



# Chain reaction

Retail and wholesale supply chains  
adapt to a climate of change



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This report is based on YouGov research commissioned by Barclays Corporate Banking. The fieldwork was conducted between 18 August and 7 September 2020, using a sample of 508 managers working in wholesale and retail businesses in the UK. This included 110 wholesale managers and 398 retail managers.

# Short-term shocks accelerate the shift to new business models

Research by Barclays Corporate Banking reveals that UK wholesale and retail businesses intend to use their immediate responses to Covid-19 disruption to accelerate structural change. Whether that's increasing existing investment in ecommerce and direct-to-consumer sales or creating less complex and more sustainable supply chains, firms are ensuring that short-term disruption creates longer-term opportunities.

- Three-quarters of respondents say Covid-19 has delayed their supply chain – 44% say their business was well prepared for the shocks of such an event, although nearly one in five admits they were not
- Lockdown and other restrictions have driven a step change in online purchasing, which is likely to remain – ecommerce is the biggest overall investment focus for retail and wholesale businesses over the next two years, with nearly half (47%) of firms planning to prioritise investment in ecommerce technology
- More than half (52%) of wholesalers have responded to Covid-19 by either launching or increasing direct-to-consumer (D2C) sales – with many firms investing heavily in ecommerce solutions to facilitate this, the change is likely to become permanent
- With changing and new distribution channels, it is no surprise that investing in transport and logistics is an investment priority for 49% of wholesalers, and 35% of retailers. In addition, the pandemic has exposed the fragility of complex global supply chains and emphasised the potential value of localisation over upfront cost savings
- Over half (56%) of wholesalers say they are concerned with the transparency of their supply chain, along with 44% of retailers – firms are rightly concerned about how poor supplier practices could impact their own reputation, however, only 16% are planning to make investing in standardised or improved supplier labour a key focus
- Sustainability remains on the agenda, with 35% of firms overall intending to prioritise reducing their environmental impact over the next two years – however, with the rise of the socially conscious customer, other aspects of environmental, social and governance (ESG) criteria need to be given similar importance
- While investment in customer-facing technology is high on the agenda, technology at other stages of the supply chain is yet to come fully into its own – only one quarter of firms plan to focus investment on inventory tech over the next two years.



# Relinking the chain

In what has been an unprecedented and challenging period for the industry, retailers and wholesalers have responded quickly to create resilient supply chains that respond to customer needs, says Karen Johnson, Head of Retail and Wholesale, Barclays Corporate Banking.

In recent years, evolving shopping habits and the expansion of online commerce have caused significant challenges for traditional retail and wholesale businesses. In 2019, these pressures combined with the slowest spending growth in a decade (partly due to economic uncertainty), causing 9,169 stores to close with the loss of 85,000 jobs<sup>1</sup>. Already in the first half of 2020, 11,120 outlets have closed<sup>2</sup>.

Then Covid-19 struck.

## Supply chain disruption: fragility laid bare

The immediate effect of the pandemic was to starkly expose the underlying fragility of global supply chains.

Prior to Covid-19, an overriding focus on cost and efficiency often resulted in supply chains that were long and complex for both retailers and wholesalers. According to our research, 29% of businesses said products were available for sale less than seven days after placing an order, with the average being five weeks. As well as the cost and efficiency gains for businesses, that speed of service met growing customer expectations for availability and turnaround.



However, as the pandemic unfolded 77% of firms experienced delays, with the average delay of five weeks representing a doubling of lead times. Two-fifths of wholesale managers anticipate goods will continue to be difficult to supply going forward, while nearly one third of retailers expect demand to cause shortages. Overall, businesses anticipate it will be six to eight months before product supply, stock levels and consumer demand return to normal.

In response to this challenging environment, businesses have increasingly looked to strengthen supplier relationships, simplify logistics and improve the transparency of their supply chain, with many looking at re-shoring and near-shoring to address this.

#### Market structural change

Facing the loss of their usual routes to market, firms have demonstrated remarkable agility in pivoting to new business models.

Consumer demand to purchase goods online has surged during 2020. According to the Office for National Statistics, internet sales as a percentage of retail sales jumped from around 20.1% in February to 27.5% in September<sup>3</sup>, hitting a peak of 32.8% in May 2020<sup>4</sup>. Recent figures for September 2020 show that across all retail categories, online sales saw year on year growth of 53%<sup>5</sup>. Although unlikely to remain at this level once business returns to a more normal state, Paul Martin, Partner, UK Head of Retail at KPMG, recently stated: “While the overall online penetration rate has declined in recent months, the significant acceleration of the channel is here to stay”<sup>6</sup>.

Our own research indicates digital retail may have reached a tipping point, with ecommerce representing the biggest investment priority for retailers over the next two years. At the budget end of the market, meanwhile click-and-collect services are countering issues around the profitability of online sales and delivery.

Perhaps even more remarkable is the boost Covid-19 has given to the direct-to-consumer (D2C) model.

Previously, this structural trend was largely characterised by brands such as Simply Cook with business models entirely built around D2C. But with the closure of shops and restaurants causing a collapse in demand, enterprising wholesalers quickly pivoted to a D2C model. Some showed astonishing agility, launching consumer-facing operations within days of lockdown. Our research shows this trend is widespread, with more than half of wholesalers either launching or increasing direct sales to consumers during the pandemic.

#### Embracing sustainability in its widest sense

Socially conscious consumers increasingly demand evidence of the responsible practices of the brands they buy from.

“Socially conscious consumers increasingly demand evidence of the responsible practices of the brands they buy from.”

Last year, our [retail and wholesale report](#) highlighted the steps businesses were taking towards more sustainable deliveries. Our new research shows 35% of businesses plan to keep responsibility on the agenda by prioritising investment in reducing their environmental impact over the next two years. However, while more than half of wholesalers (and 44% of retailers) express concern about transparency and standards within their supply chain, only 16% of businesses see addressing labour standards as an investment priority in the next two years.

Companies need to embrace a far wider definition of sustainability which includes social and governance issues throughout their supply chain. Leading firms will treat this not only as a moral and business obligation but as an opportunity to gain greater control and thereby increase overall supply chain resilience.



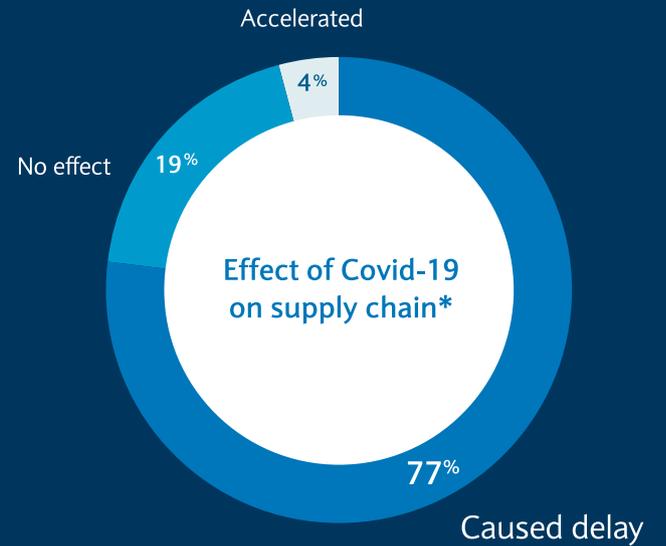
**Karen Johnson**

Head of Retail and Wholesale  
Barclays Corporate Banking

Section 1

# Delay, disruption and demand: the seismic impact of Covid-19

The impact of the pandemic on supply chains was sudden, significant and widespread, with more than three-quarters of businesses experiencing delays that on average doubled their lead times. Few expect these issues to be resolved in the short term.



