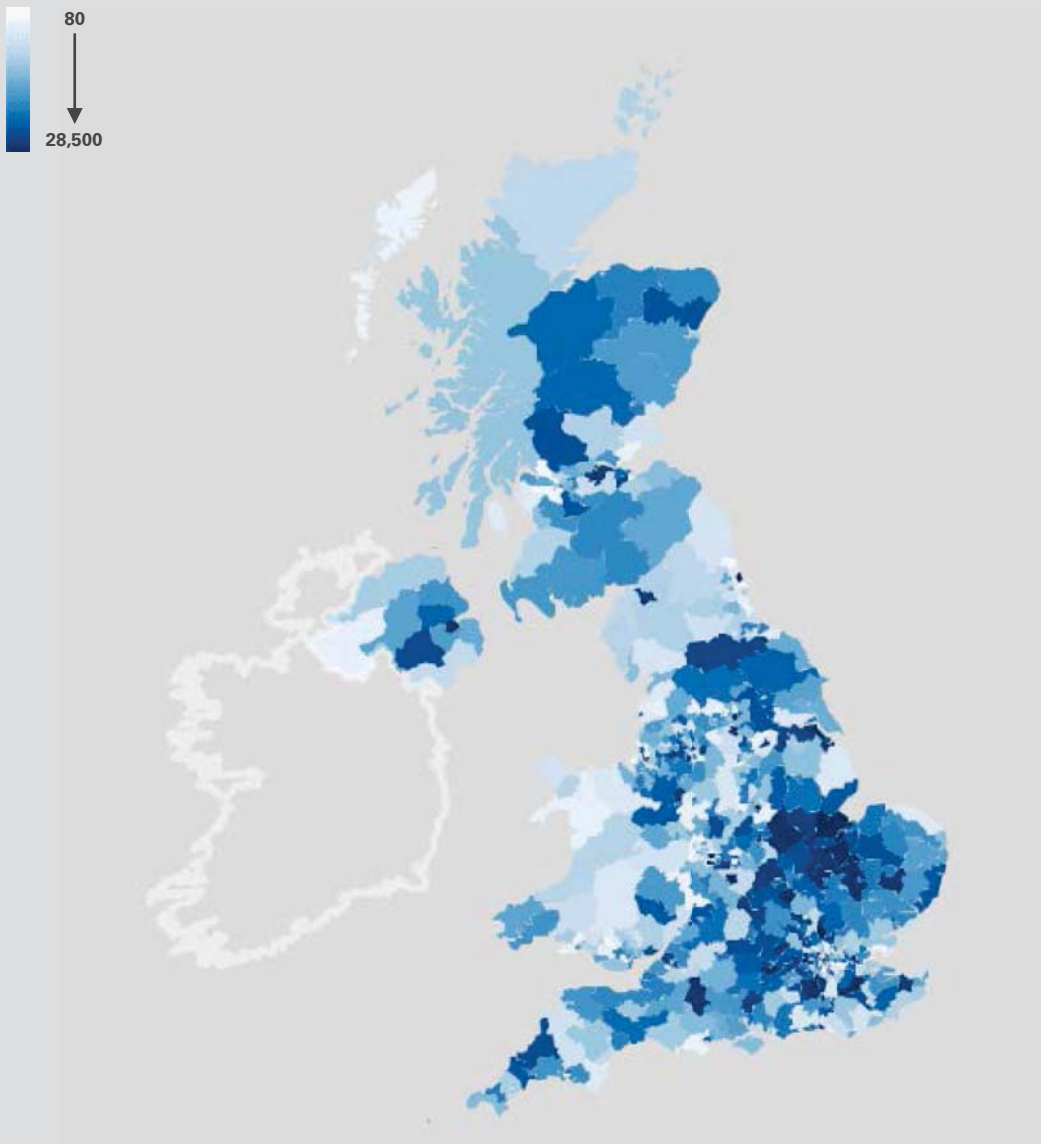
Figure 15 below shows the estimated level of Tesco's total employment impact in each of the UK's parliamentary constituencies in FY16/17.

Tesco generated direct employment in the 640 parliamentary constituencies in which it had operational sites in FY16/17. No direct employment was generated in 10 constituencies.

Similar to the direct GVA impact, Tesco's largest direct employment impact was in the parliamentary constituency of Welwyn Hatfield, where Tesco's head office is located. In this constituency Tesco's direct employment was 6,836 FTEs in FY16/17.

The 10 parliamentary constituencies for which we estimate that Tesco generated the highest total employment contributions in FY16/17 are shown in Figure 16 below. This Figure also shows the total employment supported by Tesco in each of these parliamentary constituencies as a proportion of overall parliamentary constituency employment.

**Figure 15: Tesco's total employment contribution, by parliamentary constituency, FY16/17 (FTEs)**



Source: KPMG analysis. Tesco data provided December 2017.

**Figure 16: Tesco's total employment impact in the 10 parliamentary constituencies in which Tesco generated the highest employment contributions, FY16/17**

Parliamentary constituency	Tesco sites	Tesco total employment (FTEs)	Tesco total employment as a % of employment in parliamentary constituency
<b>Holborn and St Pancras</b>	1 Metro Store 6 Express Stores	28,458	9%
<b>Cities of London and Westminster</b>	8 Metro Stores 21 Express Stores	23,868	2%
<b>Welwyn Hatfield</b>	1 Head Office 1 Distribution Centre 1 Extra Store 1 Express Store Tesco Wine Club	14,445	18%
<b>Hove</b>	2 Superstores 5 Express Stores	19,454	50%
<b>Epsom and Ewell</b>	5 Express Stores	14,191	35%
<b>Warwick and Leamington</b>	2 Superstores 1 Express Store	11,787	18%
<b>Tynemouth</b>	1 Extra Store 3 Express Stores	11,634	27%
<b>Poplar and Limehouse</b>	1 Superstore 1 Metro Store 10 Express Stores	7,459	4%
<b>Slough</b>	1 Extra Store 4 Express Stores	5,822	8%
<b>South Holland and The Deepings</b>	2 Superstores 1 Express Store	7,664	19%

Source: KPMG analysis. Tesco data provided in January 2018. Parliamentary constituency employment data sourced from the ONS, 2017.

The 10 parliamentary constituencies for which we estimate that Tesco's total employment contributions were the highest in FY16/17, compared to employment contributions in other constituencies, are the same constituencies for which Tesco's GVA contributions were the highest.

The same factors that drive Tesco's relatively high GVA contributions in these constituencies (compared to Tesco's contributions in other constituencies) drive the relatively high levels of employment supported. These factors include: the high levels of direct employment in the Welwyn Hatfield constituency; high indirect impacts associated with Tesco's procurement from suppliers in constituencies such as Epsom and Ewell, Hove<sup>(97)</sup>, Warwick and Leamington and Tynemouth.

It also includes the high concentration of UK businesses, which support the wider supply chains of Tesco and its Tier 1 suppliers, in the London constituencies of Holborn and St Pancras, the Cities of London and Westminster and Poplar and Limehouse

For the parliamentary consistencies in which Tesco had high level of spending with Tier 1 suppliers in FY16/17, specifically Epsom and Ewell, Hove<sup>(97)</sup>, Warwick and Leamington and Tynemouth, our analysis suggests that Tesco supported a high proportion of total employment in these constituencies. This is driven by total employment at these Tier 1 suppliers accounting for a large share of total constituency employment and Tesco supporting a high proportion of the Tier 1 supplier's total employment through its high levels of procurement from them.

**Figure 17: Tesco's total employment impact in the 10 parliamentary constituencies in which Tesco generated the lowest employment contributions, FY16/17**

Parliamentary constituency	Tesco sites	Tesco total employment (FTEs)	Tesco total employment as a % of employment in parliamentary constituency
Wirral West	1 Express Store	82	0.43%
Rhondda	No stores	89	0.63%
Sheffield, Heeley	No stores	93	0.52%
Eltham	3 Express Stores	106	0.56%
Glasgow South	3 Express Stores	108	0.64%
Wansbeck	No stores	136	0.52%
Edinburgh South	1 Metro Store 2 Express Stores	140	0.50%
West Dunbartonshire	1 Express Store	153	0.51%
Birmingham, Hall Green	2 Express Stores	154	0.53%
South Shields	2 Express Stores	155	0.70%

Source: KPMG analysis. Tesco data provided in January 2018. Parliamentary constituency employment data sourced from the ONS, 2017.

The 10 parliamentary constituencies for which we estimate that Tesco generated the lowest total employment contributions in FY16/17 compared to other parliamentary constituencies are shown in Figure 17 above, alongside the total employment supported by Tesco in each of these parliamentary constituencies as a proportion of overall parliamentary constituency employment.

The 10 parliamentary constituencies for which we estimate that Tesco's total employment contributions were the lowest in FY16/17 are largely the same constituencies for which Tesco's GVA contributions were the lowest. And the same factors that drive Tesco's relatively low GVA contributions in these constituencies drive the relatively low levels of employment supported.

The constituencies of Wansbeck and West Dunbartonshire were not among the 10 parliamentary constituencies for which we estimated the lowest levels of Tesco GVA contributions in FY16/17. However, they are within the bottom 50 constituencies by Tesco total GVA contribution. The low levels of employment that Tesco supported in these constituencies is linked to both the low levels of direct employment (Wansbeck has no direct employment as there are no Tesco sites in this constituency) as well as low indirect employment in the supply chains located in these constituencies.







5

Tesco's  
contribution via  
the supply chain



## A key way in which Tesco adds to the UK economy is through the network of suppliers it procures goods and services from. This spending, and the way Tesco works with suppliers, adds to UK economic activity, with multiplier effects via an extensive value chain.

Retailers, such as Tesco, rely on a substantial supply chain and distribution network to source and then sell a wide range of products to match consumer grocery demands. To remain successful and competitive in the market, it is important that Tesco works with suppliers to ensure it has the right products on store shelves.

Indeed, Tesco considers that “strong partnerships with [its] suppliers mean [it] can service [its] customers better, invest in innovation and grow [Tesco’s and its suppliers’] businesses together for the long term”.<sup>(98)</sup>

The value chain required for Tesco to retail the products that its customers want extends beyond the Tier 1 suppliers that it works with. These suppliers also need to source goods and services from a wider range of suppliers further up the value chain to ensure they have the inputs to grow, produce or process the products they sell on to Tesco. And these suppliers, also have their own supply chains. Collectively this means that the supply chain spreads widely, both domestically and also internationally.

As outlined in section 3, the indirect economic activity generated via Tesco’s supply chain is significant, contributing an estimated £37.3 billion to UK GVA in FY16/17 and supporting an estimated 743,005 indirect FTE jobs.

In this section of the report, we assess Tesco’s impact throughout its supply chain in more detail, including analysing the sectors and UK communities in which these indirect economic impacts are generated.

And as this indirect economic impact analysis only shows the economic contribution that was generated in the last financial year, rather than any wider impact that Tesco may have over time, or as a result of the specific way in which it works with suppliers, section 5.1 also considers the additional ways in which Tesco may have generated supplier economic impacts.

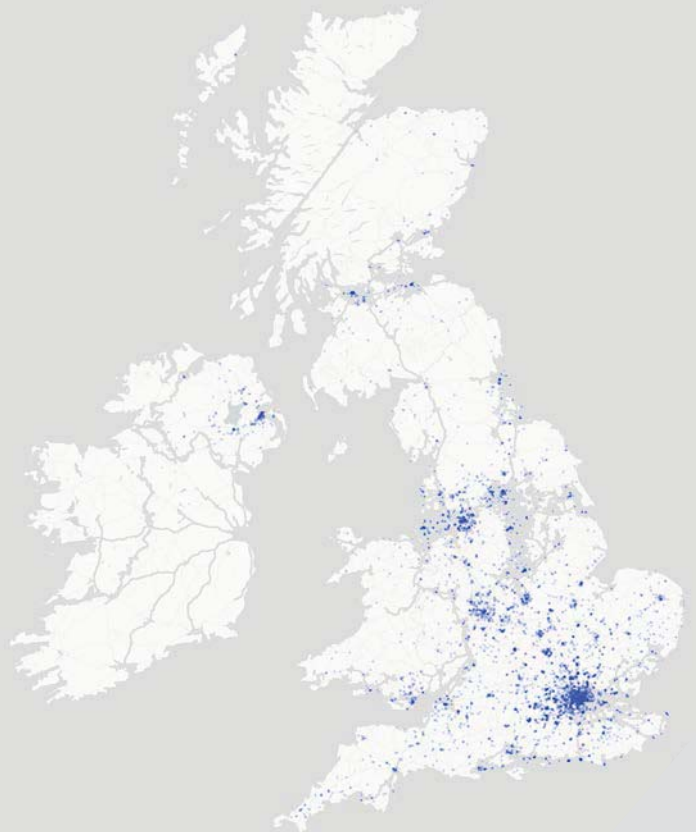
## 5.1 The geographic and sector spread of Tesco’s UK supply chain impacts

### 5.1.1 Generating supply chain economic impacts across the UK

In FY16/17 Tesco’s supply chain included over 9,000 suppliers from which it directly procured £36.1 billion of goods and services (Tier 1 suppliers). Of these, over 7,000 are based in the UK.

As shown in Figure 18, these suppliers are spread across the UK, demonstrating the broad geographic reach of Tesco’s immediate (Tier 1) suppliers. Tesco procured goods and/or services from suppliers based in 643 of the UK’s 650 parliamentary constituencies, from buying milk from a dairy cooperative on the Shetland Islands to chocolate from a confectioner based in St Ives, Cornwall.

Figure 18: Tesco suppliers’ locations, FY16/17



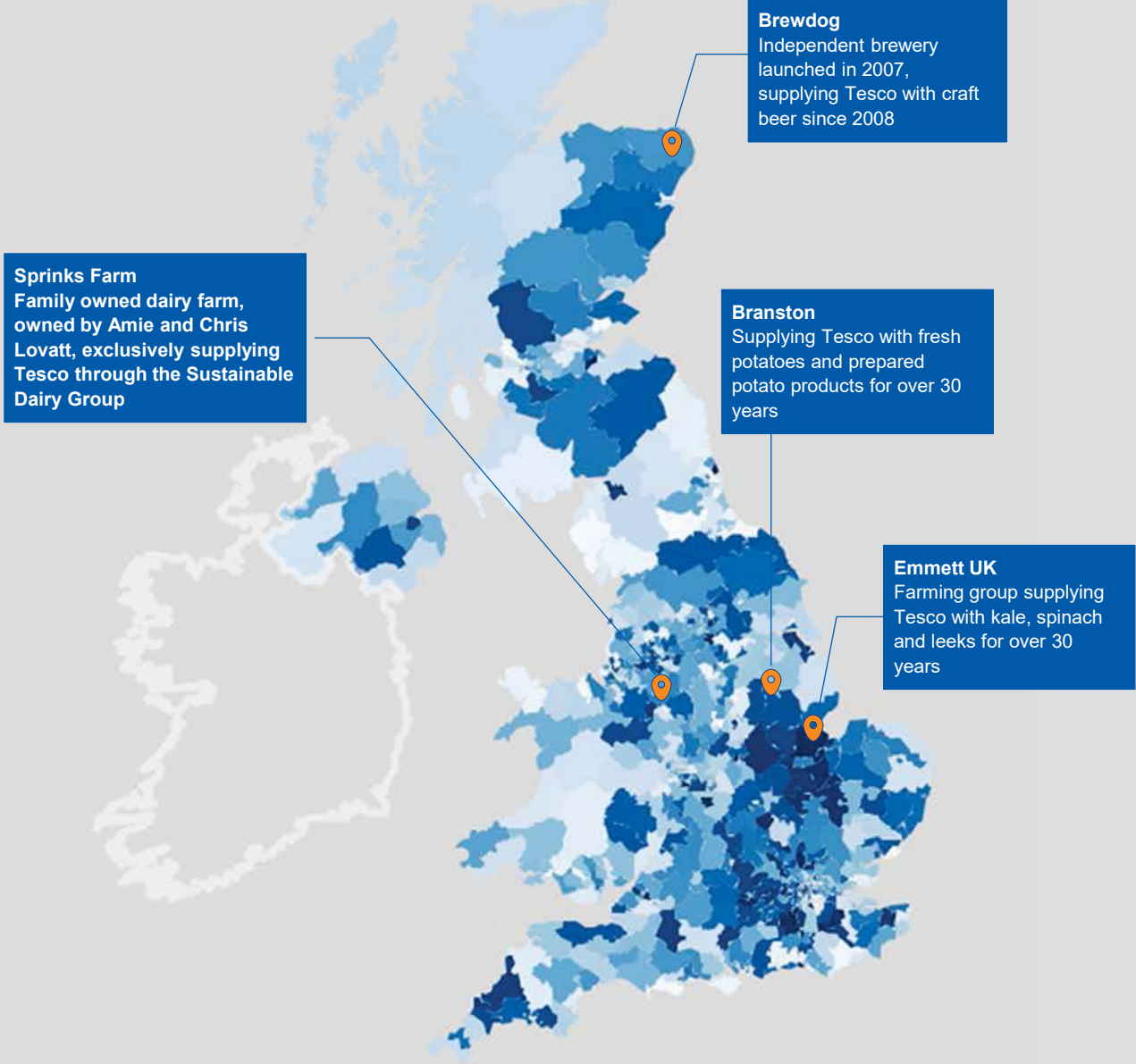
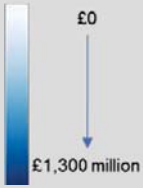
The wide dispersion of Tier 1 suppliers across the UK, means that Tesco’s procurement generates indirect economic impacts throughout the country, enhanced further when the wider supply chains are taken into account.

