



Protecting your brand

**Understanding the
regulatory impact on
retail businesses**



February 2018

kpmg.com/uk/retail

How important is your reputation?

Reputational risk is becoming increasingly important for all businesses as highlighted by KPMG's UK CEO Outlook Survey, with brand and reputation now a top three factor that CEOs expect to impact their business growth over the next three years. For retail and consumer goods executives in particular, consumer trust and loyalty rank as the top business concerns.

We're seeing the regulatory landscape in retail change, and quickly. Although these regulatory and compliance related topics are – in most cases – of pivotal importance to safeguard organisations and society more broadly, they are adding complexity and cost pressures to retailers.

On top of this, the retail sector is struggling to keep pace with rising customer expectations. Whether that's the consumer becoming more concerned about sustainability and the environment, demanding transparency in how their goods are manufactured and shipped, or an increased focus on health and diet, more and more regulations and standards are starting to emerge that require the retailer's attention.

Consumer visibility is increasing, and retailers are coming under the microscope. But are all retailers aware of the vast scope of regulations they must comply with? Failure to comply with these regulations will now hit retailers harder than before, the cost of non-compliance mounting with many of them subject to significant fines for breach of regulation. Additionally there are guidelines, which – although these may operate within a more relaxed financial penalty framework – cannot be ignored, as the reputational damage of non-compliance could be much greater.

A retailer's reputation cannot always be controlled internally. With social media widening the sphere of influence, negative customer comments can spread rapidly and be detrimental to the brand. Whether your challenge is satisfying the conscious consumer, the regulator or your suppliers, KPMG can help you steer through this complexity.



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Reputation and brand risk is now a top

3

factor that CEOs expect will impact their business growth over the next three years



72%

of UK CEOs invested highly in regulation over the last year, and this is set to continue



Sales and retail assistants make up the largest number of jobs in the UK earning less than the Living Wage, around 740,000, which is

64%



48%

of UK CEOs are currently pursuing regulatory-induced transformation (vs 40% globally)



The cost of non-compliance

Retailers and brands could face large monetary penalties for non-compliance. For some, there is no upper limit on the fine. Examples include:



Groceries supply code of practice



Apprenticeship levy



National minimum wage



GDPR



Tax publication strategy



Payment practices & performance reporting



Auto enrolment contribution increases



Soft drinks industry levy

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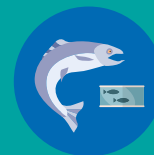
What do your customers care about?



Energy consumption

With increased competition and higher customer expectations, retailers are starting to prioritise factors that they previously may have ignored. This means aligning with the customer's agenda and considering larger macro factors that may influence their decision to purchase.

Fridge shelves in grocery stores expend millions of pounds worth of energy. One major supermarket found that their stores accounted for 1% of the whole of the UK's electricity consumption. Half of this came from instore refrigerators¹, a startling proportion that retailers need to be conscious of.



Sustainable fishing

Certain fishing methods are unsafe and cause harm to marine life, severely deplete stock (90% of the world's stocks are now fully or overfished²), and put humans at risk of slavery in developing countries. Suppliers and supermarket executives need to ensure that seafood is sourced responsibly to keep consumers shopping with them. Food rating systems and labelling also enable consumers to make informed choices.

1. The Times. *Sainsbury's moves to cut energy consumption*, p 47. 16 November 2017 [Not available online]

2. Nelsen, A (2016) *Global fish production approaching sustainable limit, UN Warns*. The Guardian. Available at: <https://www.theguardian.com/environment/2016/jul/07/global-fish-production-approaching-sustainable-limit-un-warns>



Deforestation

Timber provides retailers a valuable raw material for packaging, and products ranging from furniture to greeting cards to hairbrushes³. But illegal timber sourcing is damaging to the environment, resulting in deforestation, loss of biodiversity and natural habitats for animals. These issues are exacerbated by aggressive land conversion for agriculture, soy and palm oil farming – two ingredients that are found in many of our diets. Retailers need to pay close attention to their supply chain to identify areas to reduce deforestation and promote sustainability.