\*Across retail and wholesale

## Average (mean) length of supply chain



\*For retailers and wholesalers experiencing a delay

## How lockdown hit supply chains

Rising customer expectations around product availability and the drive for efficiency that just-in-time supply chains represented (in terms of reduced inventory levels), saw the average length of supply chains fall dramatically in recent years. Just over 25% of those surveyed recorded supply chains of under seven days prior to Covid-19, and some 56% were able to rely on products being available for sale within four weeks of placing an order.

As companies have sought to improve margins by sourcing products at reduced cost from suppliers around the world, and supply chains have grown more complex, so too has fragility increased. The stark results of this fragility in the face of the pandemic, are the supply chain delays seen by more than three-quarters of respondents, with the average length of that delay around five weeks for retail and six for wholesale – in many cases representing a doubling of lead times.

The impact of that on meeting customer demand and expectations was significant, with product shortages the most obvious. However, the general uncertainty and volatility in demand that this initial shortage created, together with the departure of 'normal' customer behaviour also saw more than half of respondents left with stock they were unable to sell.

“The average length of supply chain delay is around five weeks for retail and six for wholesale – in many cases representing a doubling of lead times.”

Looking ahead, 41% of retailers and wholesalers anticipate that certain goods or services might be more difficult to supply, with a return to business as usual not expected for between six and eight months on average. With the survey conducted between August and September 2020, that pushes the expectation of some normality returning to between January and March 2021.



# Supply and demand change

Disparity between the number of wholesalers that saw an overall decrease in demand compared with retailers reflects the fact that many wholesalers supply the hospitality and leisure sector. Firms were therefore hugely affected by the closure of restaurants, bars and leisure facilities, as well as the temporary shutdown of non-essential physical retail. In response, many wholesalers turned to supplying more locally, while there was a significant shift to a direct to consumer model, [see page 13](#).

“44% said increased demand resulted in changes to the range of products they supply.”

Among those businesses that have seen an increase in orders during the pandemic, nearly three-quarters (72%) reported product shortages as a result. This will come as no surprise to anyone who witnessed empty supermarket shelves or tried to buy something as mundane as fence paint from a DIY store in the early stages of the pandemic.

Meanwhile, 44% said increased demand resulted in changes to the range of products they supply.

Hand sanitiser, masks and painkillers are obvious examples of products for which demand surged, with others including cycling and home fitness equipment, craft kits and even plant seeds.

Of firms that saw a decrease in orders, 59% were left with stock they were unable to sell. This resulted in significant wastage, with one third (33%) of wholesalers forced to dispose of perishable unsold stock (the same problem affected 14% of retailers). As a one-off event this is bad enough, but in the face of ongoing uncertainty many wholesalers became nervous about the chances of it happening again. Perhaps as a result, 67% reduced their supply.

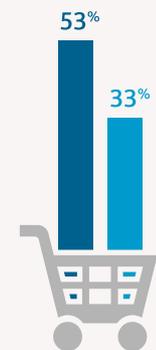
However, despite short-term issues, many wholesalers and retailers showed remarkable agility in adapting to changes in demand. This was true both in terms of sourcing new suppliers for items they would usually stock for which demand had increased and in the diversification into new product lines. This agility has demonstrated the resilience of retailers and wholesalers and the changes they have made to their business models should benefit them during the current lockdown they now find themselves in and with the possibility of more to come.

How, if at all, has demand for your product or service changed during Covid-19?

It has increased



It has decreased

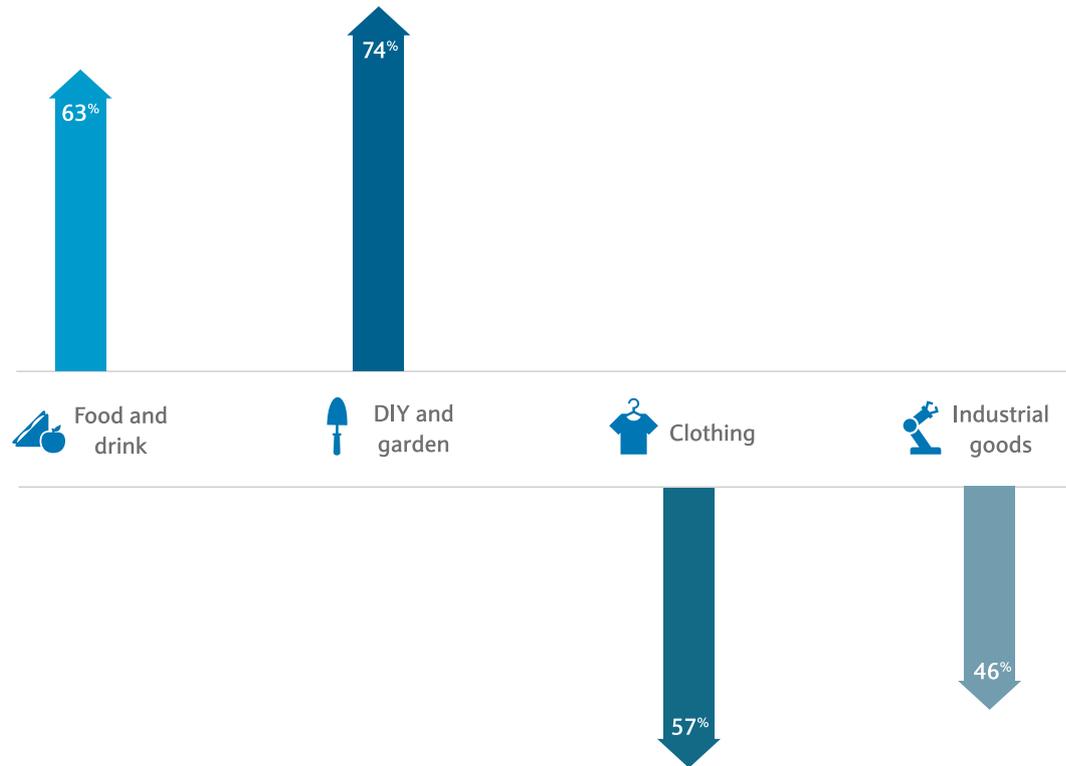


■ Wholesale ■ Retail



“Despite short-term issues many wholesalers and retailers showed remarkable agility in adapting to changes in demand.”

Percentage of respondents reporting changes to demand during Covid-19



Changes in demand for products and services reflected the changes to people’s lifestyles as a result of lockdown. The closure of hospitality venues increased the need for people to eat/drink at home, driving up demand for food and drink, for example, while the closure of all non-essential businesses and work from home orders reduced demand for industrial goods.

# How prepared were retailers and wholesalers?

Even the most comprehensive business continuity planning will have been tested by the effects of the coronavirus pandemic. But while the pandemic itself was unforeseen, only 5% felt their business was not at all prepared to manage a major occurrence.

While preparations for changes post-Brexit helped businesses, the sudden and unexpected nature of the pandemic still caught many firms off guard. What's more, ongoing uncertainty has left some businesses struggling to recover even months later.

## How well-prepared was your business to manage the shock of a major occurrence such as Covid-19?



## Has Covid-19 made your business more or less prepared for potential Brexit disruption?



With the Brexit transition period due to end on 31 December 2020, it's encouraging to see that almost half of businesses feel more prepared for potential disruption as a result of the pandemic. For those that feel less prepared, many pointed to the challenge of trying to keep up with Covid-19-driven changes. For others, either the business or its supply chain is still trying to recover.

Nearly two-fifths said Brexit preparations helped their business to deal with Covid-19, but more than 25% were not ready for Covid-19 despite their contingency plans. A further 28% said they did not have plans in place and 7% felt that putting strategies in place left no capacity or resource for addressing Covid-19.

As a result of the pandemic offering an opportunity to stress test their operational resilience and identify gaps, firms have taken a range of measures to prepare for the end of the Brexit transition process. Nearly one third have spread their risk by diversifying their supply chain, while a similar proportion have made changes to transport and logistics in attempt to reduce risk.