Figure 19 overleaf shows the distribution of both Tier 1 and wider GVA impacts across the UK. Our analysis suggests that impacts were generated in every parliamentary constituency across the UK. The Figure also highlights the location of the suppliers that participated in our supplier case study interviews.



**Figure 19: Tesco's indirect impact across the UK by parliamentary constituency, FY16/17**

Tier 1 indirect GVA



Of Tesco's total indirect economic contribution, through its supply chain in FY16/17 we estimate:

**£23.5bn** of indirect GVA and 417,652 indirect employees was generated in England

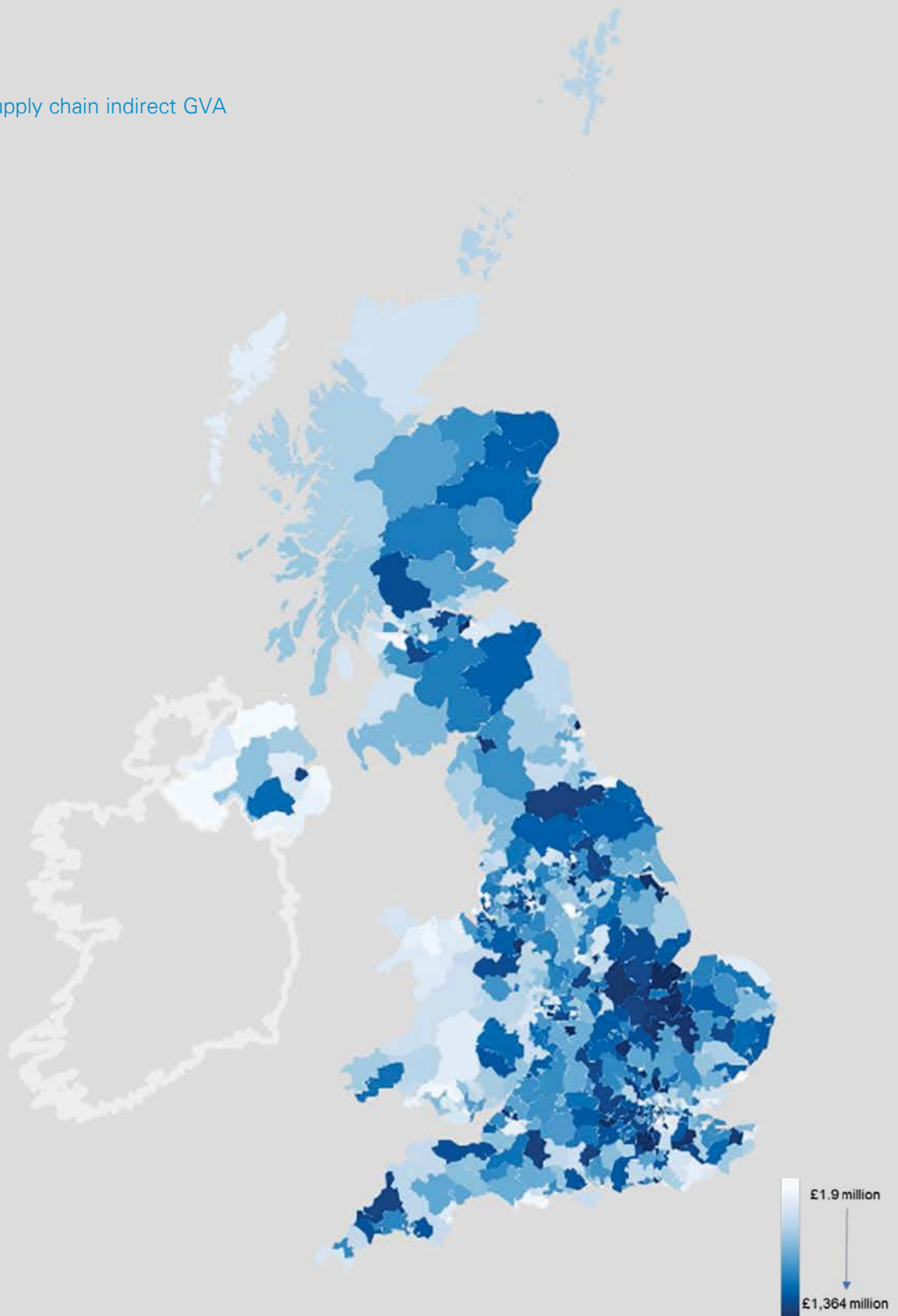
**£1.4bn** indirect GVA and 19,053 indirect employees was generated in Scotland

**£570m** of indirect GVA and 8,898 of indirect employees was generated in Wales

**£188.6m** of indirect GVA and 3,698 of indirect employment was generated in Northern Ireland



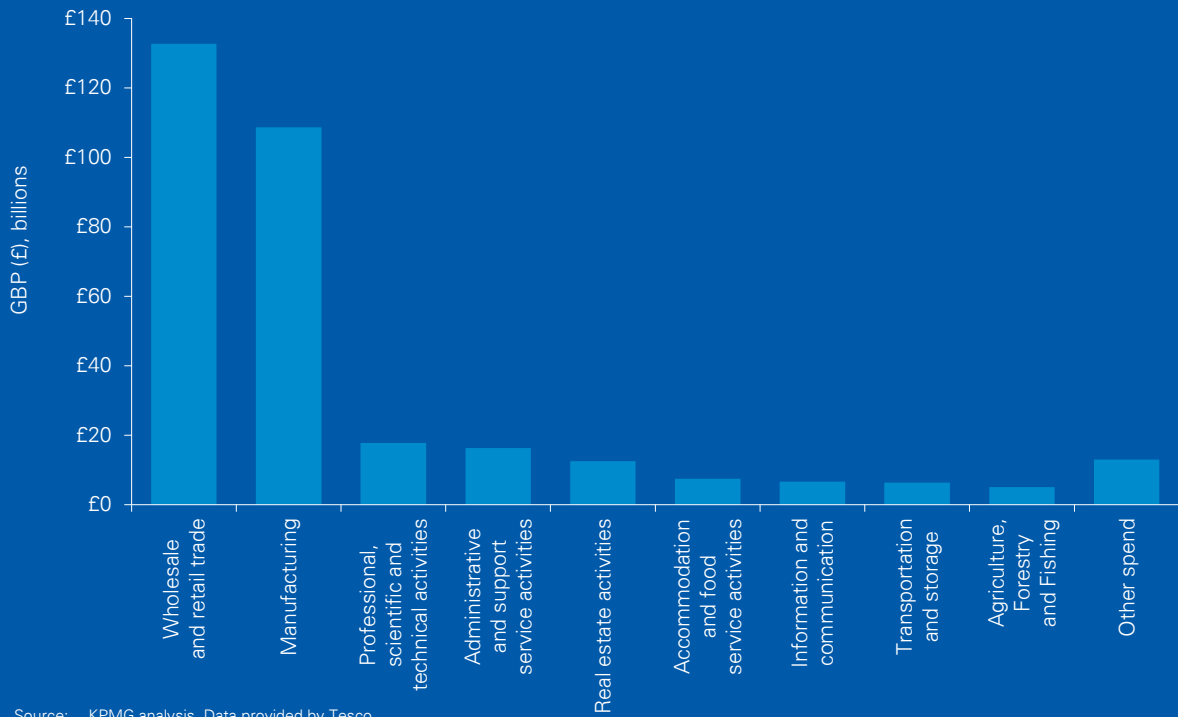
## Tier 1 and wider supply chain indirect GVA



Our analysis suggests that impacts were generated in every parliamentary constituency across the UK.

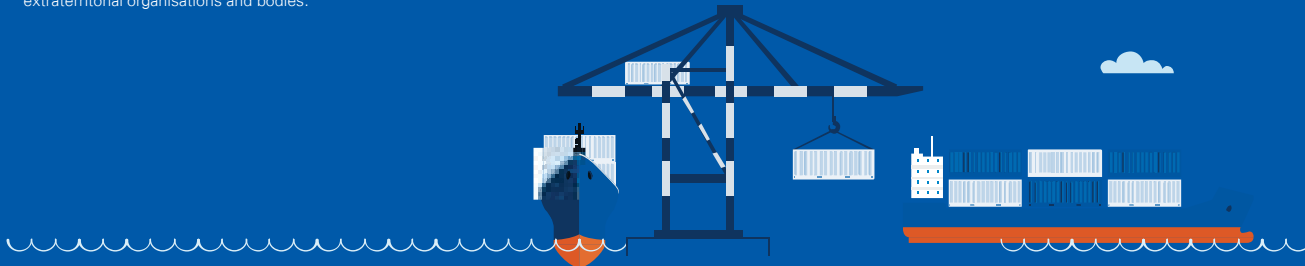
Further analysis of the geographic distribution of Tesco's indirect GVA contribution, and indirect employment impact will be included in KPMG's Part 2 report of 'The socio-economic contribution of Tesco in the UK', report series.

**Figure 20: Tesco's spending with UK Tier 1 suppliers, by Standard Industrial Classification (SIC), FY16/17**



Source: KPMG analysis. Data provided by Tesco.

Note: Other spend include the following sectors: I. Accommodation and food services activities; D. Electricity, gas, steam and air conditioning supply; S. Other service activities; O. Public administration and defence, compulsory social security; B. Mining and Quarrying; E. Water supply, sewerage, waste management and remediation activities; P. Education; R. Arts, entertainment and recreation; Q. Human health and social work activities; T. Activities of households as employers; and, U. Activities of extraterritorial organisations and bodies.



**5.1.2 Generating impacts across UK industries**

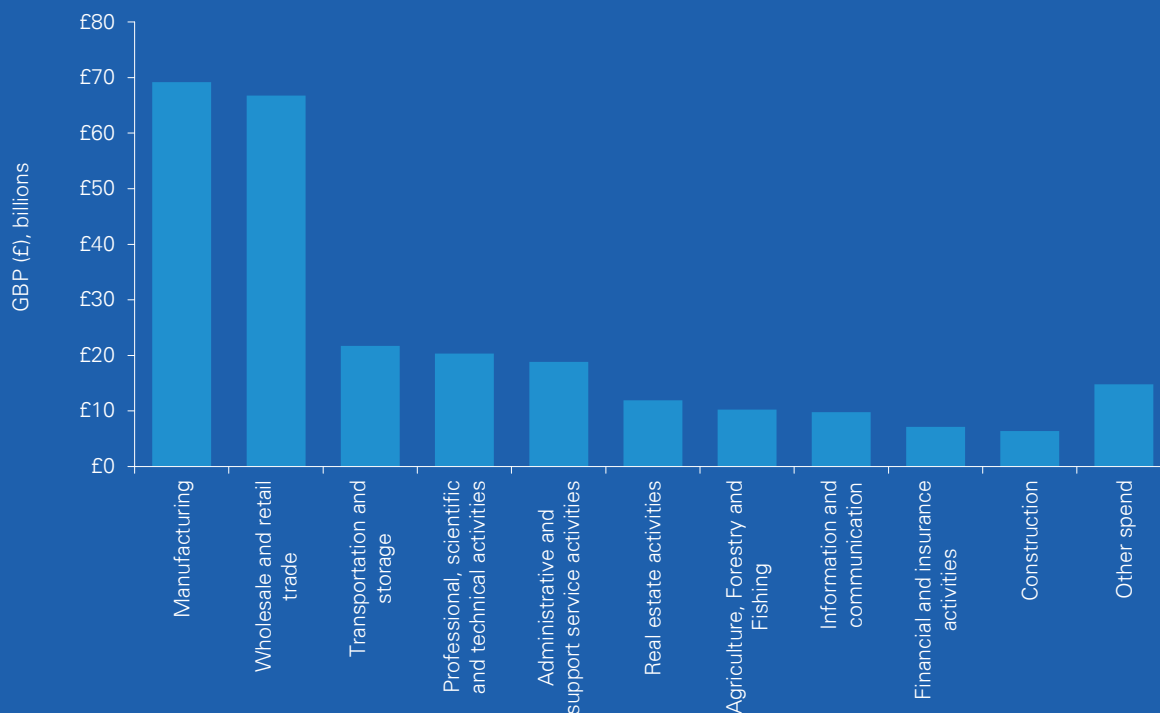
In line with the wide range of products and services that Tesco sells across its footprint of stores and petrol filling stations, and the inputs needed in order to operate as a business, Tesco's supply chain economic impacts span across a broad range of sectors in the UK.

Spending with UK suppliers is across all sectors in the UK (defined using Standard Industrial Classification codes). Figure 20 above shows a breakdown of the top SIC category areas, by broad industry groupings, of Tesco's spend with Tier 1 (direct) suppliers in FY16/17.<sup>(99)</sup>

Analysis of the Tesco's UK supplier spending by the SIC category of suppliers, indicates that the large majority of Tesco's spending was with Tier 1 suppliers classified in the 'wholesale and retail trade' and 'manufacturing' categories. However, this analysis only captures spend with Tier 1 suppliers, Tesco's impact spreads beyond this, through the supplier value chain. For example, Tesco purchases some products directly from food producers and processors, who sit within the food manufacturing sector. This spending with Tier 1 suppliers would be classified within the 'manufacturing' sector in the analysis in Figure 20 above.

However, the farmers and growers (within the 'agriculture, forestry and fishing' sector) who supply to these producers and processors also form part of Tesco's wider supply chain. For example, while Tesco's Tier 1 suppliers of milk in the UK are processors, Tesco's milk comes from 720 dairy farmers across the UK who provide milk to these processors. Further details of Tesco's work with dairy farmers is included in the case study on the Tesco Sustainable Dairy Group.

**Figure 21: Tesco Retail indirect GVA, by Standard Industry Classification, FY16/17**



Source: KPMG analysis. Data provided by Tesco.



The overall sector breakdown of Tesco's indirect GVA (both the GVA generated by Tier 1 suppliers and the wider supply chain as a result of Tesco's procurement) is shown in Figure 21.

In line with a large proportion of Tesco's spending being with Tier 1 suppliers in the 'wholesale and retail trade' sector and 'manufacturing' sector, the indirect GVA generated by Tesco in these sectors is the highest (£6.9 billion and £6.7 billion respectively). This reflects economic activity generated through Tesco's spending with wholesalers, manufacturers and processors of food, drink and grocery products as well as the contribution for suppliers in these sectors further down the supply chain.

The wider supply chain impacts of Tesco, and hence the indirect GVA, are spread across a broad range of sectors, reflecting the breadth of inputs needed to produce the goods and services that Tesco goes on to sell. For example, inputs from the 'transportation and storage' and 'administrative and support service activities' sectors will be required for virtually all businesses through the supply chain.

And as noted above, inputs from the 'agriculture, fishing and forestry' sector are used in the 'manufacturing' sector to produce the food products that Tesco sells. When the wider supply chain impacts across the UK's agriculture sector are taken in to account, we estimate that in FY16/17 Tesco indirectly supported 15,794 FTE jobs in this sector and generated £979.1 million of indirect GVA, approximately 9.3 per cent of the total agriculture, forestry and fishing sector GVA.<sup>(100)</sup>



## 5.2 Driving economic contributions through ways of working with suppliers

By procuring goods and services from UK based suppliers Tesco generates contributions to the economy in terms of indirect GVA and employment. The impacts arising from this spending are captured in the analysis set out earlier in this report.

It is also helpful to consider the way in which Tesco works with its suppliers in order to understand how the economic contributions have been generated over time and/or may have been affected by working practices.

The relationship between grocery retailers, including Tesco, and their suppliers is overseen by the Groceries Code Adjudicator (GCA). The Groceries Supply Code of Practice sets out how designated retailers should manage their relationship with suppliers, including in relation to supply chain procedures, payments and promotions.<sup>(101)</sup>

Our analysis in this section of the report does not include an assessment of how Tesco is performing in relation to these requirements. This is something that the GCA reviews on an ongoing basis and we note that there are areas of Tesco's historic relationship with suppliers that have raised concerns, specifically in relation to payment practices, which the GCA has confirmed that Tesco has now resolved.<sup>(102)</sup>

Our assessment is not a full analysis of Tesco's overall relationship with suppliers or quantification of the economic impacts generated through its ways of working with them. Instead, we identify the channels through which Tesco's way of working with suppliers has helped to drive the economic contributions generated via Tesco's supply chain.

The following ways in which Tesco has supported suppliers are explored:

- Providing market access and growing consumer demand.
- Providing increased certainty and helping to generate efficiencies.
- Fostering supplier innovation and investment.

We assess these impacts via: a review of Tesco practices and ways of working with suppliers; analysis of data relating to Tesco's supplier relationships; and research based on relevant academic and empirical evidence.

We also consider these wider impacts using four case studies based on interviews, data and information provided by select suppliers and the associated Tesco buyer teams. While these should not be considered to be necessarily representative of the relationship between Tesco and all suppliers, they provide an illustration of the type of wider economic impacts that have been realised by Tesco and these suppliers working successfully together.

### 5.2.1 Providing market access and growing consumer demand

As a retailer it is important that Tesco provides its customers with the goods and services that they value and demand. This requires work to gain insights in to consumer requirements and market trends, as well as work with suppliers to ensure that this demand can be met.

As the grocery retailer with the highest UK market share<sup>(103)</sup>, and with its footprint of 2,646 grocery stores in the UK<sup>(104)</sup>, Tesco acts as an important sales channel for suppliers. In FY16/17 Tesco Retail worked directly with over 9,000 suppliers to provide products to UK consumers.

Supplying to Tesco can mean access to a very large customer base. While Tesco is reliant on suppliers to provide the goods that its customers expect to be stocked, for example well established branded products, it also plays a role in bringing new products to market, both in terms of categories of product as well as new suppliers in established product categories.

