

Weightmans evolve:

The supply chain of the future

Foreword

In twenty years of acting for the landlords and tenants of sheds, shops and offices of different shapes, sizes and uses, I believe the pace of change has never been so great. It is not just the change which we have seen in recent decades, but what lies ahead. Retail, manufacturing and logistics are some of the key industries that have spearheaded this rate of change, but are we heading in the right direction? That is why we commissioned this report.

What follows are the views of over 100 senior supply chain professionals operating across multiple sectors looking at current, and crucially, future issues such as technology (robotics, IoT and smart contracts), insolvency and its impact upstream and downstream in the supply chain, modern slavery as well as a subject close to my own heart - real estate (or the lack of it). All of these need to be addressed in the context of increased regulation, environmental concerns and of course Brexit.

Some of the results were surprising, some were encouraging and some were concerning; we found that three quarters of supply chain professionals are confident they can spot suppliers who are at risk of insolvency, but at the same time, most were not confident they could deal with this risk. In a supply chain where just-in-time manufacturing is a methodology, can this ever be acceptable?

On a positive note, the challenges identified are clearly being addressed with enthusiasm, hard work and increasing ingenuity. No one can operate in one part of the supply chain in isolation; industry does not operate in this way and neither does Weightmans. To that extent, I am indebted to my colleagues who I work with on supply chain issues and who assisted in the production of this report, as well as all our other contributors.

Matt Williamson,

Partner and National Head of Retail Weightmans

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Introduction

To compile this report, we surveyed 100 managers and other senior positions in supply chain, shipping, receiving and transportation roles

Our research sample included businesses of a wide range of sizes, with 35 respondents from those with fewer than 100 employees, 14 from those with headcounts between 100 and 250, and 51 from larger companies.

The wide-ranging questionnaire asked these professionals their views on issues including fuel costs, levels of government support and regulation; property issues, the impact of technology, insolvency, modern slavery and the environment.

The results provide a snapshot on current trends, the risks that supply-chain businesses face and the opportunities that exist in the market.

Some clear headlines emerge from the results.

58%

Increasing fuel costs are the single biggest issue currently facing the industry, with close to six in 10 (58%) ranking it in their top three concerns.

31%

This is followed by the need to improve business efficiency (31%), growing demand for shorter delivery times (27%), a shortage of workers (26%), and the rising cost of property (24%).

72%

Over the same timeframe, demand for shorter delivery times emerges as the central priority, with the majority (72%) predicting that consumers will expect to receive their goods more quickly.

72%

Almost three quarters (72%) said it will be difficult to manage costs while improving customer service in the next five years, as end users will be less willing to compromise on product quality than to sacrifice speed or cost of delivery.

15%

There is also concern about a lack of government support over the next half-decade, with a quarter ranking it as a top three issue for the future compared with just 15% currently.



dynata™

The survey was conducted by Dynata, one of the world's leading providers of first-party data contributed by consumers and business professionals. It has a reach that encompasses 60+ million people globally and an extensive library of individual profile attributes collected through surveys.

The company serves nearly 6,000 market research agencies, media and advertising agencies, consulting and investment firms, and healthcare and corporate customers in North America, South America, Europe, and Asia-Pacific.



Fuel costs and efficiency

The rising cost of fuel is the biggest cause for concern for supply chain professionals today, with more than half (58%) of respondents naming it as one of their top three issues

Other contemporary issues are:



In the next five years:



The industry expects that fuels costs will remain the biggest issue in five years' time although there was less of a consensus, with fewer professionals (35%) identifying it as a top three concern.



Analysis Cost pressures are fuelling contractual risk



Matt Williamson,
Partner and National Head of Retail at Weightmans

Fuel is one of, if not the, main driver for the growing cost of transport and distribution in the UK supply chain industry. With retailers reluctant to pass on additional charges to their customers, many manufacturers and third-party logistics providers (3PL) are having to shoulder the burden. It's a significant factor in a growing cost base which also includes insurance, vehicle tax and O-Licenses. The upshot is that already tight margins are being eroded further.