## What changes have you made to prepare for Brexit?



## Did your Brexit preparations help with dealing with Covid-19?

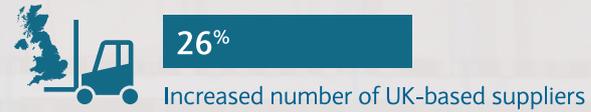


## Section 2

# Turning risk into opportunity

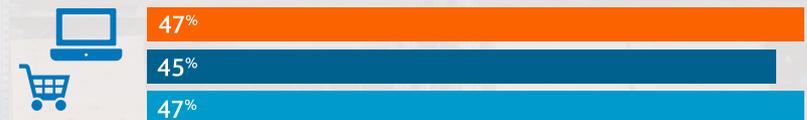
Covid-19 has accelerated many of the structural trends already in evidence over the past few years. At the same time, businesses anticipate increased costs, greater variation in demand and ongoing disruption to transport and logistics. To address this, investing in ecommerce and transport and logistics, as well as diversifying supply chains, is a key focus.

## Long-term changes to supply chain as a result of Covid-19

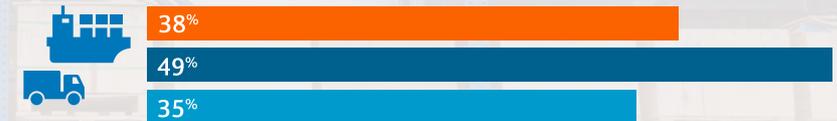


## Investment priorities over the next two years:

### Ecommerce



### Logistics & Transport



### Reducing environmental impact



- Total
- Wholesale
- Retail

# Retail: the leap to digital

For many businesses the pandemic has forced a reassessment of strategy. Changes that had been planned for the future have been implemented more quickly, both to increase the transparency and resilience of supply chains and to meet changing customer needs and expectations.

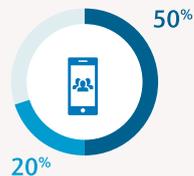
Unsurprisingly given the circumstances, physical retail businesses have expanded or developed their online retail offerings: in the short term half of retailers have increased their reliance on both ecommerce and social media outreach. However, our research indicates this isn't just a temporary trend: a further 17% are planning to increase their online offering in the next 12 months, while ecommerce represents the single biggest investment focus for retail businesses over the next two years. The signs are that online shopping may have reached something of a tipping point, despite resistance from some customer segments – retailers ploughing resources into their digital offering will be keen to see a return on their investment, so are likely to continue to push online sales in the future.

Ecommerce platforms may well be tested as we approach the key Christmas shopping period facing a second lockdown, with product availability, fulfilment and channel resilience required to maximise sales potential.

## Key changes to retail customer service as a result of Covid-19



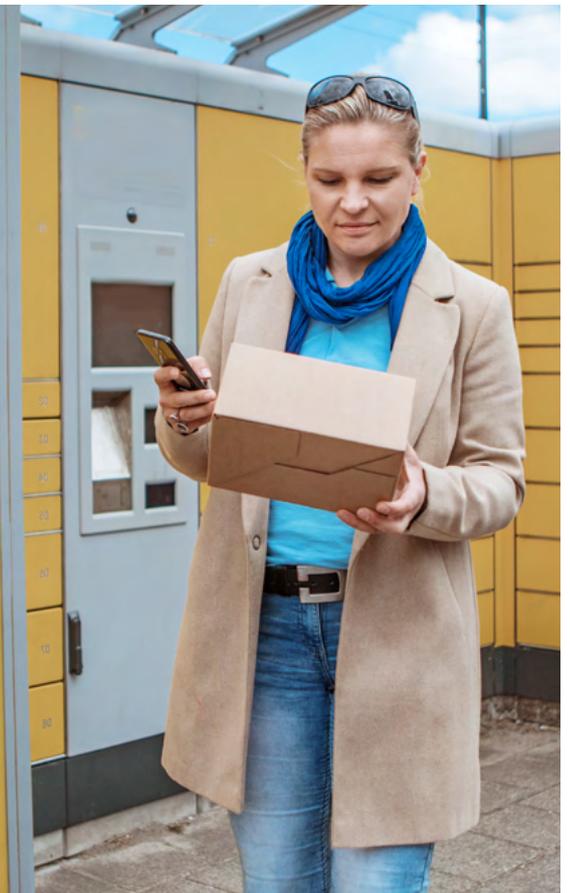
50% have increased their reliance on ecommerce. 17% are planning to do so in the next 12 months.



50% have increased their use of social media. 20% are planning to do so in the next 12 months.



31% have reduced their physical footprint.



## Wholesale: the shift to D2C

In wholesale, a significant consequence of Covid-19 has been a dramatic acceleration of the trend towards a direct-to-consumer (D2C) model. Previously exemplified by startup brands such as Made.com and Birchbox, D2C is being taken up by established wholesale firms seeking an alternative route to market either proactively or through necessity. A notable example is the B2B food delivery service Brakes, which worked with a cloud computing firm to convert from a B2B to a D2C offering in the space of seven days during lockdown<sup>7</sup>. In our survey, more than half of wholesalers had launched a D2C proposition, while a further 18% planned to take the plunge within the next 12 months.



# Localisation of supply chains

The length and complexity of supply chains has caused increasing concern over recent years. However, businesses have been slow to act, largely because localising supply chains tends to increase manufacturing costs (reduced cost being a key reason for the growth of long-distance supply chains in the first place). The global pandemic has thrown this issue into sharp relief, with widespread interruption to supplies caused by manufacturing shutdowns, logistics issues and the redistribution of supplies to meet local needs.

In response, we're seeing increased interest from clients in re-shoring and near-shoring, trends, which are reflected in the statistics: one quarter of businesses have already increased the proportion of their suppliers located in the UK, while nearly one fifth have increased their supplier base in Europe. This has the potential to bring several material benefits, from reducing carbon footprint to greater ease of ensuring supplier standards and product quality.

For wholesalers in particular, diversifying into new international markets has helped spread risk and, with global markets reopening at different intervals, offers greater opportunity.



“We’re seeing a lot of interest from clients in re-shoring and near-shoring, trends which are reflected in the statistics.”