For small and medium-sized businesses or local suppliers in particular, supplying to Tesco can present a real opportunity for growth in sales. Tesco analysis detailed in its Interim Results for 2017/18 indicated that 1,178 suppliers experienced a growth in the volume supplied to Tesco (from 2016 to 2017). For 280 suppliers, the growth in volume exceeded 50 per cent.<sup>(105)</sup> We note, however, that this may have resulted in decreases in volumes for other Tesco suppliers.

In the Industrial Strategy<sup>(106)</sup> the UK Government recognises that entrepreneurs make an important contribution to the UK economy through taxes, employment and the value of the goods and services they provide. However, some small and medium sized businesses face challenges to scaling up and realising their full potential. The Government notes that "more opportunities to operate in an environment with advice and challenge... can help businesses succeed initially and through their stages of development".<sup>(107)</sup>

As detailed in our case study of BrewDog, a Scottish craft beer company, the listing of its products by Tesco in 2008 was reportedly an important factor in the early growth of the business, a year after it was first established.



# BrewDog

## working with Tesco to access a broader customer base

The case study of BrewDog, the Scottish craft beer company, provides an example of how a grocery retailer can help to provide access to a large base of consumers and support business growth. Tesco's early backing of BrewDog reportedly was an important factor in the initial growth of its business.

Data shows that the market for craft beer in the UK has grown significantly in recent years – both in terms of the number of breweries and the volume of craft beer purchased. Since 2009 alone, the sale of craft beer has almost doubled.<sup>(108)</sup> However, there is evidence to suggest that entrepreneurs in this market have faced difficulties in accessing finance and customers. Without this they can struggle to compete with producers in the established mainstream beer market who often benefit from economies of scale in production and marketing and from distribution advantages.<sup>(109)</sup>

BrewDog was set up in 2007 by Martin Dickie and James Watt, with a small brewery in the North East of Scotland that was leased with finance provided via bank loans. Initially, small batches of beer were produced and sold at local markets.<sup>(110)</sup> However, this changed after they entered a bottled beer competition organised by Tesco in 2008. BrewDog won four of the top five prizes which led to Tesco ordering 2,000 cases a week from BrewDog to place the beer in 500 Tesco stores.

Steve Ricketts, BrewDog's Off-Trade Sales Manager, told KPMG that to meet this order investment in the installation of a bottling line and expanded production was required. He indicated that with the Tesco order behind the company, BrewDog was able to secure the required funding and make a significant investment to expand production capabilities to supply Tesco.

Mr Ricketts explained that securing the early commission from Tesco was 'groundbreaking' for BrewDog, giving it the ability to rapidly expand production and launching the brand to a wider market than it otherwise would have had access to. He said "winning the competition and securing an early listing in 300+ stores was a great way to build the core mission [of BrewDog]. For a small startup in the North East of Scotland to take on big brewers is difficult. It was a great way to get the beer into people's hands."

A key point highlighted in literature on the barriers to growth of small firms is the inability they often face to gain exposure and customer access points.<sup>(111)</sup> Mr Ricketts highlighted to KPMG the importance of gaining access to customers and the role Tesco played in this, especially in the early stages of the business.

Since launching in 2007, and working with Tesco from 2008, BrewDog has grown, on average, 65 per cent year-on-year and now exports to 65 countries, owns a brewery in America and a network of bars across the UK, and has retail distribution with all of the big supermarket chains. As of 31 December 2016, the company has over 650 employees with revenues of £72 million in 2016.<sup>(112)</sup>

While Mr Ricketts told KPMG that he thought BrewDog would have succeeded in any case, he did note that "[BrewDog] recognises the long journey it has been on with Tesco. Everything we do is anchored around making craft beer accessible to customers. The scale and reach of the Tesco estate, from large to small stores and online, is very important for that."

Retailers, such as Tesco can be very influential in helping to bring new suppliers, and their products to market. They can also play an important role in working with existing suppliers to adapt products to changing consumer tastes and preferences. Through promotional activities and innovation, retailers can also help to drive increased demand and, therefore, the economic activity to meet this demand.

The BrewDog case study provides an example of Tesco listing a new product to capitalise on the opportunity in relation to craft beer. There are also other examples of how Tesco has worked with suppliers to identify market trends and to address, and drive, demand.

Evidence suggests that innovation has been strong in the UK food and drink market over the past five years. In 2016, investment in research and development for the UK food and drink market was £504 million. As a percentage of national GDP, this was higher than the levels in European countries such as France, Germany, Sweden and Austria.<sup>(113)</sup>

When it comes to the decision about 'what' to innovate, consumer trends play an important role. A European Commission study states that "consumers play perhaps the most important role as being innovation drivers".<sup>(114)</sup> For suppliers and retailers being able to predict customer trends is important in order to ensure that timely production decisions are made so that the capacity is ready and available to meet the anticipated future demand.

Without anticipating customer trends and likely future demand, a retailer or supplier may have inadequate supply, which could result in a shortage of a product and either non-availability or higher prices for consumers if demand outstrips supply.

If, however, a retailer or supplier can anticipate such trends and increase capacity prior to any demand shifts, they will be more likely to be able to meet demand and, therefore, sell a higher volume and achieve higher revenues and profit. It also allows for first mover advantage.<sup>(115)</sup>

To do this effectively, two independent parties in a supply chain, such as a retailer and supplier, can work together in partnership to identify trends and agree ways of working to help to meet, and potentially drive, customer demand. Increased sales of products, to the extent that they expand the market and do not displace sales elsewhere, help to generate additional economic activity (and hence GVA), both directly at the retailer as well as indirectly through the supply chain.

The Emmett UK case study provides an illustrative example of how Tesco and a supplier worked together to capitalise on opportunities in relation to the sale of kale. This generated investment and increased economic output by ensuring sufficient product was available to meet customer demand and through product innovation and promotional activities.





# Emmett UK and Tesco

## working together to grow the UK market for kale

To successfully develop products for market, suppliers and retailers can work together to track consumer trends and adapt their product and/or sales approach.<sup>(116)</sup> This can directly benefit consumers and result in increased total sales for the category. To understand how Tesco has done this with some suppliers, KPMG interviewed Alex Boughton, Sales Director for Emmett UK ('Emmett'), a specialist supplier of kale, spinach and leeks based in Lincolnshire.<sup>(117)</sup>

Kale is a fresh food product that has seen a significant increase in consumption (and hence suppliers' and retailers' sales) over recent years, linked to changes in customer taste and healthy eating trends. Tesco indicated to KPMG that it also sought to promote the product as part of its wider initiatives to encourage healthy eating.

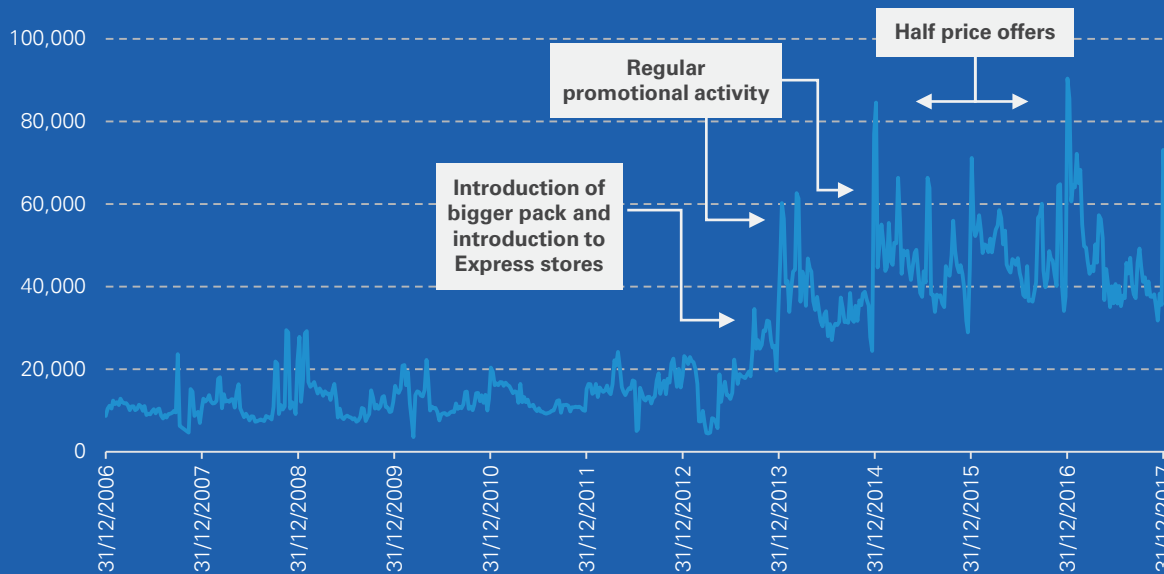
Emmett had turnover of £48 million in 2016/17 and employs 450 to 550 people.<sup>(118)</sup> Tesco exclusively sources its kale from Emmett, accounting for between 75 per cent of Emmett's overall sales of kale. Representatives from both Tesco and Emmett UK told KPMG about how the companies have worked collaboratively to take advantage of the market opportunity for kale, including by anticipating future demand and investing in capability to meet this and by helping to drive increased consumer demand by co-investing in promotional activities.

Mr Boughton told KPMG that in 2012/13, Emmett identified a trend of growing kale consumption based on growth in sales in the US. He referred to a meeting with Tesco about this as a "watershed moment" for the company. In this meeting, Tesco and Emmett discussed expanding Emmett's kale production, with Tesco taking the additional supplies. While this was not a written agreement at that stage, Mr Boughton referred to the trust that had built up with Tesco after many years working together which gave security to Emmett to make the required investments in expanding production. He said "There was commitment on both sides that there was a strong market opportunity. To be able to sell it, you need to have grown it in the first place. Tesco gave us the commitment and encouragement to grow a lot more than we would otherwise have."

Data provided by Tesco and Emmett also shows the level of promotional activity undertaken to drive sales of kale, such as giving increased visibility to the product and discount deals. Emmett and Tesco also worked to tailor the product to meet the needs of different stores. For example, introducing a range of product sizes and expanding the product range by introducing different types of kale, e.g. black kale, to meet different consumers' needs.

Figure 22 overleaf shows the volume of kale sales over the last ten years with promotional activity highlighted. Although causality cannot be established, a sharp increase in sales can be observed following periods of promotion, with a general upward trend.

Figure 22: Tesco retail sales of kale, 2007-2017



Source: Emmett UK. Data provided January 2018.

Mr Boughton attributed the growth in weekly sales to Emmett's and Tesco's efforts to grow customer demand. He also provided data showing that Tesco's market share of kale sales has been consistently higher than its overall retail market share over the last four years (as measured by Kantar Worldpanel), which he suggested was also a result of the joint commitment of Emmett and Tesco to boost sales. Mr Boughton told KPMG that: "If we didn't feel like our kale business was secure with Tesco, we wouldn't have invested in the way that we have. This has been

something that happened over the last ten years with the trust we've developed and it wouldn't have happened without it"

Overall, Emmett's kale sales have grown from an average of around 10 tonnes per week in 2007 to 46 tonnes a week on average in 2017. By expanding production, and growing revenues and profits, Emmett's contribution to the UK economy, in terms of economic output (GVA) will have increased directly, and this is likely to have also increased its indirect economic contributions through additional supply chain activity to support the increased growth of kale.<sup>(119)</sup>

## 5.2.2 Providing certainty and helping to drive efficiencies

Longer term partnerships can help to provide increased certainty and to build trust between parties.<sup>(120)</sup>

Long term relationships, both informal and through contractual arrangements, can provide suppliers with certainty about their future.<sup>(121)</sup> The certainty that supplier products/ services will be procured for a given length of time, potentially at pre-agreed volumes and/ or prices, means that suppliers are able to take this in to account in business planning. Evidence from the OECD<sup>(122)</sup> indicates that having a longer term relationship, or contract, with suppliers is associated with improved efficiency and greater coordination between stakeholders.<sup>(123)</sup> It also increases the certainty suppliers have in relation to future demand. This is associated with higher levels of investment to enhance capabilities or quality of produce. While, as mentioned above, we have not conducted an assessment of Tesco's overall relationship with suppliers, we have reviewed some case study examples to identify the channels through which certain business practices deliver benefits to the economy.

Further details of how Tesco's ways of working have helped to promote supplier investment are detailed in section 5.2.3 overleaf.

Tesco Retail had contractual arrangements for the supply of products/services with over 9,000 suppliers in FY16/17. This included the supply contracts with its Tier 1 (direct) suppliers as well as additional contracts with farmers and grower further down the supply chain. For example, although not procuring directly from them, Tesco works with, and has contracts with 720 dairy farmers who supply milk for Tesco, through the Tesco Sustainable Dairy Group (TSDG).

Through the TSDG, Tesco works with dairy farmers as part of its commitment to: "selling high quality milk, sourced from British dairy farmers who benefit from [Tesco's] long-term support and are guaranteed a fair price for every pint."<sup>(124)</sup> Further details of the TSDG, and examples of the impact of this relationship with dairy farmers, are set out in the TSDG case study.

Tesco now also has similar Tesco Sustainable Farming Groups covering other products, including potatoes, cheese, lamb, pork, poultry and eggs.<sup>(125)</sup>

# Tesco Sustainable Dairy Group

**guaranteeing  
prices based on  
the average  
cost of  
production for  
UK milk  
farms<sup>(126)</sup>**

Tesco's Sustainable Dairy Group (TSDG) was established in 2007 as Tesco's first sustainable farming group.<sup>(127)</sup>

At present, the group is made up of 720 dairy farmers across the UK that supply Tesco with milk.<sup>(128)</sup> The group was established by Tesco with the objective of serving as 'a forum to discuss sustainable production, customer needs and Tesco standards'.<sup>(129)</sup>

Tesco's Sustainable Dairy Group (TSDG) was established in 2007 as Tesco's first sustainable farming group. At present, the group is made up of 720 dairy farmers across the UK that supply Tesco with milk. The group was established by Tesco with the objective of serving as "a forum to discuss sustainable production, customer needs and Tesco standards".

A key feature of the relationship with dairy farmers is the contractual agreement to buy milk on a 'cost plus' basis (i.e. a price above the average cost of production). Dairy farmers contract directly with milk purchasers or processors who then contract with Tesco under the provision of a guaranteed price set above an average cost of production. This cost of production is determined by an independent consultancy and reflects the average cost of production of all members of the TSDG.<sup>(130)</sup> It takes into account the direct variable costs of milk production plus a share of the fixed costs, which includes an allowance for unpaid family labour. This is divided by the litres produced to give a pence per litre figure.

This pricing approach means that farmers receive a guaranteed price for the milk supplied, subject to quarterly reviews<sup>(131)</sup>, over the 12 month rolling contract.

Milk prices tend to be volatile and seasonal. The trend in market milk prices, tracked at price per litre, since 1995 can be seen overleaf. A sharp drop in prices in 2015 resulted in a crisis summit of the UK farming unions and Ministers across the UK in summer 2015.<sup>(132)</sup>

This volatility is a risk for farmers, particularly because if prices fall lower than the costs of production they incur a loss for each litre of milk produced. For farmers, a guaranteed price reduces the risk of price volatility.<sup>(133)</sup> Tesco's guaranteed price, based on the average costs of production, means, on average, no losses will be incurred. However, this means if market spot prices are higher than Tesco prices, the farmers forgo the opportunity to earn additional revenues and profit.





Figure 23: Market milk prices, price per litre, 1995 to 2017



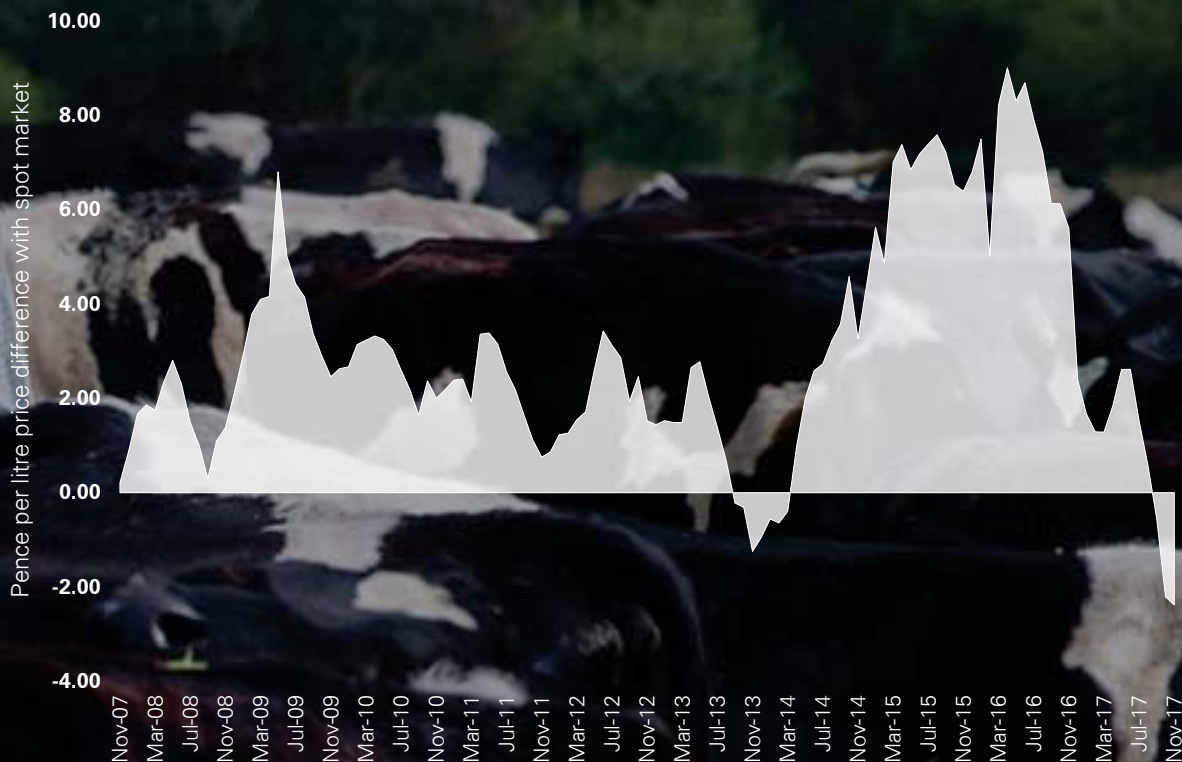
Source: KPMG analysis using ONS data. 2017. 'United Kingdom milk prices and composition of milk' ONS.

