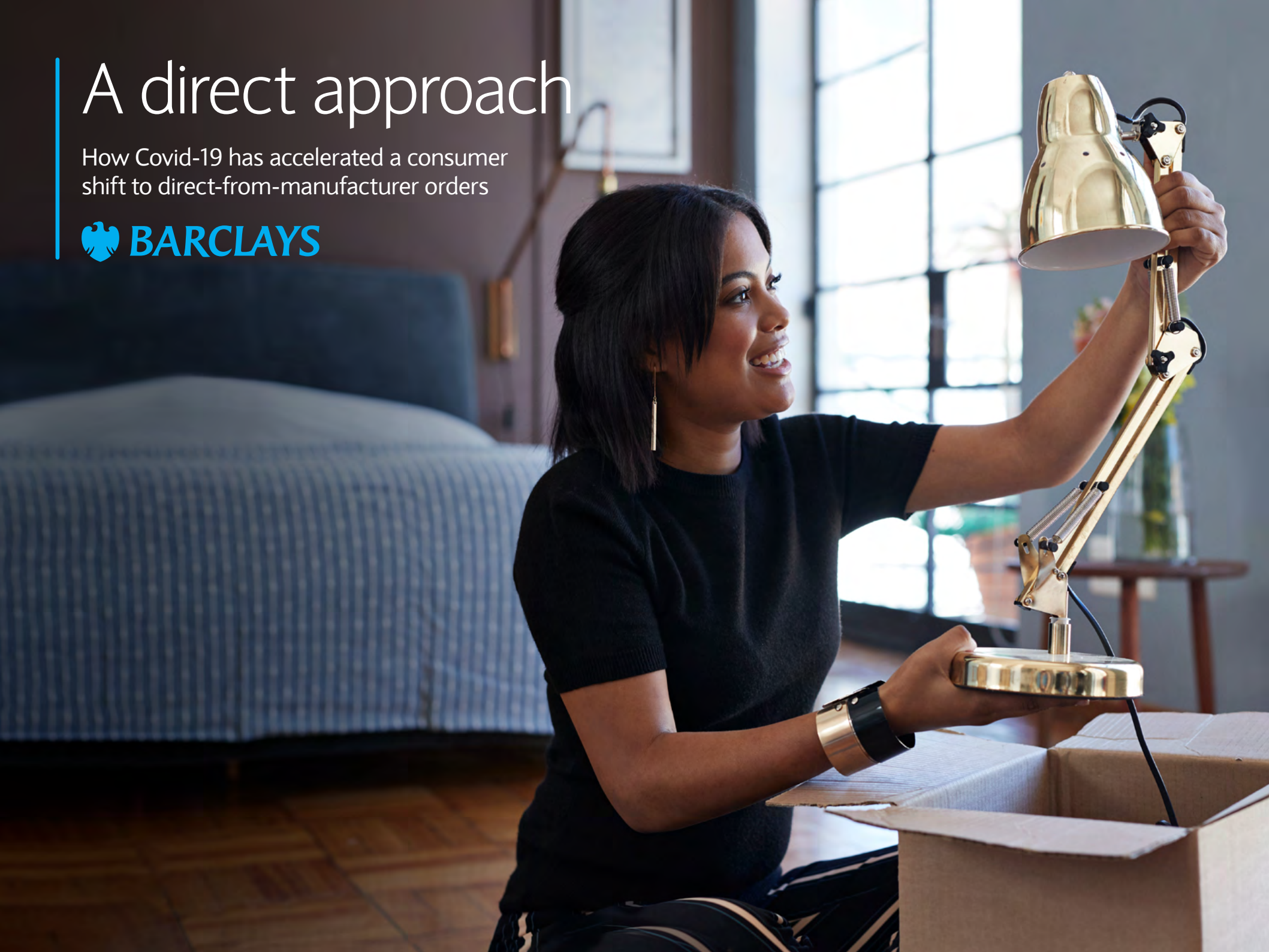
A direct approach

How Covid-19 has accelerated a consumer shift to direct-from-manufacturer orders

BARCLAYS



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Parcels from producers: tracking a shift in the way we buy

Major online retailers have famously prospered under lockdown, but new research by Barclays Corporate Banking reveals a quieter revolution in delivery. More than half of UK households now receive products direct from the manufacturers – a pattern accelerated by the pandemic but set to endure after restrictions ease.

Our research and modelling shows:

- Around 85 million parcels have been delivered direct to customers by UK manufacturers this year – and that volume will grow almost 30% by 2023, with almost 110 million packages delivered annually
- 57% of consumers now order at least some items direct from the manufacturer, a trend that is set to continue beyond the pandemic
- Products commonly bought in this way include clothes (by 39% of consumers), electronics (30%), food and drink (27%) – and even large household items such as appliances (24%) and furniture (22%)
- While price is consumers' main driver, goodwill towards UK producers is a big motivating factor: 32% of those who order items direct see this as a way of backing British manufacturing in tough economic times
- This shift is opening new revenue streams for logistics providers, whose direct-to-consumer (D2C) work is expected to soar to 50% of income by 2023. The expansion of the market will also open up new jobs in the sector, compensating for some of those jobs lost to the pandemic
- The extra business generated is more likely to be sustainable too, with two-thirds of providers looking to establish or expand green logistics solutions
- D2C delivery is set to boost investment, employment and the wider economy – underpinning 118,000 extra manufacturing jobs supported by D2C sales over the next three years. The West Midlands and North West are among the regions set to benefit most.

> "Around 85 million parcels have been delivered direct to customers by manufacturers this year – and that volume will grow almost 30% by 2023."

A habit that's here to stay

For a growing number of UK households, buying goods direct from the producer is now an established habit. This consumer demand is helping manufacturers to surmount the pain of the pandemic with long-term structural change, says Lee Collinson, Barclays' Head of Manufacturing, Transport and Logistics.

Parcel volumes have soared during the restrictions linked to Covid-19 as the proportion of online sales grew further. But this general picture hides another trend that offers welcome growth prospects for manufacturers and the wider economy.

Last year, in our Going Direct report, we revealed how manufacturers were increasingly incorporating direct-to-consumer sales into their strategies for growth. Our new research – carried out in October 2020 among consumers, manufacturers and logistics providers – reveals the degree to which this trend is being embraced by customers too.

More than half of consumers (57%) now routinely order products direct from the manufacturers as well as from retailers or wholesalers. By comparison, research in 2019[1] found 39% had bought products from one or more of the 50 leading D2C brands.

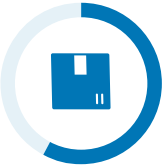
> "Manufacturers could gain an extra £23bn through this channel in the next three years."

And while the pandemic has helped to accelerate this habit, its effects will not fade with Covid-19. More than half of households plan to maintain their current online shopping habits when 'normality' resumes. And significant numbers intend to buy more items direct from the manufacturers in future, including clothes, electronics, food and drink, and even bigger items such as household appliances.