In this high cost environment, it's critical that supply chain businesses have a solid grasp on their contractual obligations. Clear terms around penalties for underperformance are particularly important, given the potential for consequential and indirect losses in the movement of goods. All parties must fully understand what they are entering into.

The fact is, suppliers have long been forced into a race to the bottom on price, as clients demand tighter terms to help them manage some major consumer headwinds. Demand for quicker delivery times (cited by 72% of our respondents as a major concern for the future) and greater flexibility around returns have created new pressures, which are being passed on to suppliers.

It's little surprise then that for 31% of our supply chain professionals the pressure to operate more efficiently is among their biggest concerns.

Anecdotally, our team are hearing that 3PLs and businesses that move their own products are exploring opportunities to share trailer space. I heard a story about supply chain personnel from three large retailers who were talking one night about how they had all sent lorries from England to Scotland that day with one item on them, all of which came back empty. Wouldn't it have been better to have one lorry carry all three loads, they mused. While undoubtedly more efficient, such space-sharing arrangements come with their own risks. The legal agreements necessary for this kind of collaboration will need to cover the same issues as standard carriage of goods contracts, but they will be complicated by evidential issues in the event of goods being damaged or lost – such as whose product caused an issue, and whether the appropriate insurance cover is in place. This all comes back to having clearly defined contracts.

Our respondents seem sure that cost pressures will persist over the next five years. Yet, 78% of them say that end consumers will be least willing to sacrifice the quality of products, versus speed of delivery or cost. In the long term, something must give.



Government support

The supply chain is bracing for increased regulation and less government support

While only 15% of respondents view a lack of government support as a significant issue today, we found it to be of growing concern. When they were asked to think about the next five years, a quarter (25%) of supply chain professionals cited it as one of their top three issues

Indeed, 48% say they think government support for supply chain business will decrease over the next five years.

Worryingly, more than half (56%) expect this to be in tandem with an increase in regulations impacting the industry.



Analysis

Support is key to success – but it doesn't have to be political



Kevin Mofid,
Director at Savills

No business can succeed without the support of others – whether that's financial backing, employee assistance, or regulatory guidance. The supply chain, by its nature, is a network of supporting components, all interlinked, working in unison in their own ways to deliver a product to its end user. The nature of support will change, evolving in response to changing trends and demands, and the supply chain of the future will need to keep up.

Employees have historically been the lifeblood of the supply chain, but over a quarter of respondents identified access to and availability of labour as a key future issue. I'm surprised

this isn't higher – in my experience, it's one of the biggest risks the supply chain faces in the next few years. However, there's another important element to consider. In order to thrive, the supply chain of the future must equip itself with mechanisms to cope with shortages of both labour and energy.

At the risk of stating the obvious, in order to run a large scale warehouse operation you require access to a great deal of energy. At a time when the grid is under significant amounts of pressure, with very little excess capacity, it's important to remember that not all warehouses are created equal, and businesses must consider any warehouse connection to the grid – and the related environmental impact. Is the warehouse the most energy efficient it can be? Is there a way to use technology to futureproof a premises? Twenty-six percent of all respondents cited lack of government support as their main concern for the future – yet government intervention in the provision of energy will be key to ensuring that companies within the supply chain are able to weather any 'electrical storm'.

It isn't just energy where government support will be required. When it comes to technology, political backing of the 'internet of things' and 5G is crucial as we inevitably see many more connected devices and automation introduced to the supply chain at all levels. This tech will help to manage inventory levels, as well as plan deliveries and stock levels better, which, as well as benefiting the bottom line, will assist with energy requirements and environmental obligations.

In property terms, local authority involvement is extremely important – from the way the planning system works, to how it handles applications for large warehousing schemes. In general, there is still a perception that a large scale logistics development doesn't deliver the right type of jobs to an area or disrupts the infrastructure, but we need to try and change that perception – the supply chain of the future will continue to deliver both high quality careers, and high quality products – with the right support behind it.