KPMG has reviewed data provided by Tesco showing the Tesco price paid compared to the market spot price over the period April 2007 to November 2017. This is shown in Figure 23. Over the past ten years, the Tesco price has only fallen below the spot price on two occasions – between June and September 2008 and since July 2017. This means that farmers have been receiving a higher price from Tesco in comparison to the spot price, sometimes up to 12.5 per cent higher than the spot price.<sup>(134)</sup> In total, more than £270 million over the prevailing market price has been paid to Tesco's suppliers of milk over the past ten years.

For Tesco, there are also benefits to a guaranteed price with milk farmers. Tesco buyers indicated to KPMG that it gave them certainty in relation to the price of milk they will pay as well as helping to guarantee supply and improve quality. This is driven by the contracting relationship and explicit volume and quality standards associated with supplying to Tesco.

Implicit in a 'cost plus' model is the incentive for farmers to make efficiency gains through reducing their costs of production below the average. When they reduce their cost of production, this increases the profit margin between costs and the average cost of production based price paid by Tesco.

**Figure 24: Cost differentials between Tesco guaranteed price and the market price, November 2007 – November 2017**



Source: KPMG analysis based on Tesco milk price data and average spot market prices for milk, pence per litre.

To understand how Tesco's milk pricing and contracting approach impacts individual farmers, KPMG interviewed a dairy farmer, selected by Tesco, which is part of the TSDG.

Amie and Chris Lovatt own and operate a family farm, Sprinks Farm, based on the Staffordshire Cheshire border, which has been supplying Tesco with milk since the business was established in August 2016. KPMG was told by Ms Lovatt that in 2014/15, with her husband, she was considering setting up their own dairy farm, having both being brought up in farming families. At this time, milk prices were very low.<sup>(135)</sup> Therefore, ahead of making the investment in the new business, Ms Lovatt told KPMG it was important to establish an initial buyer for the milk the farm would produce. Having approached Tesco, a trial period was agreed, resulting in a TSDG contract. The farm exclusively supplies Tesco and, to date, Tesco has been willing to take its entire milk supply, which has reportedly increased month on month.

The dairy farmer, Ms Lovatt, told KPMG that this contract and the financial security of a guaranteed milk price, based on the cost of production, meant that they were able to make investments they otherwise would not have. This included a sizeable investment in a robot milking machine in 2016, which Ms Lovatt indicated has resulted in higher milk production due to higher average milk yields per cow than a conventional milking parlour.

Additionally, Ms Lovatt said that the financial security to the business of supplying Tesco has meant that the farm has invested in other equipment, such as a new tractor, mower and feeder wagon. She said: "Tesco has given us the security and confidence to invest in additional equipment meaning the farm is more self-sufficient and we have reduced costs associated with outsourcing".

As explained in relation to the TSDG, the pricing agreement with Tesco can help to drive efficiencies as pricing based on average cost of production incentivises suppliers to lower their costs below the average, by being more efficient. While this could come at the expense of factors such as quality, by ensuring that quality standards are in place and form part of the contractual arrangements this can help to avoid these unintended consequences.

There are a range of other ways in which ways of working with suppliers can help to generate efficiencies.

Efficiency gains can result in either a fall in cost (for the same level of earnings or revenue) or an increase in earnings or revenue (for the same level of costs). In each of these scenarios economic impacts are enhanced as additional GVA is generated.<sup>(136)</sup>

In general, efficiency gains can be realised via a range of channels, including:<sup>(137)</sup>

- Economies of scale, whereby a lowering of the average cost of production is achieved by an increase in the volume of production, for example as a result of purchasing input goods at scale.
- Technological progress, for example as a result of investment in research and development or new technology which improves the means of production and reduces the cost.
- Changes in business operations, such as reallocating production to achieve cost savings, or changes in management and business approaches.
- Training and skills enhancements to improve labour productivity.

It is in the interests of all businesses to become more efficient as this can enhance their ability to earn profits and gain market share.

There are also incentives for customers to work with suppliers to help to achieve efficiency gains, as by lowering the cost of production and costs of doing business it can help the customer to also benefit, for example in terms of lower prices.<sup>(138)</sup>

One of the ways in which Tesco has worked with suppliers to generate efficiency gains is through its initiatives to promote best practice and facilitate knowledge sharing. Studies have shown that competitive advantages can be created and sustained through superior knowledge-sharing processes within a supplier network.<sup>(139)</sup> Tesco has put in place a range of initiatives and measures with the aim of helping to promote best practice and knowledge sharing with, and amongst, its suppliers.

Tesco's Supplier Network provides a forum for all of Tesco's suppliers to interact and share their learning and best practice. Tesco says it "gives members a direct line to Tesco colleagues, industry experts and other suppliers around the world".<sup>(140)</sup>

It has also set up Tesco's 'The Future Farmer Foundation' which aims to support the next generation of farmers via its programme aimed at people aged 20-35 years from all farming sectors. The core elements of the programme are focused on providing training and support in relation to business planning, leadership skills, personal development and supply chain management. It also includes opportunities for mentoring and/or placements within a leading food business in the UK or overseas. At present, fifty future farmers participate in the programme every year.<sup>(141)</sup>

As part of this study, KPMG interviewed a future farmer who joined the programme in 2016/17. Amie Lovatt, who, along with her husband, was establishing a new dairy business, said that the experience meant she got to see how other suppliers were doing things differently and learn from this for her own business. In particular, Ms Lovatt indicated that her business benefitted in particular from the accounting knowledge she gained, helping to save both time and money. She said: "An accountant came in and spoke to us, telling us what to look out for in the end of year accounts. Before this I did not know what a profit and loss sheet was, or a cash flow statement. They also put this in the context of agriculture so it all made sense."<sup>(142)</sup>

Another way in which Tesco has worked with some of its suppliers to help to improve efficiency is linked to its focus on the reduction of waste.

Within Tesco's 'Little Helps Plan' and through its commitment to UN Sustainable Development Goal 12.3<sup>(143)</sup>, Tesco has set out the target to halve food waste from farm to fork by 2030.<sup>(144)</sup> In line with this commitment, Tesco has worked with a number of suppliers to look at how their waste can be minimised during production and, where possible, use waste as an input to additional production by making links between growers and suppliers of fresh and frozen products. An example of this is the work with Branston UK to use visually imperfect potatoes, which were previously treated as waste, as ingredients in other products such as ready meals, salads and soups. Further details are provided in the Branston case study.

Business operations and efficiency can also be impeded by cashflow issues. Retailers, such as Tesco, can impact significantly on suppliers' cashflow positions through the payment terms offered and adhered to. Indeed, to address this risk, the Groceries Supply Code of Practice requires retailers to pay a supplier for groceries delivered in accordance with the contractual terms agreed with the supplier and in any case within a reasonable time after the date of the Suppliers' invoice.<sup>(145)</sup>

A January 2016 report by the GCA following an investigation into Tesco plc found that, "the vast majority of the evidence [the GCA] received demonstrated that Tesco paid regular, undisputed invoices in accordance with its contractual terms with suppliers". However, evidence was also found to indicate that Tesco had breached the Code in relation to payment delays.

As noted above, we understand that Tesco has worked to resolve these historic issues and in September 2016 the GCA confirmed that Tesco had complied with the requirements.

There is also some wider evidence that Tesco's ways of working with suppliers improved. In 2017, Tesco's own supplier survey, the Supplier Viewpoint, found that 86 per cent of suppliers reported Tesco's paying promptly within policy terms as a strength of working with Tesco.<sup>(146)</sup> In June 2016, the Groceries Code Adjudicator reported that Tesco was the most improved retailer in the way it engages with suppliers.<sup>(147)</sup>



### 5.2.3 Fostering supplier innovation and investment

Efficiency gains also can be realised via business investment. And as noted in section 3.3, investment activity is an important determinant of economic contribution and is recognised as a driver of economic growth.<sup>(148)</sup> Investment, particularly in innovation, can drive technological progress as well as product offerings in order to attract and retain customers, and so impacts on growth. We explore below how Tesco's ways of working with suppliers can impact on supplier investment and innovation.

One of Tesco's six strategic drivers, as highlighted in its FY16/17 Annual Report is innovation:<sup>(149)</sup>

"The strength of the partnerships [Tesco has] with [its] suppliers plays an important role in innovation. By building [Tesco's and suppliers'] businesses together, [Tesco] also give[s] confidence to invest in innovative products and solutions for the benefit of mutual customers."

Innovation and investment can be affected by a number of factors, including the level of associated risk. By developing long term relationships with suppliers, particularly through contracts, this level of risk can be reduced. As noted in section 5.2.2, longer term contracts can help to increase the certainty suppliers have in relation to future demand. This is also associated with higher levels of investment and innovation as there is greater certainty that the associated sunk costs can be recouped over time.

It was not possible within the scope of this study to assess the level of investment and innovation made by all Tesco suppliers over time. However, there are some examples of where this has occurred, at least in part, through the way in which Tesco and its suppliers work together.

The TSDG case study demonstrates how certainty of a long term relationship with Tesco, and certainty of price, can increase the investment a supplier is willing to make. Investment, in turn, can result in technological progress improving the efficiency of production, as this case study also demonstrates.

The Branston case study provides another example of how certainty in supplier relationships can lead to additional investment, innovation and improved efficiency gains.



# Branston

## A Tesco supplier of fresh potatoes, seed potatoes, peeled and prepared potatoes

Branston, a fresh and prepared potato processor and supplier, has been working with Tesco for the last thirty years. It currently has a three year contract in place which is based on open book pricing, based on average costs. The Managing Director of Branston, James Truscott, indicated that the price certainty this model establishes has meant both Branston and the potato growers in its supply chain, could make investments to improve and expand production capacity and quality.<sup>(150)</sup> This investment has reportedly supported the growth of the business and, therefore, its economic contribution in the UK.

Across the UK, Branston has three sites: in Lincoln, Somerset and Perth. In FY16/17, the company employed over 700 people, and had a turnover of £145 million. In FY16/17, Branston supplied Tesco with over 217,700 tonnes of produce. This equates to approximately 75 per cent of Tesco's fresh and prepared potatoes.

While Branston's relationship with Tesco has extended over thirty years, Mr Truscott indicated to KPMG that in more recent years the way in which the two companies have worked together has evolved. Tesco has consolidated its suppliers of potatoes, now sourcing predominantly from Branston and the companies have worked more closely together.

In 2016, Branston's one-year rolling supply deal was replaced with a three-year contract, which included pricing based on costs of production through an open book pricing model.<sup>(151)</sup> Mr Truscott stated that this longer term contract and the new pricing model meant there was greater certainty for both Branston and its growers, which he indicated had supported investment. He said, "For growers, a three year rolling agreement with Tesco is powerful. The market price of potatoes doesn't necessarily reflect the cost of production. A guaranteed price gives growers more stability, safeguarding their supply and giving them more security to invest". He acknowledged, however, that there often remain risks to investment, as whilst he viewed three years as a long term contract that provides some security, it may not cover the full period over which returns need to be made to recover the full costs of investment.

Branston has grown both inorganically through acquisitions and organically as its supply to Tesco has increased over time. This has included growth attributed to Tesco and Branston working together to "generate efficiency" by improving the use of produce that was previously considered waste. KPMG was told by Mr Truscott that, together, Tesco and Branston identified an opportunity to use visually imperfect, but edible, potatoes for convenience meals. Through the investments made to facilitate this, Branston has generated increased revenue, created more than twenty new jobs in Lincolnshire and achieved sustainability benefits.<sup>(152)</sup>

Mr Truscott provided data to KPMG in relation to the investments Branston has made since entering into the new contract with Tesco in 2016. It has invested £15 million over the past two years in facility upgrades, an expansion of its factory to accommodate new batch peeling lines for visually imperfect potatoes to be used for convenience meals, enhanced end of line automation and improvements to quality grading processing.

Mr Truscott highlighted a number of business impacts that have arisen as a result of these investments. They have reportedly included increased output and productivity and lower costs of processing. He also noted improvements in quality, resulting in Branston being better able to meet customer requirements.

Mr Truscott indicated that without the security of the Tesco contract and the close working relationship between the companies a number of these investments would not have proceeded. He said: "It is the result of a better understanding of how our business works and the informed conversations that we can now have, wrapped up in to a longer term deal. And because of this we have become more effective and efficient as a business".









# 6

Tesco's contributions to UK communities through charitable activities and community initiatives

## 6.1 The framework applied to assess Tesco's contributions to UK communities through charitable activities and community initiatives

Section 4 of this report details the economic impact that Tesco has across the UK's parliamentary constituencies, by supporting local employment and generating GVA. However, as detailed in this section, through wider charitable activities, businesses, such as Tesco, can have a broader impact on the communities they operate in.

In general, there is evidence to suggest that CR is being increasingly recognised by companies as a way to invest in the communities that make their success possible.<sup>(153)</sup> This can be in the form of cash contributions, in-kind donations, employee volunteering and/or employee generated campaigns. The exact approach varies and is influenced by factors such as business size, sector and locality.<sup>(154)</sup>

In its 2017 Annual Report, Tesco states that, "Corporate Responsibility is a fundamental part of [its] business".<sup>(155)</sup> Tesco Group's Corporate Responsibility Committee was established in 2012, with its Terms of Reference including responsibilities to:

- "oversee the Group's conduct with regard to its corporate and societal obligations as a responsible corporate citizen;
- approve a strategy for discharging the Group's corporate and social responsibilities in such a way as to build trust, command respect and confidence;
- review progress of the corporate responsibility strategy against agreed performance measures; and
- oversee the creation of appropriate policies and supporting measures."<sup>(156)</sup>

The Tesco "Little Helps Plan", governed by the Corporate Responsibility Committee, details the plan and associated targets Tesco has set in relation to three identified "pillars": people; products; and places. In terms of the 'places' pillar, the Plan sets the Tesco target: "To help [its] communities thrive by positively contributing both socially and economically".

In this section of the report we assess the socio-economic impacts associated with Tesco's Corporate Responsibility (CR) commitments, specifically a number of its charitable and community focussed initiatives.

As explained in section 2.2, the framework used to assess these Tesco's CR initiatives follows guidance set out in the SROI Network's 'A guide to Social Return on Investment'.<sup>(157)</sup> This framework was developed by a consortium of UK organisations, to update Cabinet Office guidance on how to measure and account for social impact.<sup>(158)</sup> In the guidance it is recognised that value is distinct from money, although money tends to be a common unit of conveying social value.



The scope of an assessment of social return can vary. It can encompass the social value generated by an entire organisation, or focus on just one specific aspects of an organisations work.<sup>(159)</sup>

The first step in applying the SROI framework is to determine the scope of initiatives to be included within the assessment.

As noted in section 2.2, it was not possible to analyse the contributions associated with every scheme Tesco operates at the national and local level. Therefore, at the outset of the project, we agreed with Tesco the specific community and charitable initiatives and activities to assess.<sup>(160)</sup> These are broadly grouped in to:

- Tesco's National Charity Partnership and partnership with the British Heart Foundation and Diabetes UK and with Cancer Research UK's Race for Life.
- Tesco Bags of Help scheme which is a grant scheme through which Tesco distributes money raised by the 5p sale of carrier bags to fund local projects.
- Community Food Connection and Neighbourhood Food Collection, which are store-level schemes through which food donations are made to people in need.
- Wider community focused initiatives, including:
  - Community Champions, who are Tesco employees who dedicate time to work with local community stakeholders and to distribute donations; and
  - Community Spaces, which are specially designed spaces and facilities within Tesco stores, available free of charge for local community groups to use.

Further details of each of the initiatives included in the scope of the assessment are included in section 6.2 below.

Having agreed the scope of the assessment, an "impact mapping" approach was used to identify:

- the main Tesco inputs and activities in relation to each charitable and community initiative, for example monetary donations, employee volunteering time, and food donations;
- the activities supported, for example, fundraising initiatives and local community events;
- the outputs and outcomes associated with these inputs and activities, such as the number of hours of Tesco employee volunteering, the number of community projects supported and the number of meals donated; and
- the socio-economic impacts for the beneficiaries and the wider community, associated with the inputs, activities, outputs and outcomes, such as the value of savings associated with the donation of meals, the value of volunteering time provided, and the impacts of fundraising for the charities and projects supported.







## 6.2 Our assessment of Tesco's contributions to UK communities through charitable activities and community initiatives

Excluding Tesco's employee and customer donations (in line with the LBG approach to measuring, and comparing across companies, corporate giving<sup>(161)</sup> in the UK<sup>(162)</sup>), Tesco's own contribution through the charitable/community initiatives considered in the scope of this study was approximately £9.4 million in FY16/17. This includes the estimated value of financial donations, in-kind donations and volunteering.