The result is that predictions for future D2C sales vastly outstrip expectations of just a year ago. In 2019 our Going Direct report suggested manufacturers could gain an extra value of £13bn by 2025 through this channel. Our new findings post a bigger potential gain of over £23bn in just the next three years.

A route to success

This projection will be heartening for manufacturers seeking to rebound from the economic damage inflicted by the pandemic. Despite significant hits to income and staffing levels, optimism in the sector remains high, with 81% saying they face 2021 with confidence. D2C sales offer one key route back to stability and success.



57% of consumers order products direct from the manufacturers

For brands such as Nike, the experience of 2020 has vindicated an existing D2C strategy. The sports brand saw its online sales rise by more than 80% in the three months to August, offsetting a fall in in-store income[2]. For others, such as Coty UK, the pandemic offered an opportunity to get a foot in the door of the D2C channel for the first time[3]. And beyond the big household names, thousands of smaller, independent brands have taken advantage of their agility to forge direct relationships with their customers.

As a result, even in a period that has seen overall sales slump by 26%, more than half of manufacturers have seen their D2C income grow or remain steady.

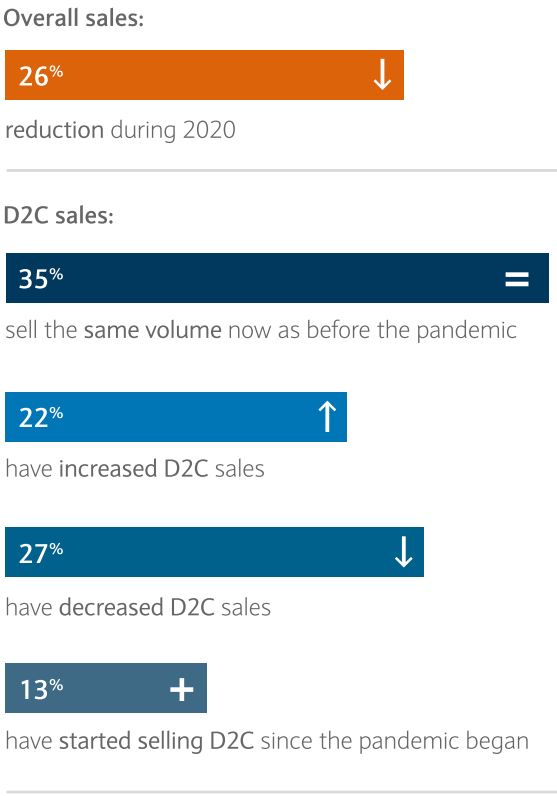
Unsurprisingly, the chance to increase sales is the main spur to action. More than half of D2C manufacturers are also driven by increased speed to market, and the chance to harness the power of data to get to know their customers better. Broadening their customer base and bypassing supply chain disruption are other motivations for businesses.

D2C is typically being adopted to complement more traditional sales channels. Most manufacturers are using it alongside their partnerships with retailers and wholesalers – and continue to enjoy good relationships with them. Wholesalers themselves have tilted heavily towards D2C in response to the pandemic, as our Chain Reaction report highlights.

Logistics impact

There are positive knock-on effects for the logistics sector too. By 2023, in fact, providers expect that D2C work will account for half of their income. Rather than a simple shift from one type of client to another, D2C is expanding the overall market.

Effect of Covid-19 on manufacturers' sales



About the research

This report is based on bespoke research and analysis commissioned by Barclays Corporate Banking and conducted by Censuswide and Development Economics respectively.

Three surveys asked consumers and transport and logistics and manufacturing businesses questions concerning experiences of – and demand for – direct-to-consumer (D2C) sales. The fieldwork was carried out between 7 and 15 October, using respective sample sizes of 2,037 consumers, more than 100 senior transport and logistics managers and 613 senior or above managers in manufacturing businesses.

Development Economics' modelling used the surveys as a principal source in identifying the current and potential future direct value to businesses and the economy of D2C sales.

The effects of the rise in parcel volumes on the sector are already fuelling investment. For example, DPD announced its intention in October to hire 20,000 new staff across Europe, with plans for new depots in the UK, France and Holland[4]. At the same time, Hermes sought permission for a new 300,000 sq ft parcels 'megahub' in Yorkshire,[5] following its summer plans to create 1,500 permanent jobs and recruit 9,000 self-employed couriers to meet rising demand[6].

More widely, research[7] has indicated record demand for logistics and distribution space in the UK. Now our findings confirm that logistics firms are also investing in new vehicles and staff to handle increased D2C demand.

Furthermore, 67% are either setting up or expanding green logistics solutions, helping to ensure more sustainable deliveries of the expanding volume of parcels.

The recruitment drive in logistics could represent important opportunities for a labour pool reeling from the effects of the pandemic. However, that will depend on the sector's ability to make itself more attractive to potential employees: even before the pandemic, more than half of firms expected increasing skills shortages over the next few years[8].

There will also be extra vacancies in manufacturing itself. Our modelling suggests a further 118,000 jobs supported by D2C sales will be created in the next three years, adding to the half a million roles already underpinned by D2C. The food and drink sector will be one of the main beneficiaries, adding 27,000 new jobs by 2023.

While benefits will be spread across almost every region of the UK, the industrial heartlands are set to benefit most. The West Midlands and the North West are the biggest contributors in terms of employment.

Investing for rewards

For a production-focused business, setting up D2C sales is no simple task. It obliges manufacturers to invest in a consumer-facing model, acquiring skill sets very different to those of their core business. It requires investment in new technology, and management of the end-to-end logistics supply chain. Gearing up to handle warranty claims and product returns is especially complex, and often requires significant amounts of additional space. Strategic partnerships with third parties may be required to add capacity.

> "With industry-wide earnings from D2C expected to reach £120bn by 2023, the projected returns are substantial."

However, many manufacturers are rising to the challenge. They have invested an average of almost £300,000 in their D2C operations. Smaller businesses have been most active so far, and are reaping the biggest benefits, but the biggest manufacturers are soon set to overtake them.

With industry-wide earnings from D2C expected to reach £120bn within three years, the projected returns are substantial.

To achieve these rewards, manufacturers will have to meet their customers' expectations. These have already been raised by the flexible delivery menus and compressed despatch times of online retailers – and our survey reveals that customers expect even better service when buying from the manufacturer.

The perceived ability to get a better deal by going straight to the producer is the biggest draw. But there is also a fund of goodwill among consumers: around a third say they see D2C purchases as a way of supporting UK producers through a tough economic time. This could be the ideal time for UK manufacturers to strike up a direct commercial relationship with more of their customers.