26% of businesses have increased their proportion of UK-based suppliers

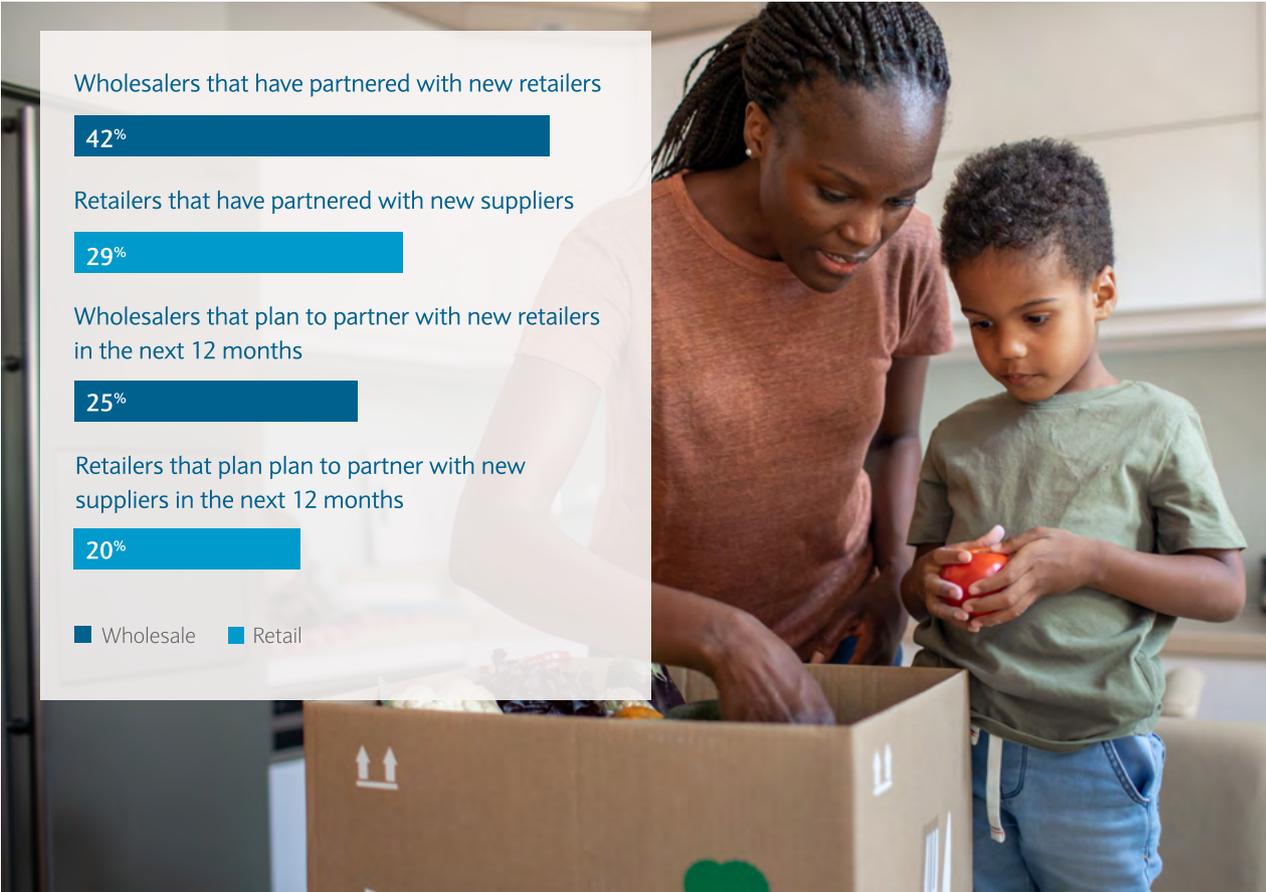


28% of wholesalers are working within more international markets. 22% are planning to do so in the next 12 months.

# Partnering with other businesses

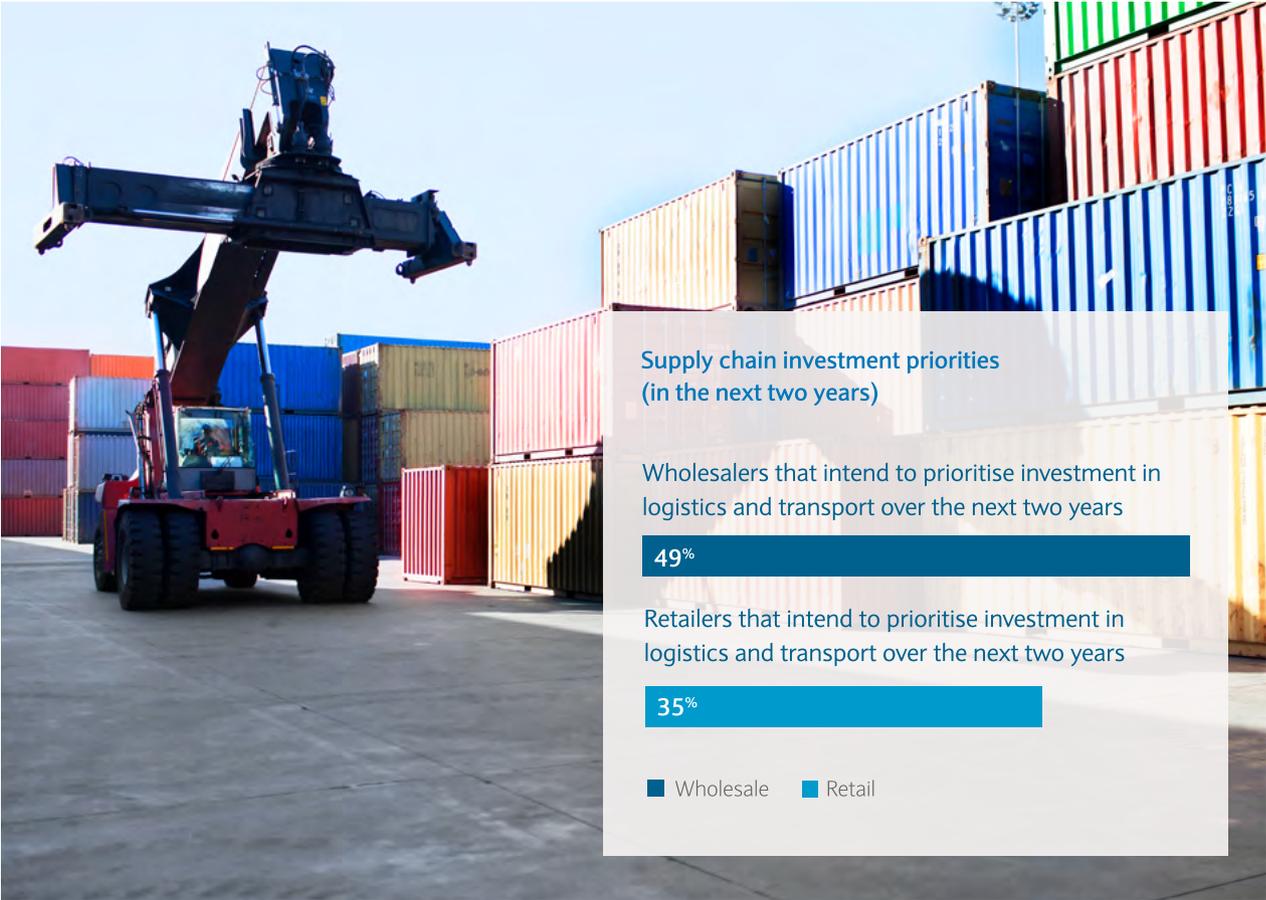
Another growing trend which has been given a boost by the pandemic is the move towards partnerships and collaboration. For example, in the grocery sector Morrisons partnered with both Deliveroo and Amazon for online fulfilment. As a result, it enjoyed the strongest performance among the Big Four supermarkets in terms of market share growth and sales increase in the 12 week period to August 9 2020<sup>8</sup>. Meanwhile, electricals retailer AO opened its first ever in-store experience at Tesco Extra in Middleton<sup>9</sup> and Asda has partnered with toy specialist, The Entertainer, to offer branded concessions, as well as its exclusive range of Addo toys, in five stores<sup>10</sup>.

In our survey, partnerships were particularly popular for wholesalers. For retailers the figures were lower, but still nearly half had either already partnered with other businesses or were planning to do so within the next year.



# Supply chain integration

With around one quarter of businesses (some 22% of wholesalers and 28% of retailers) anticipating that high demand for delivery services and logistics will lead to supply chain delays, it's little wonder that businesses are prioritising investment to improve responsiveness and resilience. Taking control of transport and logistics is a good example of businesses removing reliance on outside forces, reducing costs pushed higher by increased demand and ensuring security of supply.



# Technology and automation

Our research showed that nearly two-thirds of wholesalers and 58% of retailers have felt a greater need to upgrade technology since the pandemic started. For wholesale firms the second most popular reason was to better reach clients online, while for retail businesses it was addressing changing customer demand. Adapting to remote working and enabling greater flexibility were also important considerations for more than half of respondents, while cost savings were also a popular motivating factor.

## Growth in technology upgrade investment



59% of respondents felt a greater need to upgrade technology

Efficiency improvements were a key driver of the decision to upgrade technology. However, while investment in technology at the front end is clearly in evidence, our research suggests that firms' commitment to technology within the supply chain may not be the top priority in the next two years.

Despite the potential for leveraging data to improve visibility and maximise efficiency in terms of demand, inventory and supply, only one quarter of firms planned to treat inventory technology as a main investment priority during this period, while fewer (19%) planned to prioritise artificial intelligence (AI) and automation.