This contribution was equivalent to 1.2% of Tesco's UK operating profit for FY16/17; lower than the average corporate giving by FTSE 100 companies in the UK in 2017.<sup>(163)</sup>

When taking account of the full value of charitable/community initiatives that Tesco supported in FY16/17, including those generated by its customers and employees, the total value rose to an estimated £50.9 million in FY16/17. While a large proportion of these contributions were made by Tesco employees and customers, given the initiatives in place to generate these donations it is unlikely that the same scale of employee and customer contributions would have been made without Tesco support.

In this section, we assess the socio-economic contributions that are generated by the agreed scope of Tesco charitable activities and community initiatives.

For each initiative, we assess the Tesco inputs, activities, outputs and outcomes associated with the initiatives and, where possible, estimate the value of impacts.

### 6.2.1 Tesco's National Charity Partnership and partnership with Race for Life

#### 6.2.1.1 Tesco's National Charity Partnership

Since January 2015 Tesco has partnered with the British Heart Foundation and Diabetes UK. Together the three organisations have formed the National Charity Partnership (NCP), with the objectives of awareness raising to help the nation to make healthier choices and raising money for engagement initiatives.<sup>(164)</sup>

Within this partnership, Tesco supported a range of activities in FY16/17 as part of the 'Let's Do This' campaign that was launched on 25th January 2016. This included delivering a number of programmes aimed at mothers aged 25-40 years<sup>(165)</sup> living in areas identified as having populations at higher risk of Type 2 diabetes and/or heart or circulatory disease.<sup>(166)</sup>

The objective of the campaign was to: deliver health messages; engage the participants to promote local healthy lifestyle programmes; and support longer-term and more intensive local community programmes.

The following programme of activities were delivered by Tesco and the NCP, with the associated outputs and outcomes from the activities:

- Beat the Street: a free, walking and cycling game put in place in six local areas.<sup>(167)</sup> In 2016, 142,000 people took part in the game which aimed to make children and their families more active.
- Make, Move and Munch clubs: an intensive programme of free activity and educational sessions for parents and children put in place in six local areas.<sup>(168)</sup> These include Sandwell, Rhondda Cynon Taff, North Lanarkshire, Nottingham, East London and Belfast. In 2016, 3,035 people took part in the programme (series of educational sessions on food nutrition, cooking demonstrations, fitness classes, and free healthy meal provided at each session. The objective was to encourage the adoption of healthier behaviour among participants.)
- Engage festivals: One-off family focussed events held by the NCP in local communities. In 2016, nine festivals were hosted across the UK<sup>(169)</sup> which were intended to encourage a more active lifestyle of attendees and educate them on healthier food and lifestyle choices. Over 36,000 people attended the festivals, with over 1,500 people taking part in the physical activity programme taster session.



Tesco data indicates that the total outputs, in terms of beneficiaries of the 'Let's Do This' campaign, were:

- 36,310 unique individuals engaged with the programme;
- 1,647 individuals took part in a physical activity taster session;
- 311,231 unique visitors accessed the campaign website;
- 17,197 individuals set health goals online; and
- 51,309 people tried healthier snacks.

We have assessed the impacts associated with Tesco's support via the NCP in terms of the value of the money donated.

Over the three years of the NCP, to 4th January 2018, Tesco estimates that the partnership, through the donations of Tesco's UK customers and employees, raised more than £25 million. Of this, the value of donations made in FY16/17 was approximately £8.3 million. 25 per cent of this was donated directly to the British Heart Foundation, 25 per cent was donated directly to Diabetes UK and 50 per cent of was used to deliver the range of programmes and activities aimed at reducing the risks of Type 2 diabetes and heart disease.

In terms of the wider socio-economic impacts arising from these donations, there is evidence, based on the outputs and outcomes detailed above, that this helped to increase participants' engagement in exercise and physical activity and helped to encourage healthier eating habits. Assessing the extent to which this resulted in a change in behaviour, with consequent health impacts, was beyond the scope of this study. However, we note that the NCP states that the £25 million raised over the 3 year partnership, "has been used to help people reduce their risk of Type 2 diabetes and heart disease".<sup>(170)</sup>

There is considerable evidence to suggest that there are negative socio-economic impacts associated with Type 2 diabetes and heart disease. For example, type 2 diabetes has been linked with labour market impacts of diabetes<sup>(171)</sup>, an increased burden on the national health system<sup>(172)</sup> and negative impacts on quality of life and health.<sup>(173)</sup> Similarly, studies link heart disease has been linked with direct costs to the UK health care system and labour market impacts (such as absences from work and loss of income).<sup>(174)</sup>

To the extent to which Tesco's donations to, and work with the NCP, helped to reduce the risk of Type 2 diabetes and heart disease, this would be an additional impact of the activities, above the value of donations.

## 6.2.2 Tesco's partnership with Cancer Research UK's Race for Life

Since 2002, Tesco has partnered with Cancer Research UK as the flagship sponsor of Cancer Research UK's (CRUK) Race for Life: a series of events which raise money to help fund research into all types of cancer.

Tesco's activities with CRUK include work to raise awareness of Race for Life events, and engaging in, and facilitating, Tesco in-store fundraising. Specific Tesco activities undertaken with CRUK in FY16/17 included:

- Running a Tesco campaign in 2016, to celebrate the 15th anniversary of the partnership between Tesco and CRUK. This focussed on engaging both female and male colleagues in the Race for Life, by providing free entry to Race for Life and organising "Tesco does Race for Life" in which Tesco employees across the UK participated in a Race for Life event.
- Holding a national in-store fundraising weekend campaign – Tesco Turns Pink – with CRUK volunteers and Tesco employees working together to raise money and encourage Tesco customers to sign up for Race for Life. Tesco employees were also encouraged to donate £1 each to CRUK and fundraise over the weekend.

We have assessed the outputs and outcomes associated with Tesco's activities for CRUK's Race for Life. Data provided by Tesco indicates that:

- 19,644 female Tesco employees signed up for the Race for Life as part of the "Pink Army"<sup>(175)</sup>, with Tesco paying the entry fees for the race.
- A further 2,000 Tesco employees across the UK participated in a Race for Life event, with Tesco donating £10 to CRUK for each employee taking part and conducting additional fundraising.

The impacts of this, in terms of the total value of Tesco donations to CRUK and additional fundraising through employees and customers, was an estimated £3.0 million in FY16/17.

Overall, data from Tesco indicates that the impact of its 2016 Race for Life campaign was greater than previous years, both in terms of levels of participation (an 8 per cent increase) and fundraising (a 6 per cent increase).

CRUK is a charity, reliant on donations to fund its research in to beating cancer. It receives no Government funding.<sup>(176)</sup> Tesco's partnership with CRUK aims to help raise funds. We understand that through Tesco's donations, 33 research projects, with a focus on early diagnosis of cancer, are now being funded.<sup>(177)</sup>

KPMG estimates that the value of donations, made by Tesco, its customers and its employees as part of the 2016 Race for Life campaign accounted for an estimated 0.5 per cent of CRUK's total donations 2016/17.<sup>(178)</sup>

Within the scope of this study KPMG has not assessed the broader socio-economic impacts associated with the research projects that Tesco donations and fundraising is used by CRUK for. However, we note that, more broadly, CRUK refers to fundraising enabling it to have "helped double cancer survival rates in just 40 years".<sup>(179)</sup>



### 6.2.3 Tesco's Bags of Help scheme

Through the Tesco Bags of Help scheme, over 4,000 local community projects were given grant funding worth a total of £28.3 million in FY16/17, funded via Tesco's sale of plastic carrier bags.<sup>(180)</sup>

Tesco's Bags of Help programme was introduced in 2015 as a charitable programme to distribute the money raised from the sale of plastic carrier bags to customer. The scheme was introduced because from 5th October 2015 UK law requires retailers with over 250 employees in England to charge 5p for all single-use plastic carrier bags, with the proceeds to be donated to good causes.<sup>(181)</sup>

Through the Bags of Help scheme Tesco's activity involves collecting the 5p carrier bag charge and donating the money raised to specific projects in the local communities in which Tesco operates.<sup>(182)</sup> The individuals/groups proposing the projects can apply for funding themselves or be nominated. And in some cases projects can be selected by customers, through a voting scheme, in Tesco stores in the relevant local areas.<sup>(183)</sup> The projects must meet the criteria of promoting community participation in the development and use of outdoor spaces.

Wider activity supported by Tesco's Bags of Help scheme is associated with Tesco's work with Groundwork, a national charity which aims to help people improve their local communities, to administer the scheme.

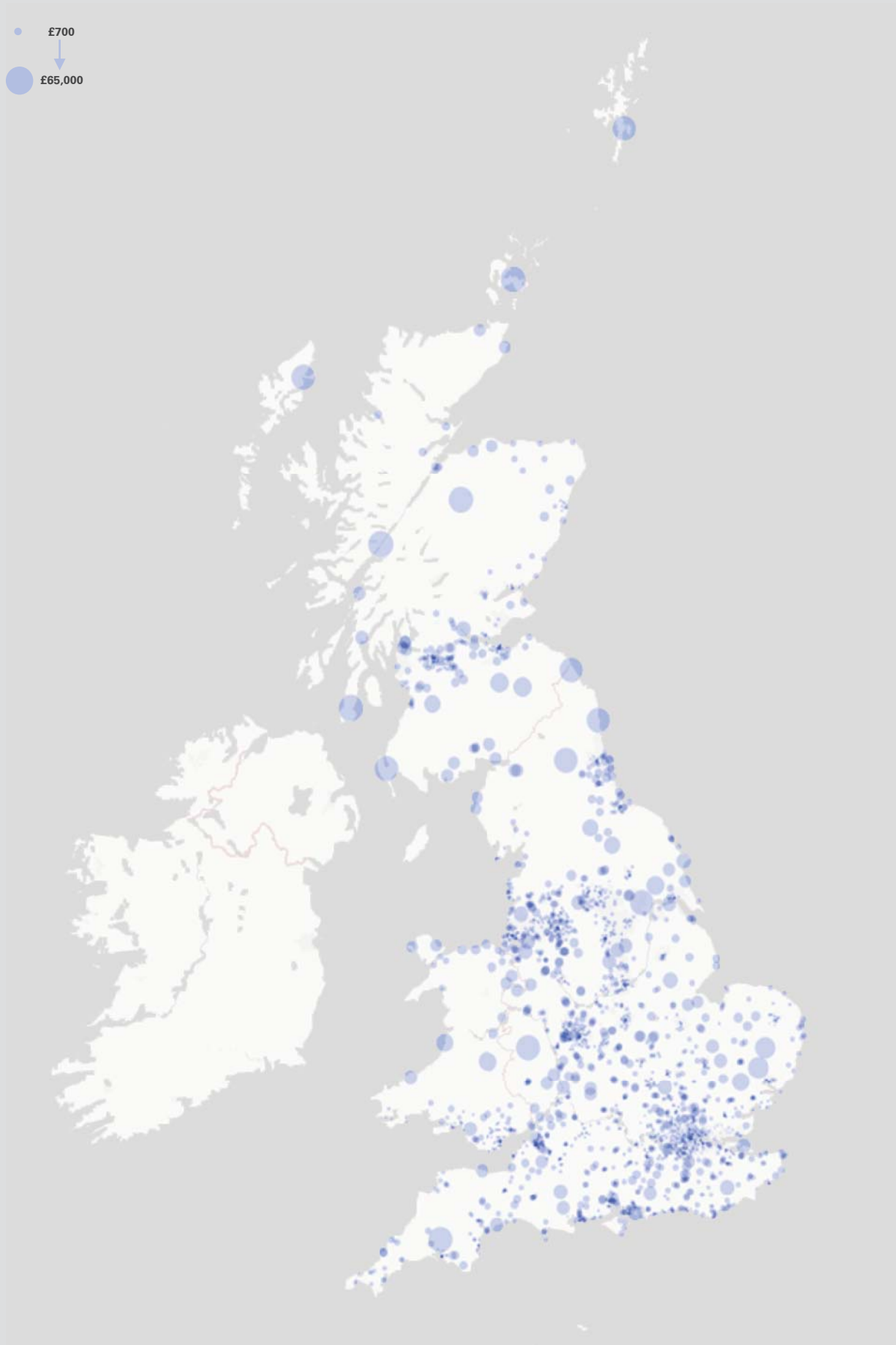
This includes helping distribute grants to local groups and charities, helping projects access the local network of enablers, and aiming to ensure that the money raised through the Bags of Help scheme is going toward deserving causes and is creating a positive impact in local communities. Groundwork receives a management fee for this support (approximately £2.8 million a year), almost two-thirds of which is reportedly used to provide front-line support and resources to local community groups.

In terms of the outputs and outcomes associated with the Bags of Help scheme, data and information provided by Tesco indicates that:

- 4,073 grants were awarded in FY16/17, with the average value of grants being almost £7,000.
- A wide range of types of community project received funding through the Tesco Bags of Help scheme and these projects were widely distributed geographically across the UK. The value of support by each store varies and this shown in Figure 25.

The total value of Tesco grant funding to community projects through the Bags for Help scheme in FY16/17 was £28.3 million. Figure 25 shows the value of grant funding provided to projects, by Tesco store location.



**Figure 25: Monetary value of grant funding awarded, by Tesco store, to Bags of Help projects, FY16/17**

Source: KPMG analysis. Data provided by Tesco in September 2017.

It was not possible to assess the wider socio-economic impacts arising from this value of support due to: the large number of projects receiving funding through the Tesco Bags of Help scheme; the diverse nature of these projects; and as Tesco does not systematically collect any impact evaluation data for each individual project supported.

The wider socio-economic impacts arising from the value of Tesco support through the Bags of Help scheme will depend on a number of factors.

This includes: the specific objectives of the individual projects; the number of beneficiaries of the projects; and what would happen in the absence of the Tesco project funding.

Case studies, selected by Tesco, provides illustrative examples of the type of projects Tesco and Groundwork supported through the Bags of Help scheme. The case studies show outcomes and impacts that have been achieved in St Anne's on Sea and Dart Totnes. These case studies should not be considered as representative of other projects supported through the Bags of Help scheme.

## St Anne's on Sea In Bloom

### Peace and Sensory garden

St Anne's on Sea In Bloom, a community group, receives annual grants from the Town Council and from Fylde Borough Council. However, the grants and funds reportedly do not cover the cost of all community projects. Therefore, the Tesco Bags of Help scheme awarded the project £8,000 to plant a peace and sensory garden on the seafront on its Northern Promenade.

KPMG was told that prior to the redevelopment, the site was overgrown and the garden beds were full of sand. Using the Bags of Help funding, plans were put in place to plant coastal plants that would create colour, scent and texture. Work on the garden began in February 2017, with the help of local volunteers. Thousands of plants have now been planted and a number of art installations have been displayed in the garden, including art created by the community through a stone carving workshop which was held in the garden.<sup>(184)</sup>

St Anne's on Sea In Bloom reported to Tesco that it intends to utilise the garden to host more community events. Additionally, the project has inspired a number of volunteers to join the community group.

## Dart Totnes Amateur Rowing Club

### Learn to Love your River

Dart Totnes is an amateur rowing club on the River Dart. However, a shortage of boats meant that the club was limited in taking on new members to the juniors' rowing club.

After applying for funding through the Bags of Help scheme, the club was awarded a grant of £2,000 which helped the club to buy a new double sculling boat.

It was reported to Tesco that before the new boat was purchased, the club was only able to hold Learn to Row programmes for 12 juniors at a time. However, the new boat has meant the club is now able to run the programme for 20 juniors at a time.

The club reports a range of positive impacts associated with this. In addition to enabling young people to partake in physical activity by learning to row, the club reported to Tesco that it also helped the young rowers to become educated in tides, weather and in river conditions, including bank erosion, water pollution and riverside flora and fauna.



## 6.2.4 Community Food Connection and Neighbourhood Food Collection

In FY16/17, through the Community Food Connection scheme, Tesco's food donations generated savings to the value of £2.0 million for charities and community groups. Volunteering by Tesco employees, with an estimated value of £0.3 million, was also provided.

Additionally, donations to the value of £2.4 million were made through the Neighbourhood Food Collection scheme, of which £1.9 million was linked to customer food donations and the remaining £0.5 million was a Tesco monetary top-up donation.

For grocery retailers, as well as food producers in their supply chains, minimising waste is becoming a key priority and often forms part of CR initiatives.<sup>(185)</sup>

Through Tesco's Community Food Connection and Neighbourhood Food Collection schemes Tesco engages in activity to deliver against its aim to both support local communities and to minimise food waste, with the objective that "no food that is safe for human consumption will go to waste from UK retail operations"<sup>(186)</sup>:

- Community Food Connection (CFC) was initially established in 2015<sup>(187)</sup> as an initiative through which Tesco donates food that is not sold in store and would otherwise be waste. It is run in conjunction with the UK redistribution charity FareShare<sup>(188)</sup>. By the end of FY16/17 Tesco and FareShare operated CFC across 1,000 Tesco stores<sup>(189)</sup>.
- Neighbourhood Food Collection (NFC), which Tesco has operated since 2012, provides a means for Tesco customers to donate long-life food at permanent collection points in over 600 Tesco stores. These donations are distributed by the Trussel Trust<sup>(190)</sup> and FareShare. On top of the customer donations, Tesco then 'tops up' by 20 per cent.<sup>(191)</sup> Tesco also runs the NFC annual Christmas food collection drive which operates across all Tesco stores.<sup>(192)</sup>

Tesco provided KPMG with data and information relating to the outputs and outcomes associated with these schemes for FY16/17. Based on this information, KPMG estimated the impacts in terms of the monetary value of the support delivered through these schemes. These outputs, outcomes and the estimated value of impacts are detailed below:

- Across the 1,000 Tesco stores involved in the CFC, 6.3 million meals were provided to people through 3,800 charities and community groups in FY16/17.
- The monetary value of the savings for charities and community groups through the provision of these free CFC meals (who would otherwise have had to purchase them) was equivalent to an estimated £2.0<sup>(193)</sup> million. To the extent to which these savings were invested back in to other initiatives and projects in local communities, additional socio-economic impacts could be generated.<sup>(194)</sup>
- Through the NFC scheme, Tesco and its customers donated the equivalent of 3.1 million meals in FY16/17.
- The monetary value of the NFC 20 per cent top-up donation provided by Tesco to The Trussell Trust and FareShare was approximately £0.5 million.
- The monetary value of the donations provided by Tesco customers through the NFC scheme was an estimated £1.9 million.