Lee Collinson
Head of Manufacturing, Transport and Logistics, Barclays Corporate Banking

Effect of D2C sales

2020	2023
Manufacturing sales supported by D2C	
£96bn	£120bn
Jobs linked to D2C	
500,000	618,100

Sealing the relationship

For some consumers, the pandemic has offered them their first taste of buying products straight from the manufacturer – but there are several factors to keep them coming back for more.

The impact of lockdown as a result of Covid-19 on buying patterns may seem inevitable in retrospect. With online purchasing the only practical option for many items during lockdown restrictions, online sales in October were 53% above the February 2020 value and were driving retail growth. Online food sales nearly doubled over the same period[9].

Our survey of 2,037 adults across the UK suggests average household parcel volumes have risen by almost a third in 2020. Two-thirds of consumers – especially women and younger groups –say their number of deliveries has increased notably since the start of the pandemic.

Perhaps none of this is a surprise. However, the source of these deliveries is intriguing. Most people (57%) of those who receive online orders now order some of those items direct from the manufacturer rather than via a retailer – a habit shared evenly across genders and age groups. People in Northern Ireland are most likely to buy direct (65%).

Those who source purchases in this way get around 20% of their deliveries direct from the producer. Among consumers aged 16 to 34, more than 23% of goods are ordered direct; within Greater London, the proportion is around a quarter.

From depot to doorstep

D2C packages come in all sizes, reflecting the wide variety of items now sourced from producers. Small parcels are most common, but for a quarter of respondents (and 29% of the over-55s), bulky items are most frequently received.

A significant proportion of manufacturers are now transporting parcels in their own vehicles, making their brands even more visible to customers: a third of consumers have received deliveries in this way. However, courier remains the most common means of D2C delivery, followed by Royal Mail.

The vast bulk of D2C deliveries (82%) reach the doorstep between 10am and 4pm, with lunchtime delivery the most reported.

A novel experience

Some people have ordered direct from the manufacturer for the first time in the last few months – perhaps because they have had more time to look for alternative suppliers or better deals.

Consumers' shopping intentions after the pandemic

For example, 24% of those buying D2C products have bought new clothes direct from their manufacturer for the first time. Almost a fifth of women have had their first experience of buying cosmetics and skincare products direct from the producer. And, among those aged 16 to 24, a quarter have bought food and drink direct and a fifth have ordered electronics products direct for the first time.

An enduring habit

Significantly, neither the extra growth in online shopping nor the embrace of D2C purchasing is limited to the special circumstances of lockdown. Consumer intentions suggest both will only pick up pace as restrictions ease. This suggests that manufacturers that have invested in D2C stand to make longer-term structural gains once the shorter-term pain of the pandemic starts to ease.

Many people certainly miss the physical experience of shopping in stores, and 35% plan to do so more as that becomes possible again. But more than half (52%) intend to continue their expanded online shopping habits after the pandemic. The remaining 13%, including a fifth of 16-to-24-year-olds, will increase their online shopping even further.

Looking ahead, consumers say that around 29% of their parcel deliveries will come direct from the manufacturers in three years' time. That's a significant jump from the current 20%.

What's in D2C parcels?

The breakdown of D2C products reaching the doorstep reveals that fashion is most in demand. Of those who order D2C goods, 39%, including around 44% of women and those aged 16 to 24, buy clothes direct from the makers. The proportion is nearer half of fashion lovers in areas such as the North East, Brighton and Manchester.

D2C goods bought by consumers

	Men	Women
Clothes	34%	44%
Electronics	37%	23%
Food and drink	25%	29%
White goods	24%	24%
Cosmetics and skincare	12%	33%
Furniture and homeware	21%	22%
Toys	13%	16%
Jewellery and watches	11%	17%
Sports equipment	17%	10%

A third of women buy cosmetics and skincare products from the manufacturers. Brands such as L'Oréal are using digital channels to enable consumers to create personalised formulas, allowing them to grow direct sales while building a detailed picture of their customer base[10].

Among men, the most commonly bought D2C products are electronics (37%). People over 55 are those most likely to buy D2C electronics.

Some 27% of D2C purchasers now buy food and drink in this way, with those at either end of the age spectrum leading the way (30% of 16-to-24-year-olds, 28% of over-55s).

The once-rare online purchase of household appliances has become normalised, with 24% of people now buying white goods on a D2C basis. This has become especially popular in Scotland, and in Northern Ireland, where more than 31% do so.

D2C purchase of other big-ticket household items is also growing: 22% buy furniture and homeware items, led by buyers in the 45-to-54 age group (26%).

Parents are becoming accustomed to buying toys direct from the makers. Around 19% of consumers in the 25-to-44 age brackets now source toys in this way.

Top concerns

The surge in parcel deliveries has been accompanied by a trebling of complaints about delivery issues, according to Citizens Advice,[11] underlining the challenge of maintaining quality alongside quantity.

For our respondents, the chief concern is that their parcel arrives undamaged, a factor ranked highly by 69% of those who receive D2C deliveries.

The next most important concerns are that deliveries arrive on time, are left in a safe place if the recipient is out and turn up at the correct destination. People in older age groups consistently rate each of these concerns more highly than younger adults. The over-55s are the only group who see it as more important that a parcel turns up in the right place than for it to be left in a safe place if no one is there to receive it.

Why D2C appeals

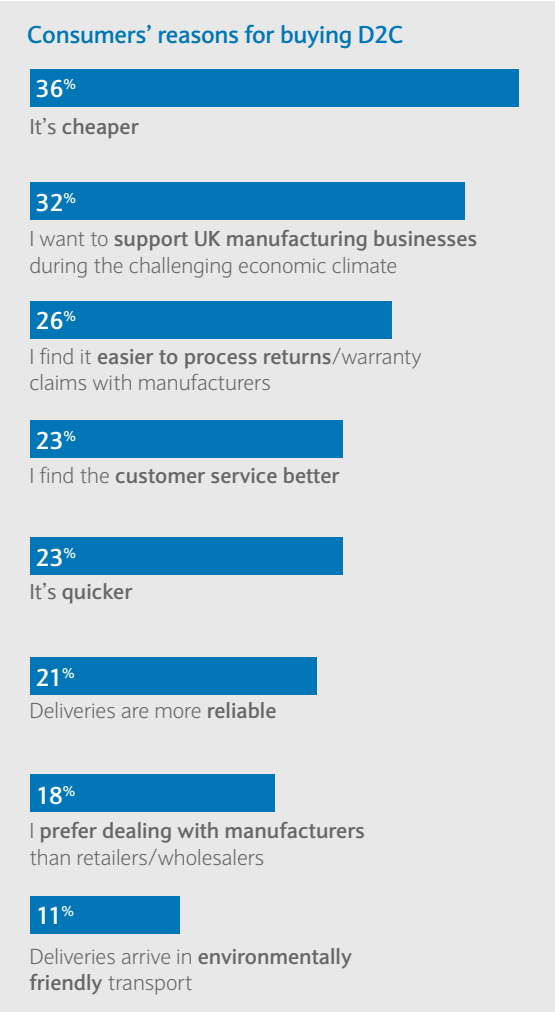
Asked their first preference of shopping method, the majority (38%) point to the big ecommerce platforms such as Amazon and eBay. A further 20% would opt to buy in-store as their first choice. Buying online from manufacturers is the first preference of one in eight consumers, with Londoners most enthusiastic at 19%.