This may, however, be because some firms have already made long-term changes to make their business more resilient following the onset of the pandemic. More than one third of wholesalers (36%) and just over one quarter of retailers (26%) have taken steps to automate as many services as possible, for example, while 25% overall have increased their use of technology to track logistics and fulfil orders.

Compatibility with supply chain partners' technological systems is another factor that may be hindering investment in supply chain technology, but once more visible technology needs have been addressed, investment in the digital and analytics backbone will ensure transparency and efficiency within the supply chain itself.

## Reasons for upgrading

 Improve efficiency

71%

 Enable remote working

53%

 Provides greater flexibility

52%

 To meet customer demand

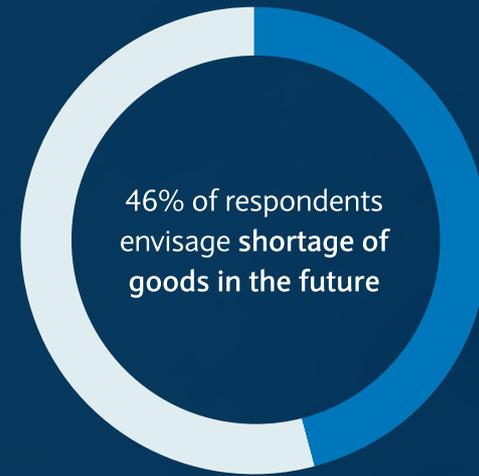
52%

# Sustainability in focus

Given the potential for both Covid-19 and the end of the Brexit transition period to present ongoing supply issues, the short-term sustainability of their supply chains needs to be a key focus for businesses. In the longer term, the rise of the socially conscious consumer means that broader issues of sustainability and transparency will remain high on the agenda.

While supply and demand will vary depending on sector and distribution of suppliers, almost half of businesses anticipate supply chain risk in the near term. The timing of the end of the Brexit transition period and the resurgence of the pandemic, for example, could create added pressure for those businesses where seasonality matters – carrying stock to meet short-term Christmas demand (and predicting what that may be) could compromise general inventory levels to reduce the impact of disruption following 31 December.

Increased health and safety requirements to meet Covid-secure working standards and growing customer price sensitivity in the face of economic downturn are also encouraging businesses to review operational efficiency and robustness. Over one quarter of businesses have increased automation or their reliance on technology for fulfilment and logistics as they strive to enhance resilience post pandemic.



## Top reasons for expected shortages:

Covid second wave

61%

Supply issues relating to potential trade deal disruptions

53%

Order fulfilment issues due to potential trade deal disruptions

52%



# Building more responsible businesses

Looking further ahead, businesses are also adapting to meet the growing demand from consumers, customers, regulators and others for more responsible business.

Addressing environmental impact has been a growing preoccupation for businesses in every sector over the past few years, with a virtuous circle created by consumer demand, government legislation and investor pressure. However, the advent of the pandemic posed a potential threat to investment in greener practices, with the danger that firms seeking to save money would pull back on initiatives.



35% of respondents see **reducing their environmental impact as a key priority over the next 24 months**

So far, though, there are some signs that in the long term, the pandemic could actually boost the transition to a greener economy. To ensure his commitment to green recovery outlasts the current government, for example, Prime Minister Boris Johnson has introduced “legally binding targets” to underpin his ‘Build Back Greener’ promise<sup>11</sup>.



63% of those respondents **concerned about transparency and labour standards within their supply chain were most concerned about the potential reputational risk**

When it comes to transparency and labour standards within the supply chain, the split between respondents who are concerned and those who aren’t concerned was quite even. Asked directly, a majority (56%) of wholesale respondents said they were concerned about the transparency and labour standards of their supply chain, while retail businesses were evenly split as to whether it was or wasn’t an issue. Only 11% said they didn’t track labour standards and practices, with those that did using a range of methods from due diligence in the tender process and regular audits to sharing data on business practices between managers and obliging suppliers to keep them updated.

Wholesalers and retailers are well aware of the importance of being able to show they’re doing the right thing. Of those who were concerned regarding transparency, the main reason, cited by 63%, was the

potential for their business’ reputation to be affected by the poor practices of suppliers. However, 41% of firms overall admitted that while they have audits in place, they don’t believe they are responded to correctly, while 27% admitted they don’t have the ability to audit supplier practices at all.

“In the long term, the pandemic could actually boost the transition to a greener economy.”

With both consumers and business customers more likely to expect clear answers concerning all aspects of ESG, sustainability is evolving from a moral imperative into a business necessity. The corresponding need for transparency throughout the supply chain may be a concern in the short term, but for those businesses who tackle the issue head-on it will offer a real opportunity to drive efficiency, profitability and goodwill.

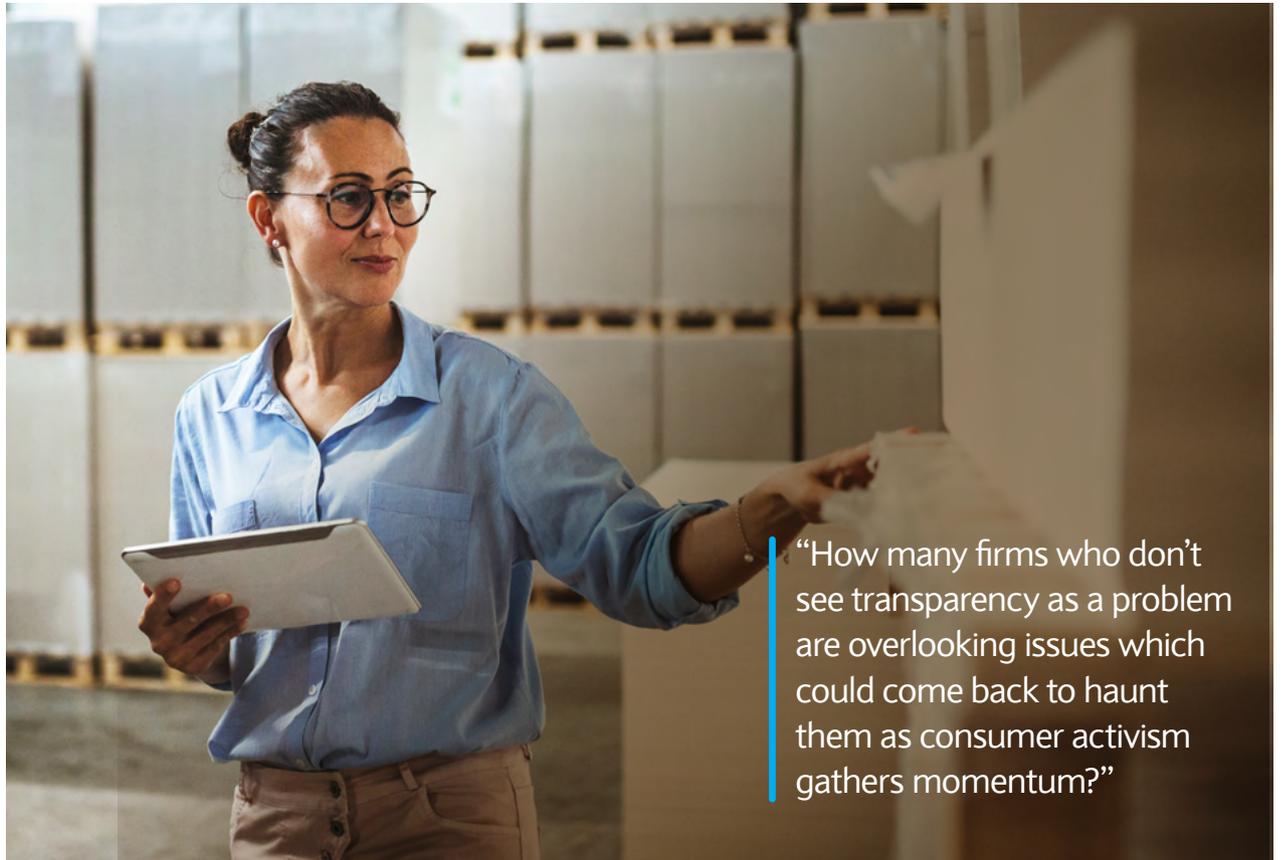
# Preparedness for supply chain disruption

From the results of our survey, it's clear that retailers and wholesalers have responded to the demands placed on them with an agility and speed that's been remarkable in many cases. Their preparedness for future disruption as a result of Covid-19, varies, but supply chain resilience has certainly moved up the agenda.