Property

Location is everything, though a shortage of warehousing stock looms

The availability of warehousing space is predicted to be an increasing problem for supply chain professionals. A third (33%) say they are currently concerned about a lack of space, rising to 43% in the next five years.

When it comes to making property decisions, two fifths (38%) of supply chain professionals currently consider the location to be the most important factor. The headline rent (23%) and the functionality of the property (17%) are secondary considerations.

Looking to the future, the form of lease and the cost of regulatory compliance for the property will form a more important part of their selection criteria. Currently only 4% of respondents ranked the form of lease as the most important criteria, rising to 10% when considering the future. The cost of regulatory compliance for the property is expected to top the selection criteria for 16% of respondents in five years' time, a significant increase from just 8% today.



Analysis

Where reliability meets technology – the sweet spot for the supply chain



Peter Ward
Chief Executive at UKWA

The evolution of the supply chain has seen the customer journey placed front and centre of operations, but the supply chain of the future will only thrive if it keeps looking ahead – combining its customer service strategy with succession planning, collaboration and innovation.

In the survey, it was highlighted that location and lack of availability of warehouses are the key concerns of respondents. Proximity to customers in order to deliver the fastest service - and the scarcity and expense of large warehouses in these built up areas - appears to be the main issue. The problem is that in these highly populated and sought after areas, businesses seeking to build warehouses will more often than not find themselves up against resident action groups and complaints – often from the same people who expect next day delivery. How do we deal with NIMBYism to ensure that we are able to provide these customers with what they want?

“ Disruptors are emerging to shake up the market, and if you don’t stay close to these changes, you run the risk of being left behind. ”

Lack of government support is also mentioned as a key concern and whilst it true that government action may speed up the process, we need to acknowledge that in this climate, the market will dictate what happens, not the government. This isn’t bad news for the industry, rather it is an opportunity - put frankly, business needs to take the lead. We need to push ahead with our own solutions, and not wait for government action to equip us to face the challenges of tomorrow.

The survey also elicits the age-old question of speed vs quality – but we must look at whether speed is really the silver bullet we thought it was. The growth of the e-commerce market has been exponential, and the focus on ‘efficiency’ – trying to deliver next day or even within the hour - has almost certainly contributed to the casualties on the high street. Customer service has to be balanced with making money – what is our cost to serve? I believe we will see the market begin to adjust itself, and a reliable service at a reasonable cost will be the new ‘customer experience’ to aim for.

This focus on reliability over speed means you can be more flexible with your warehouse location – with labour and property at the right cost. This insatiable desire to get close to the customer base will soon wane as we realise that viability must take precedence.

One statistic I didn’t agree with, but wasn’t necessarily surprised by, is the lack of awareness of robotics and the role it can play in the supply chain warehouses of the future. Within the UKWA membership we have a real issue with the embrace of technology – there’s still a misconception that innovation of this kind is for larger corporations – but this is wrong. Technology and robotics isn’t necessarily the preserve of the big players – anything repetitive and manual can be picked up by machines.

Interconnectivity of data means the supply chain of the future is more of an eco system, a collaboration of businesses working together in new and unique ways. Disruptors are emerging to shake up the market, and if you don’t stay close to these changes, you run the risk of being left behind.

“ I believe we will see the market begin to adjust itself, and a reliable service at a reasonable cost will be the new ‘customer experience’ to aim for. ”



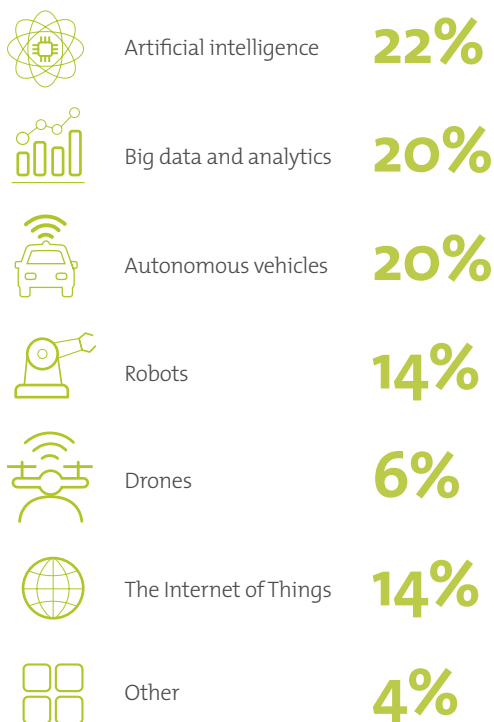
Technology

New technology will have most benefit in the back office

While it's no shock that 59% of supply chain professionals believe they will have greater access to new technology over the next five years, how they expect to benefit is more surprising.