However, the D2C experience does appeal in many respects. In consumers' eyes, manufacturers rate well when it comes to delivery performance. On a scale of one to five, the average satisfaction rating is 3.96, increasing with age. By comparison, customers' experience with retailers and wholesalers is rated marginally lower, at 3.86 on average.

> "Buying online from manufacturers is the first preference of one in eight consumers."

Customers who buy also cite a range of benefits. A quarter believe that dealing with the manufacturer will make the returns or warranty claims processes easier. Almost a quarter (23%) perceive they will get better customer service. More than a fifth say D2C deliveries are faster – men are especially likely to report this benefit – and a similar proportion expect better reliability.

The main perceived benefit, however, is value. Around 36% of D2C purchasers, including 40% of men, believe D2C offers a cheaper deal. This perception is much stronger among the over-45s (41%) than younger groups (24% of those aged 25 to 34). In Northern Ireland more than half of consumers cite this advantage, while only a quarter of people in the North East are tempted by lower prices to order direct.



The second most commonly cited benefit is a particularly heartening one for manufacturers: 32% say they want to support UK producers during the tough economic climate. This desire is expressed widely across all age groups, particularly by women. People in Scotland (40%) and in Brighton (50%) are especially supportive.

D2C may still lag behind other models when it comes to delivery and fulfilment, but manufacturers can tap into a fund of customer goodwill and a range of perceived advantages. Those who can meet consumers' high expectations will find a strong foundation for sales growth.

The logistics dividend

The embrace of D2C is leading to an expansion of the overall logistics market. With this source of business set to increase to half of their income, many providers are investing to meet demand.

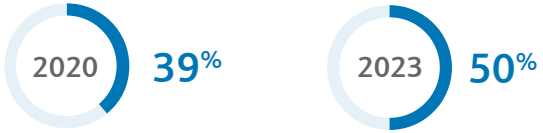
Our survey of 100 leaders in logistics providers across the UK offers evidence that the growth in D2C purchasing is an enduring shift.

Most providers already generate a proportion of revenue from transporting manufacturers' products direct to customers. On average, this work now makes up 39% of their income – and seven in 10 providers have seen a notable increase during 2020.

Companies in Northern Ireland (56%) and the West Midlands (49%) currently see most income from D2C, while Scottish firms (23%) derive least.

Logistics firms now predict that by 2023, their business will be evenly split between contracts with retailers or wholesalers and revenue based on D2C work. For the biggest providers, that shift is well under way: 45% of their income is already D2C-based.

D2C work as a proportion of logistics providers' income



Space, staff and wheels

Critically, this shift is not simply a redistribution of work from one source of income to another: it represents an expansion of the overall logistics market, which is evident in the new investment efforts by providers to keep up with demand.

Recent research by Cushman & Wakefield has shown record demand for logistics and distribution space in the third quarter of 2020. Some 16 million sq ft of space was acquired in that period, nearly double the 10-year average, as retailers and logistics providers both expanded supply chains[12].

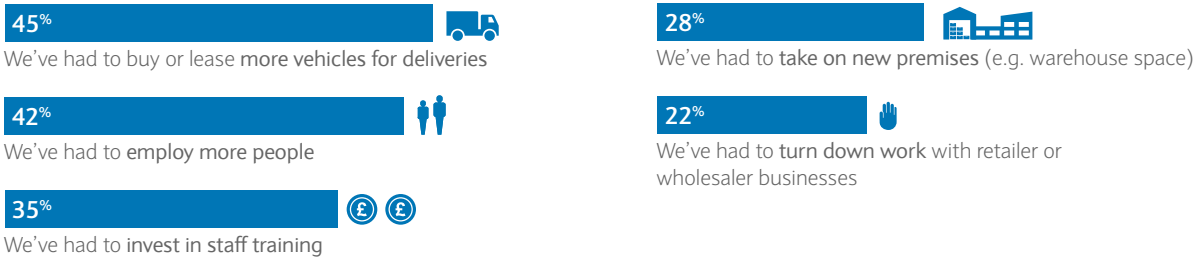
Our findings make it clear that this expansion applies equally to fleet sizes and recruitment in logistics. Of those firms registering an increase in D2C work, 45% have bought new vehicles as a result, while 42% have taken on more people. A third have invested in extra training.

Employment bonus

Confirmation of this expansion could hold many positives for the sector and the wider economy. One obvious advantage is the prospect of new employment opportunities for people whose jobs have been lost due to Covid-19. Although driver shortages existed prior to March 2020, 40% of logistics respondents reported this as an issue during the pandemic. This segment of the labour market will offer welcome growth.

While a fifth of providers have been obliged to turn down retail work because of D2C growth, expansion of the sector should ensure capacity to meet the needs of all parts of the market. Most providers are agnostic about which types of client they serve, with smaller firms skewing slightly towards retail work, and larger operators more likely to favour D2C.

Impact of D2C work on logistics providers



Finally, the expansion is progressing alongside environmental practices. This is already in evidence through some high-profile investments. DPD aims to have 600 electric vehicles – a tenth of its UK fleet – on the road at the end of 2020 as the first stage in a major sustainability drive[13]. Meanwhile, providers such as Gnewt in London[14] and WEGO in Nottingham[15] have made sustainable delivery a foundation of their offering.

Half of providers already make green logistics options available, such as electric vehicles or bicycle deliveries, and most of those are planning to expand this offering. Notably, 42% of providers now have plans to offer sustainable options for the first time. This should help to ensure that the growth in parcel volumes is not achieved at the expense of the environment.

Providing the full package

Staffing and sales flow linked to D2C sales are helping manufacturers to offset the damage inflicted by the pandemic. Today this channel generates turnover of £96bn and supports half a million manufacturing jobs.

The extent of business damage wreaked by Covid-19 is starkly outlined by the responses of 613 manufacturing leaders questioned for our research. By the end of 2020, they expect to have lost an average of 26% of income to the effects of the pandemic. Our findings suggest that the positive effects of D2C have cushioned producers from even greater losses.

The smallest firms are taking the biggest hit: those with fewer than 50 employees stand to lose 35% of their income. Furniture and homeware producers and electronics manufacturers face losses of more than 30%, as do firms based in the East Midlands, the South West, Northern Ireland and London.