Fair trade

Over 75% of people living in rural areas in developing countries earn less than one dollar a day⁴. Fair trade requires retailers to pay sustainable prices to farmers and workers in Less Economically Developed Countries (LEDCs), ensuring better prices, improved working conditions, higher living standards, and local sustainability⁵.



Plastic pollution

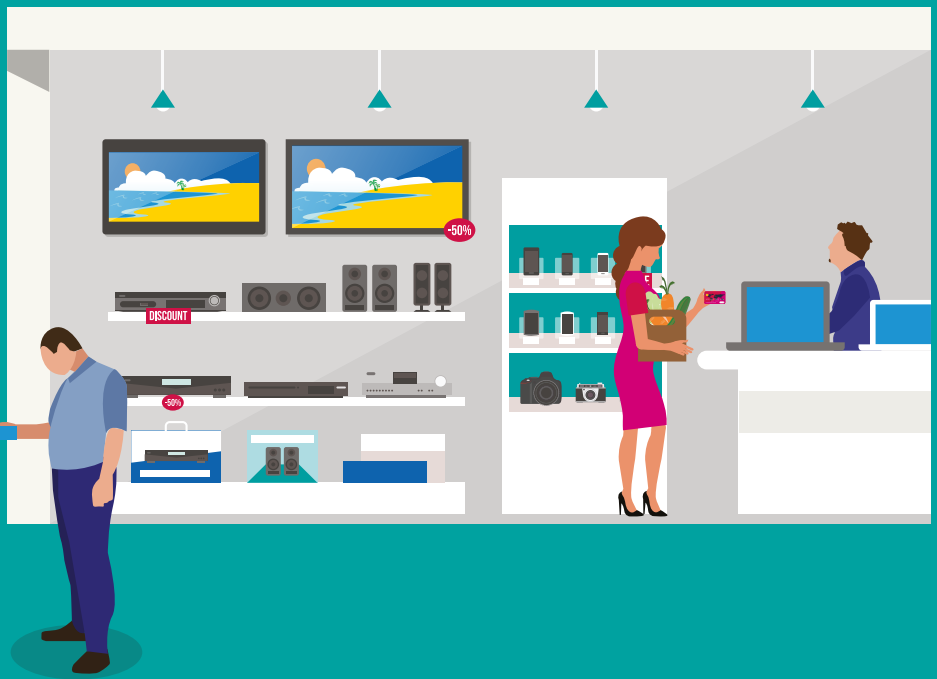
Since the 5p charge for plastic carrier bags was introduced in 2015 (for retailers with 250 or more employees), the number of bags used by consumers has dramatically decreased by more than 80% in England⁶. It's clear that sustainability is increasingly at the heart of what consumers value. Less plastic in circulation means that marine life is safer, communities are cleaner, and less plastic is being dumped in landfill sites. However, plastic bottles and disposable coffee cups also pose threats to environmental protection, and retailers have a big part to play in managing their production, recycling and disposal.

3. Marks and Spencer (2018) *Protecting Forests*. Available at: <https://corporate.marksandspencer.com/plan-a/our-approach/business-wide/natural-resources/protecting-forests>

4. Fairtrade Asia Pacific (2018) *Advantage Fairtrade*. Available at: <http://www.fairtradenapp.org/about-fairtrade/advantage-fairtrade/>

5. Fairtrade foundation (2018) *What fairtrade does*. Available at: <http://www.fairtrade.org.uk/What-is-Fairtrade/What-Fairtrade-does>

6. Department for Environment, Food & Rural Affairs (2018) *Carrier bags: why there's a change*. Available at: <https://www.gov.uk/government/publications/single-use-plastic-carrier-bags-why-were-introducing-the-charge/carrier-bags-why-theres-a-5p-charge>



Modern slavery

The Modern Slavery Act requires retailers, with an annual global turnover of at least £36 million operating in the UK, to publish an annual statement describing what they have done to ensure modern slavery and human trafficking are mitigated from their supply chain. While there's no formal financial penalty for failure to comply, the reputational impact can have serious consequences, potential loss of customers and loss of profit. The government aims for stakeholder pressure to force compliance along the supply chain in a waterfall effect⁷.