To ensure their future success, businesses need to turn tactical responses to short-term disruption into long-term strategic opportunities.

Our research offers encouraging indications that firms are doing just that. Nearly 40% of wholesalers and more than 30% of retailers have added new suppliers to their network as a result of Covid-19, while just over one quarter overall have increased the proportion of their suppliers in the UK. Meanwhile, as noted earlier, more than one third of wholesalers and just over one quarter of retailers have made long-term changes to automate as many services as possible, while 25% overall have increased their use of technology to track logistics and fulfil orders.

Looking forward, two-thirds of wholesale managers and three in five retail managers have felt a greater need to upgrade technology following the outbreak of Covid-19. Respondents cited a range of benefits, including improved efficiency, greater flexibility and the ability to address changing customer demand. As well as ecommerce solutions, firms plan to invest in AI and automation and inventory tech.



“How many firms who don't see transparency as a problem are overlooking issues which could come back to haunt them as consumer activism gathers momentum?”

The presence high on the agenda of other strategic priorities for investment over the next two years bodes well for the future resilience of supply chains. These include logistics and transport, reducing environmental impact and standardising or improving transparency and labour standards.

### Turning short-term responses into long-term opportunities

As we move towards and beyond the end of the Brexit transition period and with growing consumer activism around issues such as transparency and sustainability, supply chains will remain in the spotlight. While half of wholesale managers and 43% of retail managers say they are more prepared for the end of the Brexit transition period following Covid-19, 16% overall admit to being less prepared. Businesses have taken a wide range of measures to prepare for Brexit, from stockpiling products and bringing in new administrative or legal expertise to closing or opening physical sites. However, no single measure has been taken up by more than one third of businesses and nearly 30% of firms admit to having taken no specific actions.

Meanwhile, transparency is accepted as a big issue by around half of businesses – and is arguably a looming issue for many of those who are currently unconcerned. It's encouraging

“Nearly 40% of wholesalers and more than 30% of retailers have added new suppliers to their network as a result of Covid-19, while just over one quarter overall have increased the proportion of their suppliers in the UK.”

## Conclusion

to see that nearly two-thirds of firms that are concerned about transparency understand the potential impact of poor supplier practices on their own reputation. However, how many firms that don't see transparency as a problem are overlooking issues which could come back to haunt them as consumer activism gathers momentum? Given that the majority base their lack of concern on simply trusting their suppliers rather than having formal processes in place to ensure transparency, the answer could be more than a few.

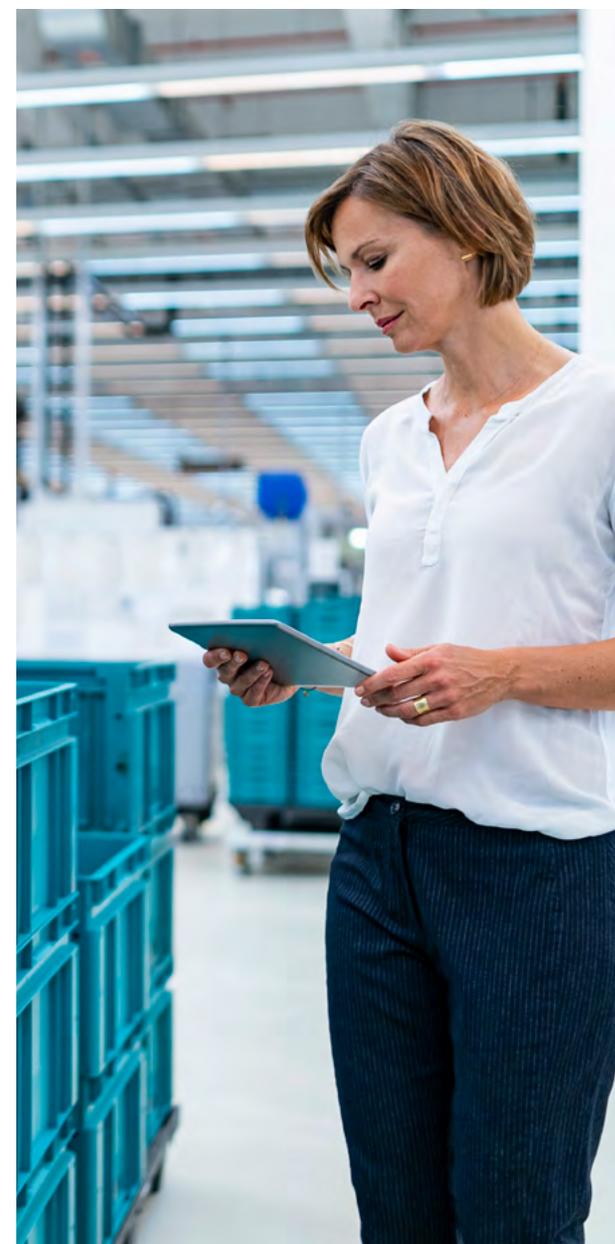
Turning the drive shown by retailers and wholesalers in adapting to the pandemic shock and its supply chain consequences into more strategic focus will help them navigate the challenges and opportunities ahead.

### Here to support you

Throughout the pandemic, Barclays Corporate Banking has provided businesses with practical support and advice. From help to access the UK Government's business interruption loan schemes to Trade and Working Capital support and advice on digital operational resilience, we've aimed to stand shoulder to shoulder with firms confronting the consequences of the pandemic.

With the impact of the pandemic continuing to be felt by the retail sector and the end of the Brexit transition period fast approaching, our teams remain ready to work with you and provide appropriate support. If you want to discuss how we can help you with these or any other issues affecting your business, please contact us.

You can find more information on our Covid-19 response as well as key information on Brexit and our latest insights on this and other issues by clicking on Current Trends within the Insights section on the Barclays Corporate Banking website.



# Supply chain rationalisation creates a secure footing for HTI



HTI's 65-year history has seen the business evolve from its roots as a UK wholesaler to an importer and latterly into designing and manufacturing its own products. This has given the company a robust understanding of global supply chains, putting it in a strong position to manage any challenges and make the most of new opportunities.

For the toy industry, Covid-19 came at “the right time in the cycle”, according to John Hutt, Chairman of HTI. “February and March were really difficult in relation to getting some of our product from China; by early May it got back on stream and by the end of the month things had pretty much returned to normal.”

“It’s very difficult to plan for every eventuality, however we have always been a nimble business and weather changes well.”

Closure of factories in China wasn’t the only issue. As supply reduced, the shipping companies reacted to the spare capacity. “They gradually took ships offline and that had the effect of pushing up prices and also creating less space for containers,” says John.

“Availability of space is now becoming an issue as things pick up, but it’s a temporary adjustment.”

## Easing the demand curve

The immediate impact of the pandemic aside, HTI believes it is well placed and is carefully watching the longer-term economic fallout and the impact that has on demand for its products. “Generally, toys seem to be faring quite well,” says John. “There’s certainly a definitive flight to value whatever area of retail you’re in, but the retailers we’re talking to are trading very well. What we are seeing is that families are shopping for Christmas a bit earlier this year, perhaps in anticipation of potential lockdown or to spread cost, so that may ease out the curve.”