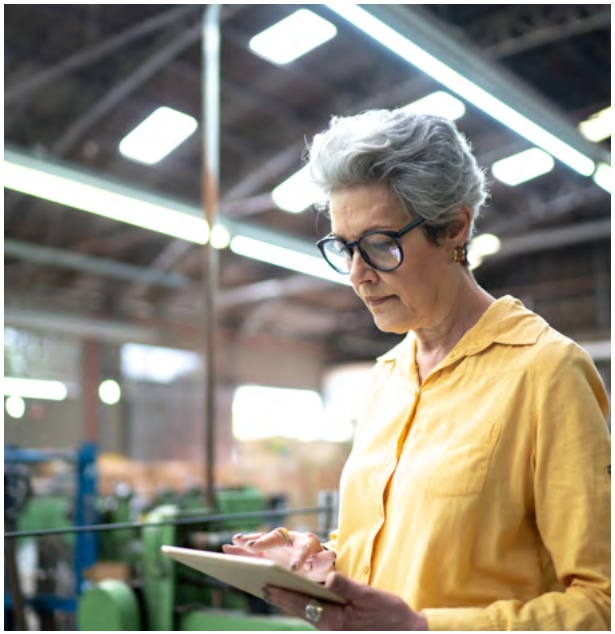
The workforce has been badly depleted too. Manufacturers expect to have lost almost a fifth of their workforce on average by the end of 2020 because of the pandemic. Again, the East Midlands is suffering most, with an average 28% of employees lost. The decline has not always been in proportion to overall headcount, with the smallest businesses reporting a 27% reduction in staff against a 17% reduction among the largest.

Confidence persists

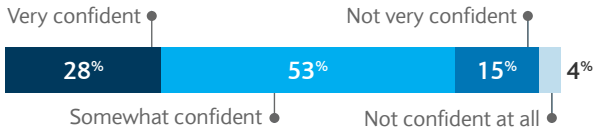
Against this backdrop, business sentiment remains strikingly upbeat. More than 80% of respondents expressed confidence about their prospects for 2021, with 28% very confident. This outstrips growth confidence for the current year, which was 69% overall, with 23% very confident.

The North East is particularly bullish about 2021, with 90% declaring confidence. Respondents in the South West and South East are feeling least confident, but still at relatively high levels of 69% and 71% respectively. Among the smallest companies of fewer than 50 staff, a notable 37% feel very confident.

It seems likely that the opportunities provided by D2C sales channels is one of the factors behind this optimism. The scale of this potential was identified in our 2019 report, Going Direct. And despite the hit to their operations this year, many manufacturers have managed to maintain or increase their D2C sales volumes.



Manufacturer confidence for 2021 growth



A third are selling direct at roughly the same levels as before the pandemic hit. A further quarter have seen D2C income fall. But 22% have increased their sales, including 40% of the cosmetics and skincare sector. Of the rising volume of D2C sales, some are business-to-business (B2B), but the majority (65%) are being despatched to domestic consumers.

Meanwhile the pandemic has prompted 13% to embark on D2C activity for the first time. Manufacturers working in London (28%) and the South East (22%) feature heavily among the recent converts, as do producers of sports clothes and equipment (27%). And 26% of businesses with 250 to 500 employees have adopted D2C recently.

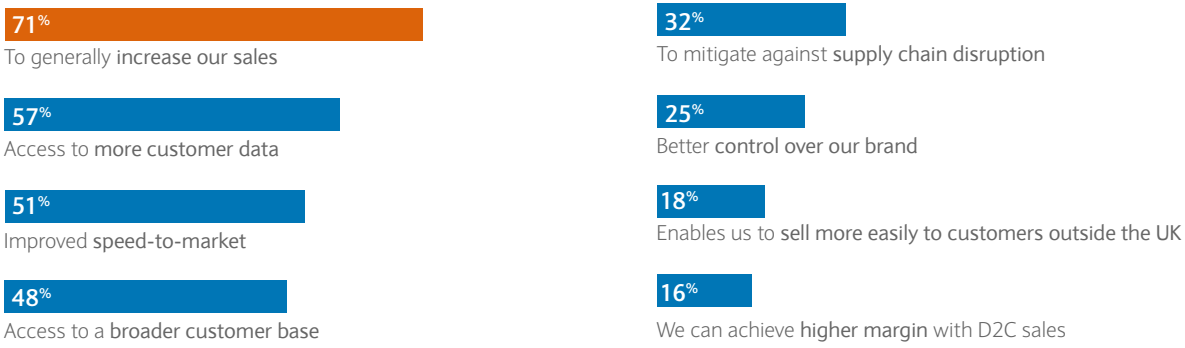
Partnerships still in play

The D2C option is generally being pursued in conjunction with existing retail channels, our findings suggest. A very small number of manufacturers (2.2%) sell only direct to customers; the others continue to work with retailers and wholesalers.

Only 11% of D2C manufacturers cited declining relationships with retailers and wholesalers as a motivating factor for establishing direct fulfilment capabilities.

Indeed, seven in 10 D2C manufacturers report that their relationship with their retail and wholesale partners remains as strong as ever. This rises to eight in 10 of the smallest businesses. The evidence strongly suggests that retail and wholesale can flourish alongside D2C channels and continue to work in partnership with manufacturers.

Motivations for D2C proposition



Reasons to go direct

For most D2C operators (71%), the chance to grow sales is the key driver for opening up this channel. Another common motivator, cited by 57%, is getting to know customers better by harnessing the power of data that is normally captured by retailers. Jean-Philippe Nier, UK head of commerce at Kraft Heinz, has professed himself "amazed" at the range of consumer data gathered by the brand's new D2C channel[16].

Manufacturers also like the enhanced control they can achieve through D2C sales, whether through improving their speed to market (51%), circumventing supply chain disruption (32%) or simply gaining better oversight of their brand (25%).

Additionally, 18% say going direct makes it easier for them to sell to overseas customers. However, the number fulfilling orders from abroad is far higher. The typical manufacturer makes 32% of its D2C sales overseas. The proportion is particularly high among businesses in Wales (42%) and those employing fewer than 50 people (39%).

Desirable returns

For many, adopting D2C models is certainly increasing sales. This year, manufacturers who run D2C operations expect to earn a third of their income through this channel. By 2023, they expect that total to rise to an average of 39% of sales. Two-thirds of those sales will be to customers' households, as opposed to other businesses.

There are some wide regional differences. Businesses in Yorkshire and the Humber, Wales and the South East each currently gain around 37% of sales from D2C, with businesses in London trailing the pack at 27%.

Firms in the West Midlands, whose proportion of D2C sales is currently around the national average, are confident of overtaking the field by 2023 to secure 45% of their sales from D2C.

In fact, our modelling suggests that the West Midlands, the North West and Yorkshire and the Humber make up a huge share of activity linked to D2C sales. Together, these three areas account for around £39.2bn in D2C sales, which is more than 40% of the national total.