Consumer credit

The number of new store and credit card accounts opened tends to peak during and shortly after the Christmas shopping period⁸. However, retailers are increasingly under the microscope when it comes to responsible lending. More light is being shed on the high interest rates they carry, the fact that young people are being targeted, and that store cards are being mis-sold by untrained sales assistants who lack financial expertise⁹.

7. KPMG (2016) Modern slavery and human trafficking statement. Available at: <https://home.kpmg.com/content/dam/kpmg/uk/pdf/2017/01/modern-slavery-statement.pdf>

8. Loudenback, T (2017) *Store credit card applications skyrocket around Black Friday – but the discounts they offer come with a catch* [Business Insider]. Available at: <http://uk.businessinsider.com/black-friday-store-credit-cards-2017-10>

9. The Modern Advice Service (2018). *A guide to store cards*. Available at: <https://www.moneyadvice.service.org.uk/en/articles/store-cards-explained>

...and what do you need to consider behind the scenes?

Designed to protect both the consumer and the retailer, the retail landscape has many more regulations and guidelines to consider and comply with than in the past. Have you considered the below, and what it means for your business?

Regulation or guideline	Groceries Supply Code of Practice (GSCOP)	Country by Country Reporting	National Living Wage (NLW) & National Minimum Wage (NMW)	Tax Strategy Publication
Implementation date	4 August 2009	18 March 2016 (Accounting periods commencing on or after 1 January 2016)	1 April 2016	24 June 2016 (Accounting periods starting on or after 15 September 2016)
Impact on your business	The GSCOP determines how supermarkets in the UK should manage relationships with their suppliers. If 'designated retailers' fail to comply with the regulation set out, they could be subject to a large fine.	A UK statutory requirement for UK-headed multi-national businesses to report certain revenue, taxes paid and capital to HMRC to allow assessment of any international tax risks. There are penalties for non-compliance.	The NMW and NLW are the statutory minimum pay per hour regulations that almost all workers are entitled to depending on age. The NLW is obligatory for workers aged 25 and above, and the NMW starts at age 16. It is against the law for employers to pay workers less than the NMW or to falsify payment records.	This is a requirement for large businesses to publish their tax strategy on their website on an annual basis. The legislation is designed to provide more tax transparency concerning the UK tax arrangements of businesses to the public, HMRC and other stakeholders.
Key challenges for implementation	<ul style="list-style-type: none"> - Understanding the code and how it affects your organisation. - Ensuring the person responsible has the correct knowledge to safeguard your organisation from unfair dealing. 	<ul style="list-style-type: none"> - Gathering the correct information can be time consuming. - Once the correct information has been prepared, it is important to consider how the data may be interpreted by HMRC (and other overseas tax authorities). - Potential risk areas and possible mitigation strategies should be identified. 	<ul style="list-style-type: none"> - Making sure all workers are on the correct rate of pay. - Setting up payroll systems correctly. - Managing reputation. 	<ul style="list-style-type: none"> - Predicting how the strategy could be interpreted by the public, and the impact this could have on brand perception. - Drafting a strategy that meets the legal requirements of the legislation whilst still adopting the public tone and style of the business. - Ensuring that the contents accurately reflect the reality of the business and can be articulated to HMRC if required.



**Gender
Pay Gap
Reporting**



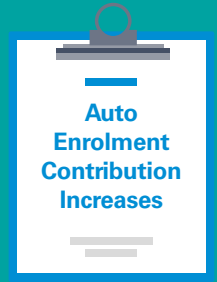
**Apprenticeship
Levy**



**Payment
Practices and
Performance
Reporting
(PPPR)**



**Corporate
Criminal
Offence
(CCO)**



**Auto
Enrolment
Contribution
Increases**

22 February 2017

6 April 2017

6 April 2017

30 September 2017

6 April 2018

By April 2018, any organisation with more than 250 employees in the private, public and voluntary sectors will be required to report its gender pay gap annually. Failure to do so has implications with consequences for recruitment practices, remuneration policies, employee relations, talent retention and public reputation.