## 6.2.5 Tesco's wider community focused initiatives

Tesco has a number of additional CR initiatives in place to support local groups and charities. Through these it contributes to communities across the UK.

We detail below the two main additional CR initiatives in the scope of our study that Tesco has in place across UK communities. We assess the Tesco activities and the associated outcomes and impacts in terms of the value of the support provided.

In total, our analysis suggests the value of Tesco's contribution through its wider community focussed initiatives, specifically its Community Champions and Community Spaces initiatives, was an estimated £6.7 million in FY16/17.

### 6.2.5.1 Community Champions

257 Tesco stores<sup>(195)</sup> have a dedicated Tesco employee "Community Champion", focussed on coordinating community and charitable activities in their local area.<sup>(196)</sup>

Studies suggest that CR activity should take into account local stakeholder groups, their context and how this shapes their needs.<sup>(197)</sup> Therefore, having a local understanding of needs and how best to drive initiatives forwards is important.

The activities of Tesco's Community Champions, who are Tesco employees, include: working alongside Tesco Store Managers they decide how Tesco can best support the local community; and engaging with key community stakeholders, such as local Members of Parliament, charities and local groups/ organisations.<sup>(198)</sup> The Champions aim to ensure that the community activities Tesco supports are tailored to each local community and its individual needs.

Tesco's Community Champions also have access to a community budget to support requests for local fundraising events.<sup>(199)</sup> Through the "Community Donation Cards", Community Champions can make donations to local causes. These budgets are to be used

Analysis of Tesco data provided to KPMG indicates that the outcomes and impacts associated with the activities of Community Champions in FY16/17 include volunteering hours (and the associated value of this), community events and projects supported, and financial donations:

- The 257 UK Community Champions were employed by Tesco to spend an average of 18 hours each week on community engagement. We estimate that this 240,552 hours of volunteering time (over the course of a year) equates to in-kind support to local communities to the value of £3.0 million.<sup>(200)</sup> This value represents the opportunity cost to Tesco of the time spent and the equivalent value of this time if the community initiatives were to employ people to undertake the role performed by Tesco in supporting local causes.
- Approximately 1,000 large community events and projects were supported via the network of Community Champions (and additional Tesco employees) in FY16/17, aimed at meeting the specific needs of the local community.<sup>(201)</sup>
- Through Community Donation Cards, Tesco made additional donations to local causes to the value of £1.4 million, in response to requests for financial support from the local community, such as raffle prizes and food and drink donations for local events.



### 6.2.5.2 Community Spaces

#### In 72 of Tesco's UK stores there are spaces dedicated to free community use: "Community Spaces".

There is evidence to suggest that local community groups and charities face a number of challenges, including competition from bigger charities for funding and space, as well as insufficient resources.<sup>(202)</sup>

Tesco helps community groups and charities in some of the local areas in which it operates overcome this by providing access to specially designed spaces and facilities, free-of-charge, within some of its stores.

Based on Tesco data in relation to the size of Community Space provided in stores, the usage of this space and the volunteering time of Tesco employees, KPMG has estimated the outcomes and value of impact associated with the initiative in FY16/17:

- The value of provision of these spaces to community groups is estimated at approximately £0.5 million in FY16/17, based on the market price that these groups would have to pay if they were required to rent equivalent spaces in their local area.<sup>(203)</sup>
- The value of the total 119,808 hours of Tesco employee volunteering time<sup>(204)</sup> to help run these Community Spaces was an estimated £1.7 million<sup>(205)</sup> in FY16/17.

Data provided by Tesco to KPMG also indicates that these Community Spaces are used by a wide range of community groups for differing activities including: hobbies and recreation; education and literacy; health and awareness; skills, employment and training support; parent, baby and family classes; exercise and fitness; meetings of charities and community organisations; and, counselling and support.

We note that Tesco's community involvement, through its network of both Community Champions and Community Spaces, could have wider social and economic spillover effects beyond the value of the money and time donated. The nature and scale of these spillover effects depends on the causes to which the donations were made and the use of the Community Spaces by local groups. Analysing this would require detailed information relating to individual community initiatives, their objectives and the outcomes and impacts for participants/ direct beneficiaries and the wider community. These data were not available from Tesco and analysing these wider spillover impacts was beyond the scope of our study. However, the Valley Kids case study provides an illustrative example of a project supported and Tesco's role in generating community impacts.

## Valley Kids South Wales

Valley Kids - Penyreglyn was established in 1977 as a community development initiative. Since then, it has grown and now serves as a youth centre and centre for family support and other community development activities (such as IT classes, job search support, art classes).<sup>(206)</sup>

Valley Kids is funded via donations and also receives some Government financial support. It employs 50 staff and benefits from over 100 volunteers.

Ceri Nicholas, a Project Worker at Valley Kids reported to Tesco that there had been limited budget for any maintenance of the Centre and its facilities. And this had affected the way services were being delivered.<sup>(207)</sup>

However, support from Tesco helped to address this when in 2014, 40 Tesco stores across South Wales collaborated to renovate the Centre. Through fundraising support and volunteering from 150 Tesco employees, Tesco supported work including: repair of the roof and exterior of the building, decorating the interior and exterior, servicing of equipment such as lifts, shutters, alarms, lighting and heating and provision of new furniture, fixtures and fittings.

Ceri Nicholas reported to Tesco that this had resulted in improved service delivery and morale for the local community and that the support provided by Tesco's Community Champions and employee volunteers had been important.



### 6.3 Tesco's total contributions to UK communities through charitable activities and community initiatives, by UK region

We estimate that the total value of Tesco's and its customers' support (including financial donations, in-kind donations and volunteering), via the initiatives in the scope of our study totalled £50.9 million in FY16/17.

The nature of the initiatives and activities that Tesco supported means that the impact of these contributions are distributed across the UK in communities local to Tesco stores.

Where data were available from Tesco at the local level for the charitable activities and community initiatives Tesco undertook in FY16/17, we analysed the geographic distribution of the contributions.<sup>(208)</sup> This analysis is shown in Figure 26. This excludes Tesco's National Charity Partnership, Cancer Research UK Race for Life and Community Food Connection volunteer hours, as data disaggregated by geography was not available.

As shown in Figure 26, Tesco data and our analysis suggests that contributions are made in each of the UK's 12 regions.

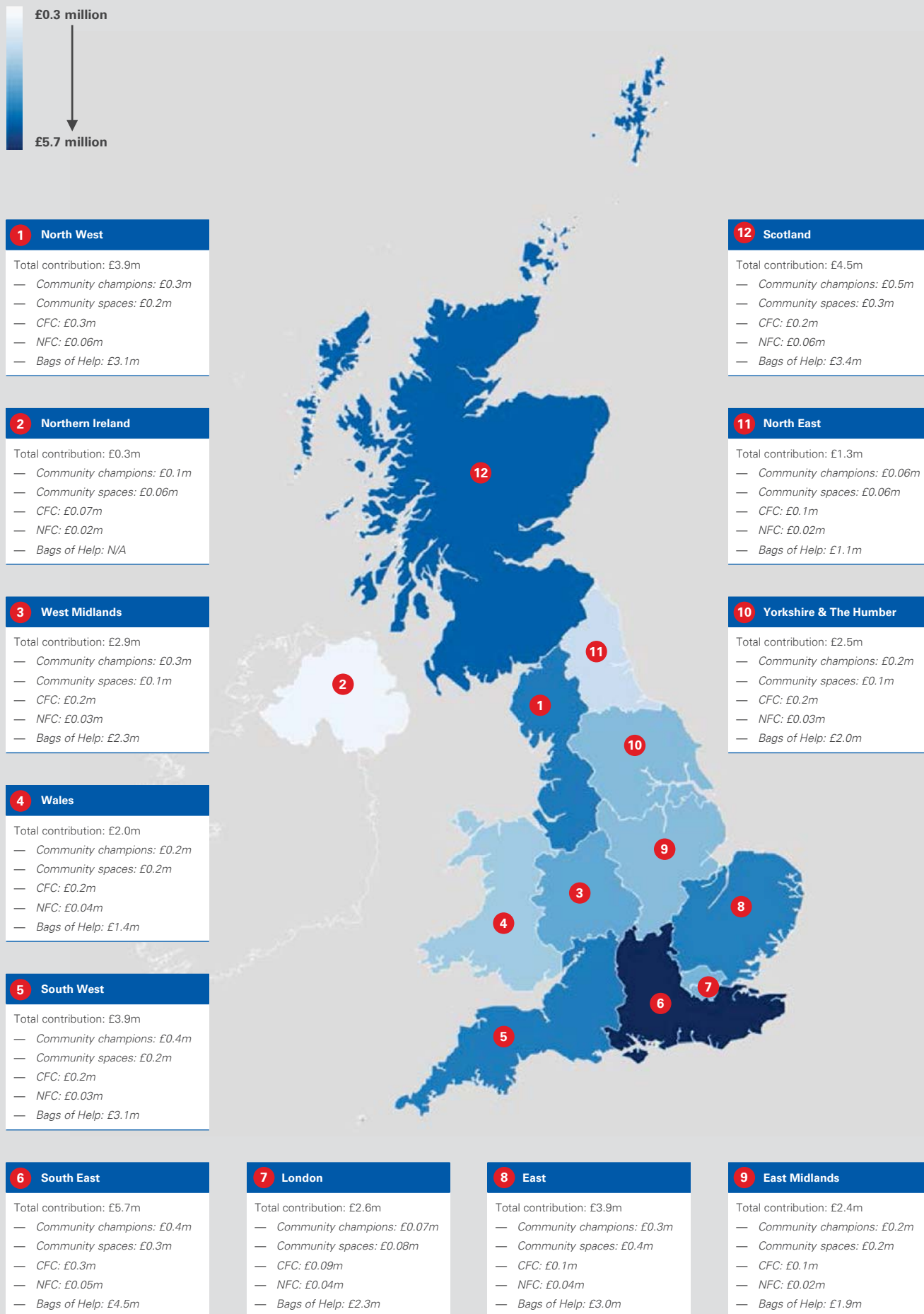
We estimate that the monetary value of Tesco's contributions via charitable and community initiatives in FY16/17 ranged from £0.3 million in Northern Ireland to £5.7 million in the South East of England region.

The value of contributions across regions, varies dependent on a number of factors, including the number and size of stores in each region, the number of community champions and community spaces in the stores in each region, and the number of stores in each region that participated in the Community Food Connection scheme in FY16/17.

The analysis also indicates that the Bags of Help scheme accounted for the largest share of Tesco's total community contribution in FY16/17 – approximately 70 to 80 per cent of the overall contribution for each region in England Scotland and Wales (the scheme does not operate in Northern Ireland). Through the scheme Tesco donates to local community projects, therefore, the regional distribution of the Tesco project donations broadly reflects Tesco's regional sales values.



**Figure 26: Estimated value of Tesco's charitable and community initiatives, by UK region, FY16/17**



Source: KPMG analysis. Data provided by Tesco.



# 7 Case study: Tesco's impact in a local community



The analysis in this report shows how Tesco's overall economic contribution in the UK was generated at the local (regional and parliamentary constituency) level. It also assesses the wider socio-economic contribution Tesco had at a local level in FY16/17 via its community focused initiatives and charitable activities.

To provide an illustrative example of the socio-economic contribution of Tesco in a particular area, Tesco asked KPMG to prepare a case study detailing the analysis the local level impact. As explained in section 2, this is the local level impact of Tesco as a whole, rather than the local level impact of individual Tesco sites only in their own local area.

The area selected by Tesco for this case study was Oldham. It should be noted that this area does not provide a representative view of Tesco's contribution in every local area of the UK. As the analysis in this report details, the contributions vary substantially at the regional and parliamentary constituency level.

## Oldham

**Oldham is a large town in Greater Manchester. It has a population of 224,900 and is located 9 miles from Manchester city centre**

Oldham spans across two parliamentary constituencies: Oldham East and Saddleworth and Oldham West and Royton. Within these two parliamentary constituencies, Tesco has six sites:

1. Oldham Ashton Express store;
2. Shaw Express store;
3. Lees Road Oldham Express store;
4. Oldham Huddersfield Road Extra store;
5. Greenfield Superstore; and
6. Oldham Chadderton Superstore.

Across these six sites, Tesco directly employed 564 FTEs and generated an estimated direct GVA of £14.4 million in FY16/17.

Through Tesco's supplier footprint in this parliamentary constituency in FY16/17 an additional estimated £53.5 million was generated in indirect GVA and 917 FTE jobs were supported.

And an estimated £11.7 million in induced GVA and 238 FTE jobs were generated by the spending of Tesco's and suppliers' employees across both parliamentary constituencies in Oldham.

The total employment supported by Tesco in Oldham East and Saddleworth and Oldham West and Royton represented an estimated 2.5 per cent and 1.5 per cent of parliamentary constituency employment respectively in 2016.

Tesco's total GVA contribution in Oldham made up approximately two per cent of local authority GVA in 2016 (Oldham Council). No parliamentary constituency GVA figures are available from the ONS for comparison.

Within Oldham, there are no Community Spaces. However, both the Oldham Huddersfield Road Extra store and Greenfield Superstore have an active Community Champion. The value of their volunteering time and the donations made using the Community Donation Cards was an estimated £24,600 in FY16/17.

The contribution made through CFC, NFC and Bags of Help in FY16/17 across both parliamentary constituencies is estimated to be over £70,000.

- Through Bags of Help, just over £61,000 was raised by the six Oldham stores. This supported 15 local community projects in FY16/17.
- Through NFC, almost 15,000 meals were provided by stores in Oldham in FY16/17. The value of Tesco's top-up donations was £2,110.
- Through CFC, 22,433 meals were donated in FY16/17, representing a saving of almost £7,200 for the charities and community groups donated to. This monetary estimation does not include the volunteer hours associated with CFC due to lack of available data of volunteer hours by site.

# 8

## Appendices

# Appendix 1

## Endnotes

1. This market is defined using the Standard Industrial Classification code 47110: Retail sale in non-specialised stores with food, beverages or tobacco predominating. This SIC includes cinema kiosks as well as off-licenses.
2. ONS. 2017. 'Retail Sales pounds data' for 'Predominantly food stores'.
3. ONS. 2017. 'Annual Business Survey, Number of enterprises and Total employment in point in time'.
4. Kantar Worldpanel data. As of January 2018. According to Kantar Worldpanel ("Kantar"), 70 per cent of the market sales are serviced by four retailers. It is important to note that the market definition used by Kantar is narrower than the Office for National Statistics (ONS) definition which also includes, for example, cinema kiosks and other small, independent convenience stores.
5. This covers England, Scotland, Wales and Northern Ireland. Republic of Ireland is excluded. Tesco's financial year is the 52 weeks ending 25 February 2017. This was the last full year for which the required data were available from Tesco at the time the study was undertaken.
6. KPMG's analysis assesses the contribution of Tesco in gross terms, i.e. it does not consider how UK resources used by Tesco, for example human capital and physical capital, would have been employed if Tesco did not exist in the UK or any displacement, where Tesco's existence reduces economic activity that may otherwise arise elsewhere. Assessing this displacement would require detailed assumptions about consumers preferences and switching behaviour in the hypothetical scenario that Tesco did not exist in the UK as well as detailed information from its competitors to understand how this may affect their own UK economic activity.
7. Tesco Mobile is not included within the scope of the analysis given challenges, including data availability, to assessing Tesco's specific contribution given that it is a joint venture with O2. This leads to an underestimation of the overall socio-economic contribution of Tesco in the UK.
8. The environmental impacts of Tesco's activities are also not included within the scope of this study.
9. Indirect and induced GVA and employment impacts were only estimated for Tesco Retail as per the agreed scope.
10. This is comprised of the direct GVA impact of Tesco Retail, Tesco Bank, dunnhumby and One Stop. It also includes the indirect and induced impact of Tesco Retail.
11. Total GVA for the UK, 2016, in current basic prices. Data sourced from ONS. Dataset: 'Gross Value Added (Average) at basic prices: CP SA £m', published on 22 December 2017.
12. Construction sector is defined as the broad industry group F. Construction. It includes construction of buildings, civil engineering and specialised construction Total GVA activities. Dataset sourced from the ONS. 2016. 'Gross Value Added (Income Approach) by SIC'.
13. Total employment for the UK, February 2017. Data sourced from the ONS. Dataset: 'UK labour market: Apr 2017'. Tesco employment is expressed as a proportion of total number of UK employees.
14. United Nations. 2017. 'World Investment Report 2017'.
15. ONS. 2016. 'Productivity Handbook – Chapter 4 – Output measures'.
16. The scope of this investment figure is different to the other elements of analysis due to commercial sensitivity. This is for the UK and Republic of Ireland and also includes all Tesco operations. This figure is sourced from Tesco's 2016/17 Annual Report
17. ONS. 2017. 'Business Investment in the UK: July to September 2017 provisional results'.
18. PwC. 2017. 'Total Tax Contribution 2017 Survey for the 100 Group'. The 100 Group represents the views of the finance directors of FTSE 100 and several large UK private companies. In 2017, Tesco ranked in the top 10 companies. We note that tax contributions can change year-on-year particularly in relation to profit taxes and, for retailers, the sales taxes collected on the goods and services that they sell.
19. As noted previously, a large supplier in this constituency went in to administration in November 2017. As a result, it is unlikely that Tesco's high employment impact in the Hove constituency will be sustained in future years.
20. This includes the direct employment by Tesco Retail, dunnhumby, One Stop and Tesco Bank, as well as the indirect and induced employment impact by Tesco Retail. For Tesco Retail only, the total employment impact is 731,764 FTEs.
21. This spending relates to procurement from Tier 1 (direct) suppliers to Tesco only. The geographic location of these suppliers (i.e. UK based or international) is based on the invoicing address to which Tesco made payments to the suppliers. In some cases, these Tier 1 suppliers may act as agents, aggregators or packers, with their own supply chains based predominantly internationally. Our analysis of wider supply chain impacts takes account of 'leakages' of economic impacts out of the UK that occur as a result of this.
22. For the purposes of discussion, we have grouped the figures into broad industry groups. Our analysis has been undertaken using a more granular SIC categorisation.
23. The selection of case studies was made by Tesco. While these can provide insights in to how Tesco's working practices with suppliers can lead to positive impacts in the UK economy, the findings cannot be viewed as representative of the impact of Tesco's relationship with other suppliers.
24. Cabinet Office. 2012. 'A guide to Social Return on Investment'. See: [https://www.bond.org.uk/data/files/Cabinet\\_office\\_A\\_guide\\_to\\_Social\\_Return\\_on\\_Investment.pdf](https://www.bond.org.uk/data/files/Cabinet_office_A_guide_to_Social_Return_on_Investment.pdf)
25. This selection was based on the initiatives and activities that Tesco considered to be its most significant and those that are adopted most widely across its UK sites