Sector successes

Early in the first lockdown of the pandemic, Kraft Heinz launched its Heinz to Home website, enabling consumers to buy its canned products direct[17]. Around the same time, Nestlé began selling its brands to consumers through a new partnership with Deliveroo[18].

The food and drink sector is one of the outstanding D2C success stories. Our economic modelling suggests that sales through this channel could grow to £5.7bn by 2023, an increase of 27.5% compared with 2020 levels. Nestlé's chief executive Mark Schneider has called the pandemic a "breakthrough event" for the sector's ecommerce[19].

Our modelling indicates that food and drink now accounts for more than £20bn of D2C sales, a quarter of the UK manufacturing total. The sector also leads in employment linked to D2C, with an estimated 101,700 jobs.

While clothes are the items most ordered by consumers direct from the manufacturer, this channel currently accounts for only 32% of clothing firms' sales. However, over the next three years the sector expects that proportion to jump up to 40%.

Producers of jewellery and watches currently earn among the greatest proportion of their revenue through D2C sales (38%).

D2C as a proportion of sales, 2020

Jewellery and watches	38%
Cosmetics and skincare	35%
Electronics	34%
Food and drink	34%
Clothing	32%
Toys	32%
Furniture and homeware	31%
Sports clothing and equipment	30%

Funding patterns

Manufacturers are devoting much effort and expense to extending their D2C capabilities – the sector has invested an estimated £33.5bn. Most have ploughed in between £100,000 and £500,000; the average investment is £288,382.

The smallest companies are among the biggest investors. Firms with fewer than 50 staff have dedicated more than £340,000 on average to their D2C effort. Manufacturers in Wales (£379,000) and those in the furniture sector (£332,000) and food and drink (£314,000) are heavy investors.

Recruiting for change

Besides a general lack of fulfilment infrastructure, one of the biggest challenges faced by manufacturers is having enough staff (31%) or the right skills (33%) to go about serving customers directly. For a similar proportion, the need to build brand loyalty is a prerequisite for D2C sales.

Boosting the customer sales team is the most common investment made in support of D2C sales. Around 45% of manufacturers with a D2C proposition have recruited to these positions, while 33% have hired to logistics and fulfilment posts. A fifth have expanded their ecommerce sales teams, while 36% have employed new people in other parts of the business.

These recruitment efforts involve significant numbers, offsetting some of the jobs shed due to the pandemic. Those who have recruited boosted their workforce by an average of 22 people.

Overcoming the barriers

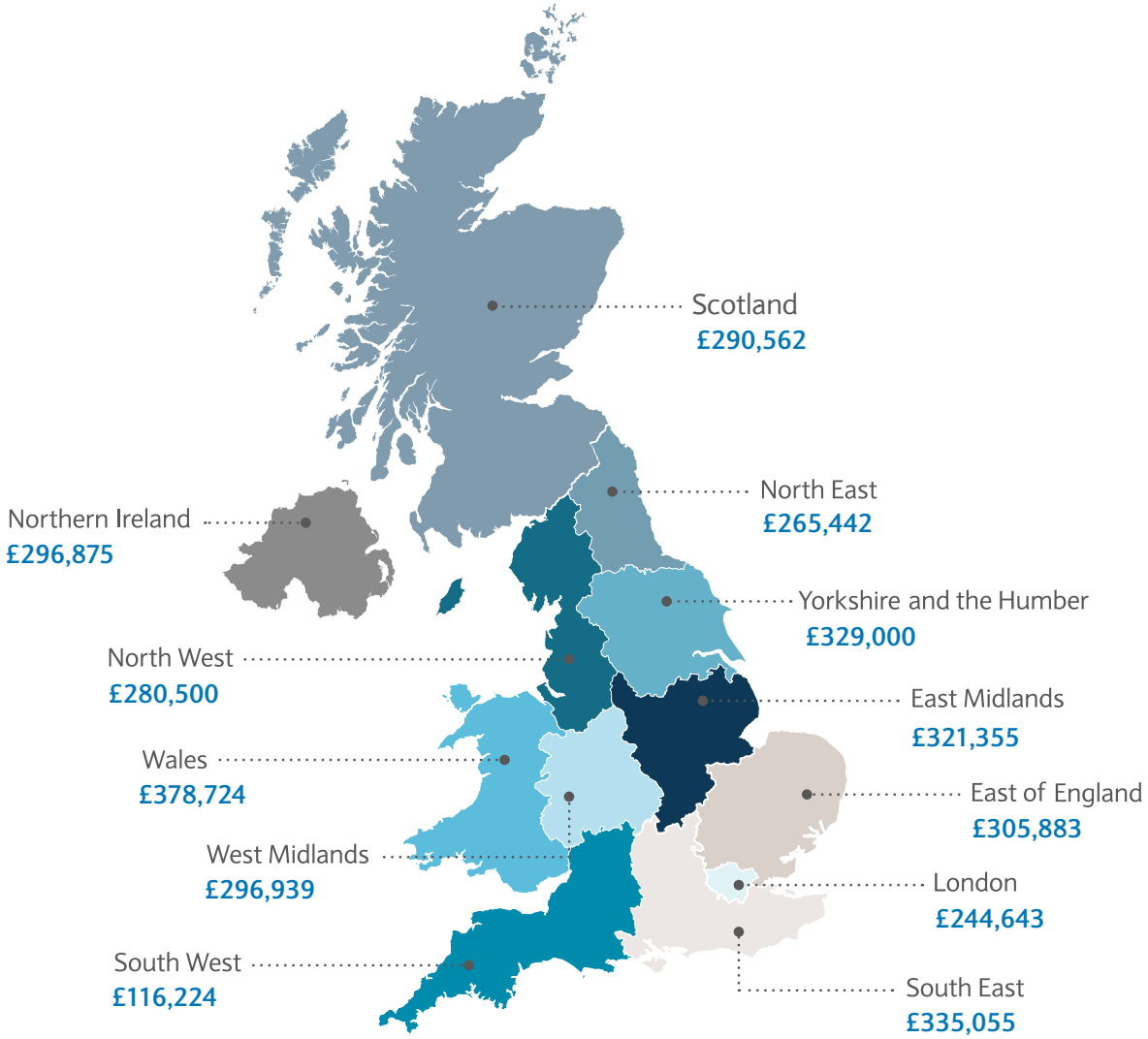
After increasing headcount, boosting marketing is the next most important element of D2C support: 27% have made this investment. A quarter of manufacturers have added new warehouse space, while almost as many have invested in technology and in extra training.

Website upgrades have been made by 48% of clothing producers and by 23% of D2C practitioners overall. Around a fifth say they have opened new office space.

Significant numbers are opting to bypass third-party solutions by starting to process returns and warranty claims in-house (19%), and by investing in their own delivery vehicles (17%).