Looking further ahead, monitoring and responding to the economic situation is a key focus for the business with the end of the Brexit transition period also on the horizon. “People will get through Christmas, but post-Christmas I think the effect of unemployment will see a tightening of spend and we won’t be immune to that as an industry,” he says. “It’s very difficult to plan for every eventuality, however we have always been a nimble business and weather changes well, we always ensure our costs are under control, our expectations are realistic and that we draw upon our adaptable, proactive and flexible approach while aligning our marketing and products with that new normal.”



### Taking control

It's not the only area of planning that's been challenging this year. With travel limited and events cancelled, HTI has continued to adapt. "Normally we would preview our products to customers at toy fairs," says John. "We've had to navigate this new world; we have continued investing in technology to make this transition as smooth as possible, utilising our existing business bases globally to maintain relationships."

Understanding both potential threats and identifying opportunities has helped HTI respond and grow profitably, not just in recent months but over many years. "We've carried out a lot of consolidation within our supply chain in recent years," explains John. "By focusing on what we're about as a business and where our strengths lie, we have invested in areas more aligned with us and moved away from historical areas we're less focused on. Because we sell predominantly by the container, the more we can consolidate product ranges and categories from fewer vendors, the more scope that gives us to provide our customers with economies of scale, while strengthening our vendor relationships and securing better terms. At the same time, it's important that we don't rely on any single customer, any single market, or any single product range – we call it controlling our destiny."

### Onshoring production

This review and consolidation happened as part of the normal course of business for HTI. Rather than just reacting to external factors such as Brexit or Covid-19, the company's proactive style has given the business a strong foundation, says Hutt. "We'd already taken a long hard look at the business and continue to do so. The consequence of that has been that, as Brexit and Covid-19 have come our way, we're in a much better place to continue our long term sales and profit growth strategy."

One of those steps has seen HTI invest in bringing cutting edge manufacturing to one of its product categories in the UK, reducing the firm's reliance on suppliers in the Far East. "It's a move that's required significant investment, both financially and in management terms," says John. "However, it's provided a number of benefits for our retailers and consumers here in the UK with regards to offering them a high-quality, UK-based, sustainable, low-carbon footprint product."

### Prioritising transparency

From a compliance perspective, low-carbon manufacturing is a clear win, but John says there are signs that retailers are taking more interest in recyclability and sustainability with growing public pressure a driver for change. "In our wider toy packaging we've been asked for more sustainable solutions, but there hasn't been a willingness on the part of all retailers to pay more for that," he says. "Next year, though, for the first time, one of our retailers is prepared to pay a premium for a fully sustainable product – whether that's a sign of things to come remains to be seen."

Transparency is another factor in the supply chain that's attracting more attention, according to John, and one that businesses need to ensure they keep up with. "Compliance is a key area which again we have invested in with an eye to the future and the potential changes between EU, UK and other international market requirements we have to service." One of the benefits of rationalising our supply chain is that we've become a lot closer to our suppliers and that gives us greater visibility and transparency, so that we can provide our customers with the quality and the incredibly robust supply chain they're looking for."



# UK bed manufacturer prioritises supply chain for sustained growth



High standards of sustainability and transparency and a range of strategies to increase supply chain resilience are the foundations for strong, secure business at bed manufacturer Dreams.

The appointment of Kal Singh as Dreams' Supply Chain and Distribution Director in December 2019 was a strategic move that has certainly paid dividends over the past few months. "Part of the reason for having an executive member with a background in supply chain management was to shore up the business' supply chain infrastructure," says Kal.

"As a bricks-and-mortar retailer, operating in a far more digitally savvy world, we were looking at the entire supply chain, from supporting our vertical manufacturing capability right through to investing in more space and making sure we've got more stock to deliver more quickly to customers."

With these plans already formulated to manage supply chain operations when the Brexit transition period comes to an end, the pandemic provided a real-life test. "Covid-19 accelerated our plans," says Kal. "All the Brexit plans of holding more stock, having more space, building more stock, have just gathered speed during and since lockdown, especially to meet the level of demand the business has experienced over that period."

## Addressing Covid-secure deliveries

When the Government first announced lockdown in March, Dreams paused operations explains Kal. "We weren't actually sure at one point whether we were going to carry on delivering or even producing," he says. However, with a robust order book and demand from people, including keyworkers, who had recently moved and needed a bed, Dreams resumed operations after a couple of days. "We had an order book of several millions that we needed to deliver and although our stores were closed, all of our products are available through our website. The challenge was to complete those deliveries safely."

That meant an investment in PPE and, in the early days, saw two-person deliveries undertaken with two different vehicles to keep the crew entirely separate. "Initially, that cost us considerably more, but it was vital to maintaining that service for our customers," says Kal. Similar changes were made at the company's bed factory in the Midlands, where a two-tiered shift process and a range of Covid-secure measures were implemented to ensure production was maintained.



### Facing a squeeze on supplies

As the country emerged from lockdown, Dreams has continued to see high demand for its products. “Partly there was pent-up demand because of lockdown and stores reopening, but people also have disposable money that they’ve not spent on holidays or going out and instead are investing in their home,” says Kal. The demand reached across the home-furnishing sector and saw a squeeze on supplies. “Everyone suddenly made a mad dash to get those raw materials – fabrics, covers, springs, and so on – and we certainly experienced pinch and pain points,” he explains. “I suppose we’d taken for granted that you can order things from China or Europe or even from UK suppliers sourcing from third-party providers, and they just arrive. Globally, though, when everything stops, resurrecting those supply chains and getting back to anything near normal takes time and we’ve seen most of our suppliers struggling in one way or another.”

In response, Dreams brought forward its plans to create additional warehousing space, investing in a new 130,000 sq ft distribution centre. “Maintaining good relationships with our suppliers and having that extra space means we can hold extra weeks’ worth of cover of raw materials if we can get hold of more, so that we don’t run out of essentials. We’ve also diversified by bringing on more suppliers, so perhaps before where we had just one, we now have two or three.”

### Prepared for new challenges

It’s been a steep learning curve for the business, explains Kal. “We’ve gone from our factory being in a position of strength and not having to worry about supply of raw materials, to weeks where promises of certain springs or raw materials haven’t materialised and that’s led to delays in production and ultimately the service to our customers.



It’s meant our focus and energy have been less on large-scale wholesale transformation and more on survival and surety of supply to meet the growing order book.”

As a result, Kal is cautious about the impact of the end of the Brexit transition period. “The changes we’ve made in securing supply and being more vertically driven as a business means I’d like to think we’re pretty well set, but there’s still some nervousness around the areas we can’t fully control, such as borders. In the past few weeks, we’ve seen Felixstowe and Southampton come under huge pressure from container inbound and some of our raw materials and finished products have been stuck at ports. However, we’ve got some of our European suppliers switching to road haulage and, again, we’ve tried to diversify our supply base where possible.”

### Shouting about sustainability

Looking further ahead to a post-Covid-19 and post-Brexit world where customers are increasingly focused on the

impact they and the brands they patronise have on society and the environment, Dreams is consolidating what has been a long-held belief in sustainability. “Dreams has put a lot of effort into those areas, with 100% of returned materials recycled and a range of mattresses that contain recycled bottles, but as a business we haven’t shouted about it,” says Kal. “But it’s something that customers are increasingly aware of and sensitive to so we’re investing by bringing in a new colleague focused on CSR to really promote our green credentials, and we see that as a clear opportunity for the business in the future.”

Transparency is also part of the Dreams ethos, with the business auditing its suppliers across the UK, Europe and Asia to ensure compliance with high standards, explains Kal. “We want to help our customers get a good night’s sleep and that means providing them not only with a great physical product, but the reassurance that, as a business, we’re doing the right thing.”

# How a fearless and flexible firm can pivot to meet challenges



DCS Group was able to turn challenges into opportunities during the pandemic by embracing change, making decisions quickly and having the right people in place.