26. LBG Framework and Measurement. 2018. 'The LBG Framework'. See: <http://www.lbg-online.net/framework/>
27. This excludes Tesco's own donations to Cancer Research UK Race for Life and Tesco's National Charity Partnership. Due to data constraints, for these initiatives it was not possible to separate the value of Tesco donations from those of its employees and customers.
28. Charities Aid Foundation. 2018. 'Corporate giving by the FTSE 100: Bigger impact through better business'. See: <https://www.cafonline.org/about-us/publications/2018-publications/corporate-giving-by-the-ftse-100>. The average level of corporate giving, as a proportion of operating profit, was just over 2.5 per cent.
29. This market is defined using the Standard Industrial Classification code 47110: Retail sale in non-specialised stores with food, beverages or tobacco predominating. This SIC also includes cinema kiosks as well as off-licenses.
30. ONS. 2017. 'Retail Sales pounds data' for 'Predominantly food stores'. See: <https://www.ons.gov.uk/businessindustryandtrade/retailindustry/datasets/poundsdatatotalretailsales>
31. ONS. 2017. Annual Business Survey, Number of enterprises and Total employment in point in time. See: <https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/datasets/annualbusinesssurveyuknonfinancialbusinesseconomy2015provisionalresultssectionsaspayeunitsincluded>
32. ONS. 2017. Annual Business Survey, Total purchases of goods, materials and services. See: <https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/datasets/annualbusinesssurveyuknonfinancialbusinesseconomy2015provisionalresultssectionsaspayeunitsincluded>
33. ONS. 2017. 'Average weekly household expenditure by Output Area Classification, UK: Table A52'. See: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/datasets/averageweeklyhouseholdexpenditurebyoutputareaclassificationoacgroupuktablea52>
34. IGD. 2017. 'The UK's Food and Grocery Industry'. See: <https://www.igd.com/about-us/media/press-releases/press-release/t/igd-uk-food-and-grocery-forecast-to-grow-by-15-by-2022/i/16927>
35. ONS. 2017. 'UK consumer price inflation: December 2017 (Figure 2)'. See: <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/december2017>
36. IGD ShopperVista 2014 quoted in Department for Agriculture, Food and Rural Affairs. 2016. 'Food Statistics Pocketbook 2016'. See: <https://www.gov.uk/government/.../foodpocketbook-2016report-rev-12apr17.pdf>
37. It is important to note that the market definition used by Kantar is slightly narrower than the ONS definition which also includes, for example, cinema kiosks and other small, independent convenience stores.
38. Kantar Worldpanel data. As of January 2018. See: <https://www.kantarworldpanel.com/en/grocery-market-share/great-britain>
39. Tesco. 2018. 'History'. See: <https://www.tescopl.com/about-us/history/>
40. This includes: the UK, Malaysia, Thailand, Czech Republic, Hungary, Ireland, Poland and Slovakia. Tesco also has joint ventures in China and India.
41. Tesco Annual Report 2016/17. See: <https://www.tescopl.com/media/264194/annual-report-2016.pdf>
42. Tesco mobile. 2016. 'Who we are'. See: <https://www.tescomobile.com/who-we-are>
43. Assessing this displacement would require detailed assumptions about consumers preferences and switching behaviour in the hypothetical scenario that Tesco did not exist in the UK as well as detailed information from its competitors to understand how this may affect their own UK economic activity.
44. ONS data was not available for the 18 Northern Ireland parliamentary constituencies. Therefore, for Northern Ireland, our analysis is at the local authority level, of which there are 11.
45. GVA is a key component of gross domestic product (GDP), which is a measure of the value of production and is a key indicator of the state of the economy. GVA is used in the estimation of GDP, by aggregating GVA across all industries and sectors in the economy and adjusting for taxes and subsidies at the whole economy level.
46. Goods for resale are the produce or products purchased to sell on to customers. Tesco would expect to make a margin, of varying degrees, on these products. Goods not for resale is the products or services consumed in the general operations of the business that are not sold on to customers. For example, utility costs or cleaning products.
47. The indirect GVA contribution of Tesco Retail only is captured within the study, due to data availability. The indirect GVA associated with Tesco Bank, One Stop and dunnhumby are not included. Therefore, the analysis presents a conservative estimate of the overall indirect GVA impact of Tesco Group in the UK.
48. Any expenditure outside the UK is considered a 'leakage'. The economic multipliers used in our analysis only account for spending within the UK.
49. Similar to the indirect GVA, the induced GVA contributions are only captured for Tesco Retail in this study, thereby underestimating the overall induced GVA contribution of Tesco Group in the UK.
50. ONS. 2016. 'Chapter 4: The ONS Productivity Handbook'. See: <https://www.ons.gov.uk/economy/economicoutputandproductivity/productivitymeasures/methodologies/productivityhandbook>
51. This approach was developed by the economist Wassily Leontief. Leontief, W. 1986. 'Input-output economics'. Oxford University Press.
52. Type I multipliers capture the direct and indirect effects. Type II multipliers also include the induced impacts.

53. This is based on the widely used approach developed by the academics Flegg and Webber. See: Flegg and Webber. 2000. 'Regional Size, Regional Specialization and the FLQ Formula'. *Regional Studies*. 34(6): 563-569.
54. The indirect employment is only captured for Tesco Retail in this study, thereby underestimating the overall indirect employment contribution of Tesco Group in the UK..
55. The induced employment is only captured for Tesco Retail in this study, thereby underestimating the overall induced employment contribution of Tesco Group in the UK..
56. KPMG. 2017. 'The road ahead: The KPMG Survey of Corporate Responsibility Reporting 2017'. See: [https://home.kpmg.com/content/dam/kpmg/campaigns/csr/pdf/CSR\\_Reporting\\_2017.pdf](https://home.kpmg.com/content/dam/kpmg/campaigns/csr/pdf/CSR_Reporting_2017.pdf)
57. A mid-cap company is a company with a market capitalization between US\$2 billion and US\$10 billion.
58. Department for Business, Innovation & Skills. 2013. 'Corporate responsibility: call for views'. See: <https://www.gov.uk/government/consultations/corporate-responsibility-call-for-views>
59. Social Value UK. 2012. 'A Guide to Social Return on Investment'. See: <http://www.socialvalueuk.org/resources/sroi-guide/> Contributing to the UK's macro economy
60. Tesco 2016/17 Annual Report. See: [https://www.tescopl.com/media/.../68336\\_tesco\\_ar\\_digital\\_interactive\\_250417.pdf](https://www.tescopl.com/media/.../68336_tesco_ar_digital_interactive_250417.pdf), p20
61. Tesco Plc Board Corporate Responsibility Committee. July 2017. 'Corporate Responsibility Terms of Reference'. See: <https://www.tescopl.com/media/392633/corporate-responsibility-committee-terms-of-reference-july-2017.pdf>
62. Sector classification 47110.
63. Sector classification 64191.
64. Defined as 70.22 management consultancy activities other than financial management.
65. This is comprised of the direct impact of Tesco Retail, dunnhumby, One Stop and Tesco Bank. It also includes the indirect and induced impact of Tesco Retail. Estimates of the indirect and induced impact of Tesco Bank, dunnhumby and One Stop were out of scope. Therefore, this total estimate is likely to be an underestimate.
66. Total GVA by country, 2016, in current basic prices. Data sourced from ONS. Dataset: 'Regional gross value added (income approach)', published on 20 December 2017. See: <https://www.ons.gov.uk/economy/grossvalueaddedgva/datasets/regionalgrossvalueaddedincomeapproach>
67. Construction sector is defined as the broad industry group F. Construction. It includes construction of buildings, civil engineering and specialised construction. Total GVA activities. Dataset sourced from the ONS. 2016. 'Gross Value Added (Income Approach) by SIC'. See: <https://www.ons.gov.uk/economy/grossvalueaddedgva/datasets/regionalgrossvalueaddedincomeapproach>
68. Total GVA for the UK, 2016, in current basic prices. Data sourced from ONS. Dataset: 'Gross Value Added (Average) at basic prices: CP SA £m', published on 22 December 2017. See: <https://www.ons.gov.uk/economy/grossvalueaddedgva/timeseries/abml/qna>
69. Total employment for the UK, February 2017. Data sourced from ONS. Dataset: 'UK labour market: Apr 2017', published on 12 April 2017. See: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/apr2017>
70. Total employment by country, February 2017. Data sourced from ONS. Dataset: 'Regional labour market statistics: H100 headline indicators for UK regions and countries', published on 18 October 2017. See: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/regionallabourmarket/october2017>
71. The scope of this investment figure is different to the other elements of analysis due to commercial sensitivity. This is for the UK and Republic of Ireland and also includes all Tesco operations. This figure is sourced from Tesco's 2016/17 Annual Report. See: <https://www.tescopl.com/media/264194/annual-report-2016.pdf>
72. Total investment for the retail sector in the UK, February 2017, in £m. Data sourced from ONS. Dataset: 'Business investment by industry and asset', published on 22 December 2017. See: <https://www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/businessinvestmentbyindustryandasset>
73. Swan, T.W. 1956. 'Economic growth and capital accumulation'. *The Economic Record*. 32(2): 334-361. and United Nations. 2017. 'World Investment Report 2017'. See: <http://unctad.org/en/pages/DIAE/World%20Investment%20Report/WIR-Series.aspx>
74. ONS. 2016. 'Productivity Handbook – Chapter 4 – Output measures'.
75. ONS. 2017. 'Business Investment in the UK: July to September 2017 provisional results'. See: <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/businessinvestment/julytoseptemberrevisedresults>
76. Tesco Annual Report 2016/17. See: <https://www.tescopl.com/media/264194/annual-report-2016.pdf>
77. 2017/18 Tesco Investment Committee Capital Request. 26 July 2017. 'Energy Capital Program'.
78. HMRC. 2018. 'Tax and Revenue'. See: <https://www.gov.uk/government/topics/tax-and-revenue>

79. PwC. 2017. 'Total Tax Contribution 2017 Survey for the 100 Group'. The 100 Group represents the views of the finance directors of FTSE 100 and several large UK private companies. In 2017, Tesco ranked in the top 10 companies. We note that tax contributions can change year-on-year particularly in relation to profit taxes and, for retailers, the sales taxes collected on the goods and services that they sell.
80. The surcharge was introduced and levied on profits of banking companies beginning on or after 1 January 2016. See: <https://www.gov.uk/government/publications/bank-corporation-tax-surcharge>
81. For further details see: <https://www.gov.uk/government/publications/corporation-tax-reform-of-loss-relief/corporation-tax-reform-of-loss-relief>
82. HM Government. 2017. 'Industrial Strategy: Building a Britain fit for the future'. See: <https://www.gov.uk/.../system/.../industrial-strategy-white-paper-web-ready-version.pdf>
83. House of Commons Briefing Paper. 2016. 'Regional and local economic growth statistics'. Briefing paper No. 05795. See: <researchbriefings.files.parliament.uk/documents/SN05795/SN05795.pdf>
84. HM Government. 2017. 'Industrial Strategy: Building a Britain fit for the future'. See: <https://www.gov.uk/.../system/.../industrial-strategy-white-paper-web-ready-version.pdf>
85. This relates to the direct GVA and employment of Tesco Retail, Tesco Bank, dunnhumby and One Stop and the indirect and induced GVA and employment generated by Tesco Retail.
86. Regions as defined by the ONS. 2017. 'Administrative boundaries: Regions'. See Open Geography portal. See: <http://geoportal.statistics.gov.uk/>
87. The ONS does not produce GVA estimates by parliamentary constituency. Therefore, to compare GVA, we draw on GVA by local authority (the most granular GVA figures available). Employment at a parliamentary constituency level is available and is therefore used in our comparative analysis.
88. Due to the way in which Tesco allocates costs and revenues across its individual sites, there are no revenues assigned to the distribution centres it operates, only the associated operational costs. These distribution centres are not revenue generating themselves but support the revenue generation of other Tesco sites, such as Tesco Retail stores. As these associated revenues are not allocated back to the distribution centres, based on the income approach to estimating GVA our calculations imply that there is a negative direct GVA for Tesco distribution centres. As a result, the analysis would suggest that in some parliamentary constituencies Tesco has a negative direct GVA impact despite economic activity and employment being directly supported there. As this is simply a function of the way in which Tesco treats distribution centres for accounting purposes, we take account of the implied negative GVA impacts at the national level only and not in the local level analysis.
89. ONS. 2017. 'Regional gross value added (income approach), GVA by industry'. See: <https://www.ons.gov.uk/economy/grossvalueaddedgva/datasets/regionalgrossvalueaddedincomeapproach>
90. ONS. 2017. 'Regional gross value added (income approach), GVA by industry'. See: <https://www.ons.gov.uk/economy/grossvalueaddedgva/datasets/regionalgrossvalueaddedincomeapproach>
91. When comparing to the local authority, it should be noted that local authority areas and parliamentary constituencies do not align. In general there are multiple parliamentary constituencies within a local authority area.
92. ONS. 2016. 'Business register and employment survey'. See: <https://www.ons.gov.uk/surveys/informationforbusinesses/businesssurveys/businessregisterandemploymentsurvey>
93. This also includes Tesco Wine Club which is a separate cost centre. Through Tesco Wine Club customers can buy wine by the case.
94. We note that a large supplier in this constituency went into administration in November 2017. As a result, it is unlikely that Tesco's high GVA impact in the Hove constituency will be sustained in future years.
95. Our analysis of Tesco's Tier 1 suppliers is based on Tesco data captured in its invoicing system. This means that the geographic location of the supplier is linked to the invoicing address, often a head office location for a UK business. As a result of this, the analysis may not accurately capture the geographic location of where the economic activity takes place for suppliers with multiple locations across the UK but a central invoicing address.
96. As noted previously, a large supplier in this constituency went into administration in November 2017. As a result, it is unlikely that Tesco's high employment impact in the Hove constituency will be sustained in future years.
97. We note that a large supplier in this constituency went in to administration in November 2017. As a result, it is unlikely that Tesco's high GVA impact in the Hove constituency will be sustained in future years. Tesco's contributions to UK communities through charitable activities and community initiatives
98. Tesco Annual Report 2016/17. See: [https://www.tescopl.com/media/.../68336\\_tesco\\_ar\\_digital\\_interactive\\_250417.pdf](https://www.tescopl.com/media/.../68336_tesco_ar_digital_interactive_250417.pdf)
99. For the purposes of presentation, we have grouped the figures into broad industry groups. Our analysis has been undertaken on much more granular SIC categorisation.
100. Total GVA for Agriculture, Forestry and Fishing broad industry group, 2016, in current basic prices. Data sourced from ONS. Dataset: 'Regional gross value added (income approach)', published on 20 December 2017. See: <https://www.ons.gov.uk/economy/grossvalueaddedgva/datasets/regionalgrossvalueaddedincomeapproach> 2016 was £2,156 billion.
101. Department for Business, Energy & Industrial Strategy. 2009. 'Guidance: Groceries Supply Code of Practice'.