Changes made to facilitate D2C

Investment in D2C by region of work



Harnessing the D2C habit

Direct sales to customers account for an expanding slice of manufacturing revenue, set to hit £120bn by 2023. By analysing customer preferences, manufacturers can claim a share of this prize.

By 2023, almost 110 million packages will be delivered annually in the UK through D2C channels. Built on the enduring shift in consumer buying patterns and facilitated by manufacturer and logistics investment, the growth of this model is set to ripple across the wider economy.

Modelling based on our research for this report indicates that D2C sales could grow from £96bn in 2020 to almost £120bn in three years' time, a rise of 24.6%. Food and drink would benefit most, growing D2C value by 27.5% to reach £26.5bn.

An additional 118,000 manufacturing jobs supported by D2C sales could be added to the 500,000 already directly linked to D2C work. These projections outstrip our predictions in last year's Going Direct report, underlining the accelerating effect of the pandemic on the D2C trend.

Estimated D2C package volumes

2020: **84.9m** 2023: **109.5m** Growth

The heartlands profit

The lion's share of this extra wealth is predicted to benefit the UK's industrial heartlands. Between them, for example, it is anticipated that the regions of the West Midlands and the North West will contribute 42% of the gross value added (GVA) boost to the economy, and 37% of the additional employment over the next three years.

West Midlands manufacturers are expected to grow D2C sales by £6bn to surpass £20bn in 2023. In the process, the region would add 26,200 new jobs.

> "West Midlands manufacturers are expected to grow D2C sales by £6bn to surpass £20bn in 2023."

In the North West, D2C sales are expected to grow by 30% to £18.3bn. The region's jobs boost is projected to be 18,000.

Almost every part of the UK could benefit apart from the South West. Here D2C sales are expected to decline by 4.7% over 2020 levels.

The East of England looks set to gain more than 15,100 D2C jobs, Scotland 12,800, and Yorkshire and the Humber 12,000. London would achieve the greatest percentage increase in sales (45%) though from a relatively low base, lifting it to £3.8bn.

Potential future impact of D2C

Predicted **2023** sales underpinned by D2C (£m)	Extra D2C sales **2023 vs 2020**	Extra D2C sales **2023 vs 2020** (%)
North East		
7,128	942	15.2%
North West		
18,347	4,294	30.6%
Yorkshire & the Humber		
12,885	1,937	17.7%
East Midlands		
9,456	451	5.0%
West Midlands		
20,223	6,055	42.7%
East of England		
11,404	3,129	37.8%
London		
3,826	1,197	45.5%
South East		
10,039	1,598	18.9%
South West		
5,377	-1,117	-17.2%
Wales		
7,203	1,306	22.2%
Scotland		
9,747	2,525	35.0%
Northern Ireland		
3,931	1,277	48.1%
UK Totals		
119,566	**23,596**	**24.6%**

Food leads the way

Based on current intentions, food and drink would be the biggest winner both in growth terms and overall sales, adding an extra £5.7bn value over the next three years and employing an additional 27,300 people.

But there could be significant gains across other sectors too. D2C value in furniture and homeware is projected to soar by 59%, and its workforce by 8,700.

Over the next three years, electronics firms plan to increase D2C sales from 34% to 39% on average. This would push D2C sales for electronics products up to £8.9bn. The sector will add 7,700 jobs to support this proposition.

Sports clothing and equipment intend to build D2C sales by 53%, and general clothing by 40%. For toys and cosmetics, the growth will be 17% and 15% respectively.

In terms of volume of parcel volumes, these figures translate into 12.5 million food and drink packages being delivered in 2023, plus 7.6 million electronics items, 9.2 million parcels of clothing and 4.1 million furniture and homeware deliveries.

> "Based on current intentions, food and drink would be the biggest winner both in growth terms and overall sales. But there could be significant gains across other sectors too."

Proportion of consumers who plan to buy more D2C goods

Clothes	30%
Electronics	24%
Food and drink	20%
Furniture and homeware	18%
Cosmetics and skincare	17%
Toys	11%
Sports equipment	10%
Jewellery and watches	10%

Objects of desire

The evidence of changing consumer habits may be useful for manufacturers. The strong showing of food and drink, for example, is built on existing customer habits but also their intentions: a fifth of consumers told us they plan to buy more food and drink products direct from producers.

However, future intentions are even stronger in some other sectors. For example, clothes are already the most popular D2C purchase, and three in 10 D2C purchasers plan to buy more clothing in this way.

Similarly, the proportion of D2C electronics sales looks set to rise, with almost a third of men declaring their intention to buy more of these products direct in future.

A fifth of consumers plan to buy more white goods direct, while 18% will order more furniture and homeware, and 24% of women intend to buy more D2C cosmetics.

Delivering for the planet

Manufacturers and logistics providers are both keen to 'build back better' after the pandemic using sustainable practices. Our research suggests that sustainability will be a strong feature of the swift growth of D2C channels, with environmental issues clearly part of the equation.

This makes sound business sense: Barclays' recent report on sustainability for the retail sector found consumers increasingly scrutinising providers' environmental performance, with 23% saying sustainable delivery options would influence their buying decisions.

More than a quarter of manufacturers are already using electric vehicles to deliver parcels, or as part of their overall fleet. This is just one element of their overall sustainability plans, which also commonly include using renewable energy, reducing energy consumption, and staff training on environmental awareness.

> "More than a quarter of manufacturers are already using electric vehicles to deliver parcels, or as part of their overall fleet."

Electric-powered delivery is a particular priority for businesses operating in Northern Ireland (37%), the South West and Wales (both 35%). Around four in 10 clothing and toy manufacturers are investing in this feature.

Combined with the established and emerging efforts by two-thirds of logistics partners outlined earlier, these initiatives will help ensure that D2C deliveries are developed in sympathy with local and national emissions reduction targets.

Logistics providers' green solutions

A force for good

As a leading manufacturer of dried fruits, nuts and seeds snacks, Whitworths is a prime example of a business that saw its main routes to consumers greatly affected by Covid-19 and the lockdown restrictions.

While Whitworths' overall sales figures have actually been positively impacted by the pandemic, Commercial Director Phil Gowland explains that there has been a big shift in channel activity – resulting in a growing reliance on D2C sales and other online channels.

"As we are heavily weighted towards grocery retail, we've overtraded in that area during the pandemic – partly because we produce healthier snacks and, if anything, the pandemic has increased many people's focus on healthy eating. Grocery sales via supermarkets' online channels are around double what they were before Covid-19 – running at about 15% of total grocery sales.

"However, we've seen other areas of the business and other channels affected quite drastically. Our high street channels have been negatively impacted to a considerable degree, and certain areas of our portfolio have been affected too. A number of our products are aimed at children's and adult lunchboxes, so during that first prolonged period of lockdown we saw a considerable reduction in demand."