DCS Group is the UK market leader in the sales and distribution of health, beauty and household brands, with over £231m in sales and more than 400 employees. But the business' success over the past 25 years hasn't been built on supplying to large grocery retailers. Instead, DCS works closely with wholesalers, convenience stores, beauty chains and discount shops for sales and distribution and launched its own brand products, Enliven, from its own factory in Stratford-upon-Avon.

This business model put DCS Group in a unique position when Covid-19 struck. On the one hand, its products, which included items such as toilet rolls and hand sanitiser, were very much in demand. But on the other, DCS had to work hard to ensure its supplies were still able to reach the UK.

## No room for complacencys

"We've had to work incredibly hard with the people we supply to and our suppliers," says Michael Lorimer, Chief Executive at DCS.

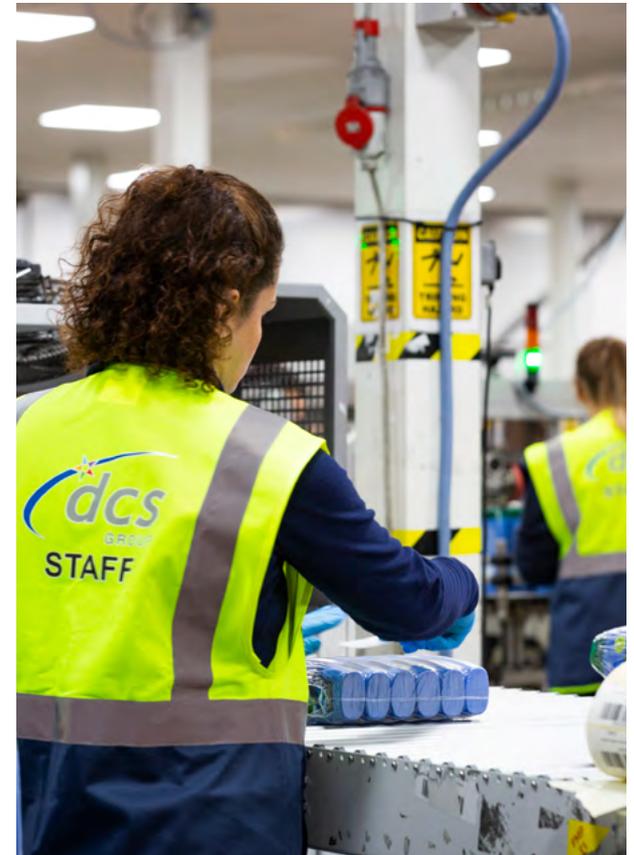
"We saw a lot of growth in demand from convenience stores, particularly in the early days when people perhaps felt they were safer there than in large supermarkets.

But we had to ensure that we obtained the appropriate stock level. And that wasn't just about phoning and asking for more stock – we had to make sure it was data-led.

"We jumped very quickly on the right stock for the right customers. Our data and our understanding of how all our different customers worked is what has helped us to keep profits on track," he adds.

Both Michael and Chief Financial Officer Johnathan Berry credit DCS Group's core business strategy and staff for their ability to spot opportunities in the crisis.

"We try to always live in a place that is expecting challenge and change, there's nothing complacent about the way we work," says Michael. "This year has seen unprecedented change, but we've been lucky because we had the right people and the right facilities in place. Everyone, from the employees in the warehouse to those suddenly working from home, was committed to success and it was that teamwork that enabled us to succeed."



### **Making change a part of the strategy**

DCS Group's business is efficient and eco-friendly by default, as it gives smaller customers access to a whole range of brands in one delivery. But the company is always focused on further efficiencies.

"The more efficient we can make the process, the better. How many trucks are we using? How many pallets are on each truck? Are any of them empty? If it's inefficient, you're not doing as well," says Johnathan.

From opening the new factory to innovating new invoicing procedures online during the pandemic, DCS Group has met each challenge by having a management structure and shareholder base that enables it to make decisions quickly.

"We've got ourselves in a stable position financially that enables us to ride through tough periods and keep service levels up," says Johnathan. "We've been changing on a daily and weekly basis and we're not scared to change, that enables us to be agile and run ahead of the game a little bit."



# Strategies for success

By improving the transparency and sustainability of their supply chains, retailers and wholesalers are building resilience and overcoming short-term disruption while setting themselves up for long-term success.



## Build a deep understanding of your supply chain

While nobody can predict the exact shape of future events, even something as seemingly unforeseeable as a global pandemic falls within the bounds of possibility. Anticipating and assessing potential risks should form a central element of your supply chain strategy. Risks can then be prioritised and contingency plans put in place to minimise the potential impact on your business.



## Be open to new supply chain strategies

Being ready to think laterally, entertain new possibilities and seek out new opportunities is fast becoming a necessity in an uncertain world. When shocks and unexpected events do occur, those businesses that are agile and confident enough to adapt quickly will be best placed to survive and thrive. If your supply chain has been built on optimising costs, consider aspects such as resilience and sustainability. As consumers become even more socially conscious, the demands on businesses will increase and new strategies will be expected. Be prepared to pivot to new distribution methods, new products and services and even new business models if required.



## Broaden your supply chain approach

Depending on a single supplier to fulfil your needs is intrinsically risky. Avoid putting all your eggs in one basket by sourcing and using multiple suppliers where possible. However, simplifying your supply chain in terms of length and complexity can also help reduce risk. Both the pandemic and Brexit highlight the potential advantages of using local suppliers. Similarly, diversifying your customer base and routes to market will make your business more robust and resilient in the face of localised or more widespread disruption.



## Embrace technology for greater efficiency

Investing in technology to streamline your supply chain can create competitive advantage by reducing costs and making you more responsive to customer needs. It can also present opportunities for new routes to market, reaching a wider customer base and increasing resilience. Those suppliers who don't grasp the digital opportunity risk being left behind.



## Partnerships for a better future

Effective supply chain management is made significantly easier when it's a joint effort. Collaborating with your suppliers and developing strategic partnerships with transport and logistics firms will help ensure visibility throughout the product journey. As well as making your supply chain more efficient, this will enable the level of transparency increasingly demanded by today's socially conscious consumer.



## Finance to support your plans

Barclays is dedicated to helping companies ensure they are financially resilient and sustainable. Speak to your Relationship Director today about working capital management solutions, green loans and other options to support your company's supply chain and wider business ambitions.

# Our solutions

Barclays is committed to supporting retail and wholesale businesses across the supply chain to grow and invest in new opportunities, while continuing to service their current needs.



## Barclays iPortal

Get global access to Corporate Banking products and services from a single sign-in point to support your more complex UK and international needs.



## Precisionpay Bank Transfer

Pay suppliers who don't currently accept Visa or Mastercard, with all the data, reconciliation and working capital benefits you'd expect from a virtual card programme.



## Green Solutions

Barclays is dedicated to helping companies take action to address the environmental and sustainability challenges facing our planet. We offer a wide range of flexible financing and deposits to support your company's green agenda.



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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.



## Letters of Credit

With Barclays' expertise in letters of credit, you can trade in new markets or with new partners with confidence. We provide the documentary support to ensure timely payment or delivery and strengthen your trading relationships.

# 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 [Karen Johnson](#).



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Karen joined Barclays in 2015 to lead the large corporate team in the North West. Karen has more than 25 years' banking experience working with owner-managed businesses through to large corporates. She has worked in a senior capacity in roles spanning business development, business turnaround, real estate and large corporates.

Karen is currently Head of Retail and Wholesale for Corporate Banking and Co-Chair of the Corporate Banking Diversity and Inclusion Council. In addition, Karen has responsibility for leading on our North West external Diversity and Inclusion initiatives. Key campaigns in the past two years include the Women in Business Awards and launching the 'This is Me' North West to raise awareness and reduce the stigma around mental health.

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