102. Tesco highlighted in its 2017 Annual Report that: "in the last financial year, part of the change programme focussed on implementing the recommendations made by the GCA in her report into historic supplier issues at Tesco". Tesco further noted that, "The GCA confirmed on 19 September 2016 that [Tesco] had complied with her requirements".
103. As measured by Kantar Worldpanel, measured in terms of sales. 2017 results put Tesco's market share at 28 per cent. See: <https://www.kantarworldpanel.com/en/grocery-market-share/great-britain>
104. Of 3,175 total sites. This is also made up of 25 distribution centres, 490 associated petrol filling stations, 13 other types of sties and 1 head office.
105. Tesco. 2017. 'Serving Britain's shoppers a little better every day, 4 October 2017'. See: [https://www.tescopl.com/media/460536/1718-interims-presentation-final\\_for-plc.pdf](https://www.tescopl.com/media/460536/1718-interims-presentation-final_for-plc.pdf)
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108. Statista. 2017. In 2009, production was 1.7 million hectolitres. In 2016, this figure was 3 million.
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113. Food Drink Europe. 2016. 'Data & Trends: EU Food and Drink industry: Global trends in R&D'.
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115. First mover advantage is gained by the initial occupant of a market segment. If it is a first entrant, it gains competitive advantage through control of resources.
116. In the Competition Commission's grocery market investigation in 2008, this is termed as category management. This relates to decisions about product selection, promotion and pricing to maximise the profit of the category.
117. The selection of Emmett UK as a case study was made by Tesco. While it provides insights in to how Tesco and Emmett have worked together and the impact of this, it cannot be viewed as representative of the impact of Tesco's relationship with other suppliers.
118. An element of employment is seasonal.
119. As part of the case study KPMG has not sought to quantify the increased economic contribution made by Emmett in the UK as a result of increased kale production. We have also not analysed the extent to which the increased consumption of kale may have displaced demand for other fresh products and the consequent impacts of this.
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127. Tesco has since expanded the scope of its sustainable farming initiatives by creating groups to cover other product areas. This includes: lamb, potatoes, cheese, beef, pork, poultry and eggs.
128. There were originally 600 farmers in the TSDG. This then decreased over time before a review of the group in 2015. This review led to a recruitment of more members, growing the group to 700. An additional 20 dairy farmers were recruited in November 2017 to cover the commitment to supply all One Stop stores with TSDG milk.
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131. Actual annual milk production costs are calculated in March and September. Feed, fuel and fertiliser costs are updated quarterly using the latest prices (supplied by Anglia Farmers). The cost tracker is updated four times a year.
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134. In March 2016, Tesco prices were 12.5 per cent higher than the market spot price.
135. Between May and July 2016, UK average market price was between 19.99 to 20.78 pence per litre. This is the lowest point over the past 10 years.
136. In line with the formula for GVA.  $GVA = \text{operating surplus} + \text{payroll costs} + \text{depreciation/ amortisation}$ . Or,  $GVA = \text{Turnover} - \text{cost of goods and sold} - \text{change in inventory/ stock level}$ .
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142. Tesco introduced KPMG to Amie Lovatt as part of this study. While it provides insights in to the Future Farmers Foundation, it cannot be viewed as representative of the impact of Tesco's relationship with other suppliers.
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168. Make, Move and Munch Club was run in Sandwell, Rhondda Cynon Taff, North Lanarkshire, Nottingham, East London and Belfast.
169. These festivals were in Blackburn with Darwen, Conwy, Derry City and Strabane, Luton, South Tyneside, Thanet, Torbay, Wakefield, South and West Yorkshire and West Bunbartonshire.
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187. The CFC scheme was first piloted in May 2015. It was rolled out nationally in January 2016 with all larger stores live by the end of 2016 and all convenience stores by the end of 2017.
188. FareShare is a UK charity, which works with charities and community groups, to redistribute food that would otherwise go to waste. Food is redistributed to places such as homeless shelters, children's breakfast clubs and domestic violence refuges.



189. By the end of 2017, all Tesco Stores now participate in Community Food Connection. See: <https://www.tescopl.com/news/news-releases/2016/tesco-commits-no-food-that-can-be-eaten-to-go-to-waste-from-stores/>
190. The Trussell Trust operates 400 foodbanks across the UK, which provides three days' of emergency food and support to those individuals and families experiencing crises. All of the food that the Trussell Trust gives out is donated through supermarkets or other organisations such as schools, churches and local businesses.
191. Tesco 'tops up' customer donations to ensure they do not profit from food bought by customers.
192. All Tesco stores participate in the annual food collection, with the collection drive running for two weeks in the smaller Express stores, and over the first weekend in December in the Metro, Superstore and Extra stores.
193. This was estimated by applying the average cost saving per charity per week of £10, as reported by the participating charities to Tesco. This cost would otherwise have been incurred by the charity.
194. These wider impacts were not assessed as part of KPMG's study.
195. An additional 56 stores have a champion managing a community space. This monetary value and benefit of these additional 56 champions is considered separately in section 6.4.2.
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200. This is estimated based on the average wage cost per hour for an employee
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208. Data were not available to analyse the geographic distribution of donations relating to the charity partnerships or volunteering associated with CFC. Therefore, the analysis only covers CFC (excluding volunteering), NFC, Bags of Help, Community Champions and Community Spaces.

# Appendix 2

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# Appendix 3

## Methodological approach

### Approach to estimating Tesco's GVA and employment impacts in the UK

#### A3.1 Approach to estimating Tesco's GVA contribution to the UK economy

We analyse the value of economic activity generated by Tesco in the UK in terms of Gross Value Added (GVA).<sup>(130)</sup>

The GVA contribution of Tesco is assessed via three main routes:

- Direct: the first round effects where the demand for Tesco products and services generates business activity and output.
- Indirect: the second round effects through the activity and output supported in Tesco's UK based supply chain as a result of its procurement of inputs of goods and services to its own operations (including both goods for resale and goods not for resale<sup>(131)</sup>).<sup>(132)</sup>
- Induced: the multiplier effects that arise in the UK economy as a result of Tesco's direct employees and those employees in Tesco's UK supply chain spending a proportion of their Tesco related wages in the UK. This spending generates additional economic activity for those businesses from which these employees buy goods and services and these businesses' own wider supply chains.<sup>(133)</sup>

The direct GVA contribution was estimated for:

- One Stop at the national and store level;
- Tesco Bank at the national level; and
- dunnhumby at the national level.

The indirect and induced GVA contribution was estimated for Tesco Retail only, at store and parliamentary constituency level.

$$(1) \text{ Direct GVA} = \text{Operating profit} + \text{Employee costs} + \text{Depreciation/ amortisation}$$

##### A3.1.1 Direct GVA

We assessed the direct GVA of each operation using the income approach<sup>(134)</sup>:

The data inputs to our direct GVA calculations were provided by Tesco. In our analysis, care was taken to avoid double-counting where, for example, payments are made between Tesco operating entities and between the operating entities and Head Office. In general, these payments were already accounted for within the individual entity profit and loss statements, with costs one statement offset by revenues in another statement, with the net effect being zero.

Our direct GVA calculations for Tesco Retail were also conducted at the site level, for all stores, petrol filling stations and distribution centres. Due to accounting adjustments made by Tesco to prepare the overall profit and loss statement for Tesco Retail, there is a difference between the sum of direct GVA at the site level and the total direct GVA estimate for Tesco Retail as a whole.<sup>(135)</sup>

##### A3.1.2 Indirect GVA

To estimate indirect GVA we analysed Tesco data relating to spending with suppliers, from three main datasets:

- Goods and services for resale: supplier spending on goods and services that are sold on to customers, split by supplier, product and Tesco site.
- Goods and services not for resale: supplier spending on goods and services that are not sold on to customers. This includes both goods and services designated for use in specific stores (e.g. utilities, store furnishings) as well centrally incurred supplier spending (e.g. consultancies, marketing). These data were split by supplier but not Tesco site.
- Fuel: supplier spending on fuel for resale, split by supplier but not Tesco site.

A number of steps were taken to prepare these data for analysis:

- Each supplier was assigned a five digit code based on the ONS standard industry classification of economic activities (SIC). This categorises each supplier into one of 731 groups based on their primary activities. Companies House API was used to assign SIC codes to suppliers. Where data were unavailable from Companies House, SIC codes were identified based on desk-based research.
- Details of suppliers' postcodes were provided by Tesco. Where this information was missing or contained errors, postcodes were sourced through desk-based research.

The indirect GVA was estimated using an input-output modelling approach<sup>(136)</sup>, with bespoke analysis of Tesco's specific supply chain and use of ONS input-output tables and the Type I multipliers<sup>(137)</sup> derived from these.<sup>(138)</sup> ONS data on sector level GVA to output ratio were also used in the estimation of the indirect GVA generated by Tier 1 suppliers.

The GVA associated with the Tier 1 suppliers was first estimated.

ONS economic multipliers for the relevant supplier SIC categories were then applied to capture the wider supply chain impacts.

Additional adjustments to the wider supply chain GVA analysis were made given that a number of Tesco's Tier 1 suppliers may act as agents, aggregators, processors or packers, with their own supply chains based predominantly internationally. If adjustments were not made to reflect this, the analysis would likely overestimate the indirect GVA from the wider supply chain retained in the UK. This is because the average level of leakage for the sector (accounted for in the ONS Type I multipliers) would be too low.

Therefore, additional data were sourced from Tesco in relation to the wider supply chains for fresh produce and meat products and the proportion of products originating from outside the UK. These data were split by supplier. KPMG compared the proportion imported through Tesco's wider supply chain to the implied national import proportions for the relevant supplier SIC category, calculated from ONS data.<sup>(139)</sup> The supplier spending was then scaled down using a scaling factor estimated using the following approach:

$$\theta_i = \frac{1 - \text{Tesco import proportions}}{1 - \text{ONS import proportions}}$$

Note: the subscript *i* denotes an individual tier 1 supplier

### A3.1.3 Induced GVA

Tesco's induced GVA and employment is generated via:

1. the spend of Tesco's own employees;
2. the spend of indirect employees in Tesco's Tier 1 suppliers; and
3. the spend of indirect employees in Tesco's wider supply chain.

The induced GVA generated by Tesco's own employees was estimated based on Tesco's payroll and by applying Type II multipliers<sup>(140)</sup>. As the ONS does not produce Type II multipliers these were sourced from the Scottish Government based on its input-output tables.<sup>(141)</sup> To isolate the induced economic impacts, the Type I multipliers were deducted from the relevant Type II multipliers for each SIC category.

The induced GVA arising from the spending of indirect employees (at Tier 1 suppliers and in the wider supply chain) was estimated using the same input-output modelling approach as used for the indirect GVA calculations. However, Type II multipliers were used rather than Type I multipliers. As for the induced GVA from Tesco's direct employees, these Type II multipliers were sourced from the Scottish Government and the

Type I multipliers were deducted from the relevant Type II multipliers for each SIC category to isolate the induced economic impacts,

The use of Type II multipliers for the Scottish economy is likely to lead to an underestimation of the GVA impacts, given the smaller size of the Scottish economy. This is reflected in the generally lower Type I multipliers compared to the UK level multipliers produced by the ONS. If the Type II multipliers for the UK economy overall were to be higher than those for the Scottish economy, the results of our analysis will be conservative.

## A3.2 Approach to estimating Tesco's employment contribution to the UK economy

Our estimation of Tesco's employment impact uses broadly the same approach as the estimation of GVA.

The direct employment contribution was estimated for:

- One Stop at the national and store level;
- Tesco Bank at the national level; and
- dunnhumby at the national level.

The indirect and induced employment contribution was estimated for Tesco Retail only, at store and parliamentary constituency level.

### A3.2.1 Direct employment

Tesco provided KPMG with employment data in full time equivalent (FTE) terms for each of its sites.

When reporting employment at parliamentary constituency level, the FTEs were assigned to the parliamentary constituency in which their employment was located.

### A3.2.2 Indirect employment

Our approach to estimating the indirect employment generated by Tesco's operations uses the results of the GVA analysis, detailed above, and data on average GVA per FTE at the sector level published by the ONS.

Based on the indirect GVA analysis, outlined above, we estimated Tesco's indirect GVA for each industry at the same level of granularity as ONS input output tables<sup>(142)</sup>.



The associated employment (in FTE terms) was then estimated using ONS data on the average GVA per FTE for each relevant SIC category in which Tesco indirect GVA was generated.

$$(7) \text{ Indirect Emp}_{jkz} = \frac{\text{Indirect GVA}_{JKZ}}{\text{GVA per FTE}_z}$$

Note: the subscripts j, k and z refer respectively to the Tesco outlet and the parliamentary constituency and industry in which the GVA and employment is generated

### A3.2.3 Induced employment

Similar to the approach adopted to estimate indirect employment, we used the estimations of induced GVA to derive the induced employment by applying the ratio GVA to employment at the local level relevant to each geographic location.

### A3.3 Geographic distributions of impacts

Our UK level GVA and employment impact modelling, is detailed above. However, our analysis also considered the geographic distribution of the impacts at the parliamentary constituency level for England, Scotland and Wales and at the local authority level for Northern Ireland.<sup>(143)</sup>

The following approach was adopted to identify the constituency in which the GVA and employment impacts were generated.

- Each UK postcode was assigned to a UK parliamentary constituency, region and country, based on ONS postcode data.<sup>(144)</sup>
- Direct GVA and direct employment was estimated at the site level. Using the postcode for each Tesco site, the direct GVA and employment was assigned to the relevant parliamentary constituency.
- Indirect GVA and indirect employment generated at the Tier 1 Tesco suppliers was assigned to a parliamentary constituency based on the postcode of each Tier 1 supplier. We note that this is linked to the invoicing address, often a head office location for a UK business. As a result of this, the analysis may not accurately capture the geographic location of where the economic activity takes place for suppliers with multiple locations across the UK but a central invoicing address.

- The parliamentary constituency in which wider supply chain indirect GVA and employment and induced GVA and employment was generated using the input-output modelling approach (as detailed above), tailored to reflect the ratios of local level economic activity (GVA and employment) to national level economic activity (referred to as location quotients), at the sector level for each SIC category.<sup>(145)</sup> Adjustments were also made reflect differences in labour productivity levels at the local level.

## Approach to estimating the impact of Tesco's contributions to UK communities through charitable activities and community initiatives

### A3.4 Approach to estimating the contribution associated with Tesco's National Charity Partnership (NCP) and Race for Life

Data were provided by Tesco in relation to the NCP, including number of participants, activities supported and the monetary value of donations. KPMG did not verify these data and did not conduct additional analysis.

### A3.5 Approach to estimating Tesco's contribution through Bags of Help

Tesco provided data relating to all the Bags of Help projects supported through the scheme for FY16/17. This information included the value of donations in total and breakdowns by project and the Tesco stores that provided donations (by store ID).

Tesco data indicated that a number of projects were contributed to by more than one Tesco site. Data on the level of contribution by each Tesco site were not available. Therefore, for the purposes of our analysis it was assumed that each Tesco site contributed an equal amount to the project.

### A3.6 Approach to estimating Tesco's contribution through Community Champions

Tesco provided a list of stores with an active Community Champion in FY16/17. It also provided data on the average number of hours dedicated to community work by Community Champions over FY16/17. These data were provided across the stores with and without a Community Space.

To value the time spent by Community Champions, we used an approach to capture the monetary equivalent value of the time spent if the charities/ community groups supported by Community Champions had to employ someone for this. We applied the average hourly earnings sourced from the ONS' annual survey of hours and earnings for the relevant parliamentary constituency in which the Community Champion was based, to the Tesco reported average hours spent per week in FY16/17.

### A3.7 Approach to estimating Tesco's contribution through Community Spaces

Tesco provided a list of stores that had an active Community Space in FY16/17 and details of whether this was run by a Community Champion. Data were also provided relating to the minimum size of Community Spaces and the average number of hours it was in use for through 2016.

To value the in-kind contribution made by Tesco by providing this space free of charge for community use we used an approach to capture the monetary equivalent value of the space if space of the same size were to be rented by the charities/ community groups using it.

Using the Tesco data on minimum size of Community Spaces we estimated the equivalent rental value of the space, using average rental value for office use, by square foot, for the relevant parliamentary constituency of the Community Space. These data were sourced from CoStar for FY16/17.

The contribution made by Tesco through Community Spaces also includes the additional volunteering time spent by Tesco employees, including the Community Champion, to run the space. The value of this time was estimated using Tesco data on the average hours spent by employees and applying the average hourly earnings sourced from the ONS' annual survey of hours and earnings for the relevant parliamentary constituency in which the Community Space was located.

### A3.8 Approach to estimating Tesco's contribution through Community Food Connection (CFC)

Tesco provided data for FY 16/17 covering: the stores participating in CFC the estimated number of meals provided by store; the number of charities/ local community groups provided with meals; and the reported average savings per week across all charities.

To value the in-kind contribution made by Tesco by providing these meals, we used an approach to capture the monetary equivalent value of the meals if the charities/ local community groups were to have to buy the meals. This was based on the reported weekly savings, scaled to an annual figure by multiplying by 52 as the scheme operated through the full year.

Tesco employees also volunteered time, within their working week, to support CFC. Tesco provided data on the total number of employee hours dedicated to CFC in FY16/17 across all participating stores. These data were not available at the store level.

The value of this time was estimated based on the cost that the charities/ community groups would incur if they were to employ individuals to undertake the work undertaken by Tesco employees. The Tesco volunteering hours were multiplied by median earnings for the UK, sourced from the ONS' annual survey of hours and earnings.

### A3.9 Approach to estimating Tesco's contribution through Neighbourhood Food Collection (NFC)

Tesco provided data for FY 16/17 covering: the stores participating in NFC; the estimated number of meals donated; the average weight of a meal; and the average value per kilogram of food donated.

The value of donations made by customers was estimated by applying the average value of food donated to the average weight of meal, and multiplying this by the number of meals donated in FY16/17.

The value of donations made by Tesco, through its 20 per cent top up to the value of customer donations was estimated using the following formula:

$$(1) \text{ Tesco top-up} = (\text{Number of meals} \times \text{weight of meals (kg)} \times \text{value of food donated (kg)}) \times 20\%$$

This reflects a Tesco top-up of 20% (0.2).









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