In response to the reduction in high street activity, Whitworths has made a concerted effort to increase D2C sales. Having launched a "fully integrated and fully functioning" ecommerce platform just prior to the pandemic, Phil says it has been "highly beneficial" in enabling customers to order and receive goods direct to their homes.

And he says the D2C platform has delivered several additional business benefits also.

> "Our D2C platform has enabled us to get much closer to our customers with more relevant content and more tailored solutions."

"It's helped us to get much closer to our customers with more relevant content and more tailored goods," he says. "Towards the end of lockdown, for example, we launched back-to-school and back to work snacking sets through the D2C channel. D2C has also enabled us to gain insights from customers around their snacking habits during lockdown, so we could adapt our product offering accordingly, adding more healthy options."

The channel has also been used to convert Whitworths' marketing activities into sales during the pandemic, Phil adds: "A lot of our marketing activity comes from social media influencers celebrating the quality of our goods and sharing them with others. Now we have a direct sales platform, they can include a link or add a simple 'swipe up' to their posts and stories, making conversion to purchase an immediate and simple process. That's enabling us to reach new customers."

The direct sales platform is helping the business reach new customers in other ways also. Customers looking to make small bulk orders, such as cafés, schools or smaller retail outlets, can do so through the platform, speeding up the process and removing some supplier costs.

Sustainable impact

The shift in consumer activity, moving from the high street and traditional supermarkets to online and direct sales, creates the potential for increased environmental impact – something Phil says Whitworths is acutely aware of.

"Our brand proposition, 'Good by nature', places sustainability high on the agenda," he explains. "Our products are healthier and derived from nature – and we want to be good to those natural sources we rely on.

"There are two core elements to that. One is how we source and use the raw materials that make our products – and we work hard to ensure they are produced in a very sustainable and ethical manner.

"The second element is packaging, which is on consumers' radars far more at the moment," he continues "in response, we've developed a packaging policy laying out our commitments, particularly as we see an increase in products being packaged and distributed directly."

> "I think consumer habits shifted a great deal during the pandemic and, while some customers will of course revert to how they did things before, many will stick with the new ways of doing things."

That policy is currently being rolled out to the company's core range of products and includes reducing the use of plastics and transitioning as quickly as possible to using only recyclable products.

Moving forward, Phil is confident that more effective ecommerce platforms, consumer demand for direct sales, and companies' willingness to offset any environmental impact will see D2C activity increase further.

Strategies for success

Developing D2C capability can provide a material additional revenue stream and ensure your business remains competitive against the might of the major online retailers. But consumer expectations have been raised by slick retail operations

Explore the opportunity

Reappraise investment decisions to take advantage of the market shift towards D2C. Explore how you could benefit from the extra value consumers attach to direct buying relationships with manufacturers, as revealed in our survey.

Evaluate your position

Carry out a rigorous analysis of the costs and opportunities and the returns you expect from D2C. Consider not just the cost of upskilling or recruitment but also a fulfilment system that will meet consumers' high expectations. Much of retailers' time is taken up by 'where is my order' calls. A technology platform that provides full visibility over orders is key.

Connect with customers

If you are establishing D2C services, make the most of this direct contact with customers. Invest in professional, high-impact and sustainable packaging, with easy return options. Use it to establish your brand, communicate your values and perhaps provide offers on future purchases. And harness your customers' data to drive repeat sales and tailor your offering.

Take returns seriously

Don't underestimate the scale of returns, and the time and space required to handle them. Depending on likely volumes, outsourcing this complex process may be the better option. If you decide to handle this in-house, publish a clear returns policy. Set a firm time limit, but make it as convenient as possible for customers to return and exchange products, using pre-printed return labels for example. A smooth returns process encourages future custom.

Stay one step ahead of demand

Ensure your system is equipped to alert you to changes in demand. Invest in a platform that can accurately forecast supply, so you can keep producing the most popular products, respond to spikes in demand and keep customers satisfied.

Focus on customer need

Consider the full range of shoppers' needs. Most manufacturers are unlikely to be able to offer the extensive menu of options offered by the biggest retailers, such as next-day delivery, delivery on a specific day and click and collect. However, consider how you could cater for customers who may be prepared to pay extra for faster delivery, for example, and think about offering free delivery for those who spend over a certain amount.

Choose partners carefully

If you are outsourcing, remember that delivery performance often reflects on the manufacturer. Research the reputation and customer feedback of third-party logistics operators. Scope out the potential for discounted rates for heavier volumes. Consider what level of parcel-tracking capabilities they offer, which can result in better visibility for customers.

Anticipate pain points

For logistics providers, consider how you could make your service more attractive to new D2C clients. Look at the key challenges experienced by manufacturers and think about how you could help overcome these.

Our solutions

Barclays is committed to supporting businesses like yours across the manufacturing, logistics and transport sectors. From foreign exchange (FX) to green finance, treasury to cyber security, we offer the products and solutions you need to support your growth and investment in new opportunities, while continuing to service your current needs.

Sustainability
Barclays is dedicated to supporting manufacturing, logistics and transport businesses in meeting their sustainable and environmental objectives, providing flexible funding solutions for their green projects, assets, activities, and trading needs.

Foreign exchange
Barclays has helped corporate clients manage exposure to currency and interest rate movements for decades. From balance-sheet analysis to hedging solutions, we can help you assess and address foreign exchange (FX) and rates risks across your business.

Trade loans
Barclays trade loans and green trade loans offer a flexible way to finance purchases while you are waiting for payment for goods. We can structure loans to suit your trading cycle and both regular and one-off financing needs.

Online banking
Flexible and practical online banking for your business, using the most advanced security systems to keep your details and transactions safe.

Digital banking
Manage treasury, trade finance, borrowing and FX on a single, secure digital banking platform - giving you exceptional control and visibility across your business.

Digital financing
From working capital to cashflow, refinancing to funding for growth, digital financing solutions to support you drive your business forward.

About the author

For further information and to find out how our sector specialist team can help your business respond to the issues outlined in this report, please contact Lee Collinson.

Lee Collinson
Head of Manufacturing,
Transport and Logistics,
Barclays Corporate Banking
lee.m.collinson@barclays.com

Lee joined Barclays in 1988 where he has gained considerable experience as a Managing Director leading a number of client-facing teams in Corporate and Business Banking across the North of England.

He has also worked in a senior capacity in a number of roles spanning business development, debt finance, project delivery and credit risk.

Lee was appointed National Head of Manufacturing, Transport and Logistics for Barclays Corporate Banking in April 2019 where he leads a team of dedicated industry specialist bankers who provide innovate banking solutions for our clients.

He is responsible for strategy, portfolio and performance for the sector in the UK where his vision is to make Barclays the 'go-to bank' for businesses across the manufacturing, transport and logistics space.

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