All UK employers with a wage bill greater than £3 million will be subjected to an apprenticeship levy of 0.5% of their total pay bill. This will be used to fund the training of apprentices.

The new PPPR regulation now requires large companies to report on their payment practices, policies and procedures and present statistics on actual payment performance to help ensure fair treatment of suppliers. Results are publicly available allowing for peer to peer comparison.

Under CCO legislation, corporates are subject to prosecution if their employees, contractors or other 'associated persons' facilitate tax evasion by a customer or supplier and they don't have 'reasonable procedures' in place to prevent that facilitation.

This is a statutory requirement for auto enrolment pensions schemes to increase minimum employer contributions to 2% of qualifying earnings, with an increase to 3% in April 2019. Employee contributions will also increase to 3% in 2018 and 5% in 2019 where the employer is only paying the minimum.

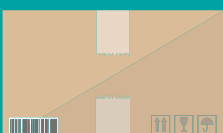
- Using data to identify the cause of any gaps.
- Implementing a new reporting system.
- Reviewing staff remuneration and employee benefits.
- Reviewing recruitment policies and managing reputation with candidates.

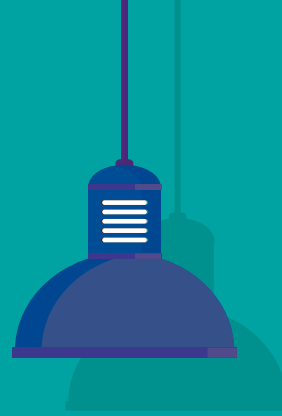
- Addressing skill shortages in the existing workforce.
- Attracting and retaining talent through apprenticeship programmes.
- Considering the impact of digitisation on your organisation and designing apprenticeship training around these objectives.

- Interpretation of legislation and application to specific companies can be complicated.
- Requires detailed analysis of transactional level data which many companies will not have undertaken previously.
- Significant PR and reputational risk for companies who are adverse outliers in performance when benchmarked against peers.

- Understanding the risk that an associated person could facilitate tax evasion whilst acting on their behalf.
- Evaluating the extent to which these risks are mitigated by existing controls.
- Addressing any gaps that are identified.

- The effect of the cost increase to the business and employee awareness of increased cost for them.
- Potential for employees opting out of the pension scheme.
- Making HR and payroll teams aware of processes.
- Salary sacrifice to help offset some of the cost increase.
- Ensuring all open pension schemes satisfy the minimum requirement.





Soft Drinks Industry Levy

General Data Protection Regulation (GDPR)

IFRS 16 – leasing tax impact

Transfer Pricing Documentation

6 April 2018

25 May 2018

1 January 2019

Documentation should be prepared contemporaneously

Companies that produce, package or import soft drinks into the UK with added sugar will need to register for the Soft Drinks Industry Levy, otherwise known as the 'Sugar Tax'. The revenue will be invested to enable retailers to help decrease rather than add to the level of obesity in the UK.

GDPR is a regulation by which the European Parliament, the Council of the European Union and the European Commission intend to strengthen and unify data protection for all individuals within the European Union.

Groups using IFRS as their accounting framework will need to adopt the new lease accounting standard, IFRS 16, for periods beginning on or after 1 January 2019. This will bring onto the balance sheet many leases – including property leases – which were previously accounted for as operating leases.

These regulations require significant enhancements to the transfer pricing documentation held by UK entities of large multi-national businesses to demonstrate that connected parties are using arm's length principles in their transactions.

- Product reformulation to reduce sugar content (e.g. recipe changes).
- Price changes for any products not reducing sugar content below the lower threshold.

- Defining acceptable levels of privacy risk for your organisation.
- Conducting a data audit to establish 'where are we now?'
- Creating a pragmatic privacy strategy that can ultimately be embedded into business as usual practice.

- The need to undertake a tax impact assessment of the new leasing tax rules proposed by HMRC.
- Making representations to HMRC on points identified during these assessments.

- Preparation of local file documentation for the first time can be a time consuming exercise.
- Determining a risk based approach to fully comply with local transfer pricing documentation requirements.
- The expectation that UK-headed multi-national businesses prepare a Masterfile for all years commencing on or after 1 January 2016.