The debate around how new technology will shape the supply chain tends to focus on headline-grabbing innovations like delivery drones and automated warehouses. Yet, while our respondents do expect to benefit from driverless vehicles, they're more focused on opportunities in the back office – where they believe technology such as data analytics and machine learning will have the most positive impact on the sector.

Which technological advance do you think is likely to have had the most positive impact on supply chains in 5 years' time?



Analysis

Technology will revolutionise the supply chain

Joules

Rachael Williams

Head of Supply Chain at Joules

Cost and time are two key determining factors in our industry - often major influences on a retailer's strategy and its approach to the customer journey. As many in retail and the wider supply chain are realising, there's likely to be no greater impact on this customer journey than that of technology.

For lifestyle brands, the concept of supply chain is still considered more of a noun than a verb – a package of various components; warehousing, transport and so on - rather than a process which should flow seamlessly through a number of stages before the delivery of a finished product or service. As a result, there can be interruptions or delays in a supply chain which at times will slow the customer journey down. Access to new technology will be huge in helping us to reduce these incidents, changing how we see and do things. At Joules, we are working hard to embrace technology that recognises the supply chain as a function in itself, and a futureproofed one at that.

“ It’s important we are always striving to be better, faster, stronger – and technology will unlock all of the potential for us. ”

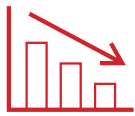
All the work we are doing around third-party logistics providers is done with great scrutiny on technical capability – we need to ensure all of our arrangements can be scaled and customised depending on our needs, which are determined by customer demands or wider market conditions. How do you ensure the visibility of your stock? How do you get quicker at giving the customer what they need? It’s important we are always striving to be better, faster, stronger – and technology will unlock all of the potential for us.

I find it interesting that the results of the survey showed that there isn’t as much focus on drones and robotics as there is on automation, data and AI. As a company, these findings mirror our priorities greatly as we look closely at personalisation and therefore some elements of AI and automation, particularly in our customer order process. Retailers who use tech to create a bespoke service for customers need to ensure that journey is as smooth as possible; from the availability of the products trailer contents to the paperwork and shipping the documents through to the speed of delivery, everything must be watertight. Again, technology will be key to this.

However, it is wise to remember the risks involved in this race – consumer behaviours and expectations continue to accelerate and the supply chain is fighting to keep up - this can put an unreasonable amount of pressure on an infrastructure that even at its most efficient may incur time constraints. I worry that unrealistic SLAs and timeframes may harm or endanger those working in the supply chain, so it’s imperative that technology is used in conjunction with a thorough CSR policy and supplier engagement programme, which not only provides the best possible product and service, but that keeps those charged with delivering that service safe.

Technology will continue to revolutionise the supply chain – and if we can use it to personalise and enhance the customer journey whilst protecting the environment and our people at the same time – the future looks very bright indeed.

“ I find it interesting that the results of the survey showed that there isn’t as much focus on drones and robotics as there is on automation, data and AI. ”



Insolvency

Insolvency – is the supply chain prepared?

A clear majority of professionals (85%) believe they will see an increase in insolvencies in the supply chain over the next five years.

They also appear to be comfortable that they won't be caught unawares – with three quarters (75%) confident that their business has systems in place to spot suppliers who are at risk of going under.

Yet, our survey points to a worrying level of inexperience in dealing with the fall out;

Only **69%** are confident in how to deal with an insolvency in their supply chain,

and just **1/3 (33%)** have ever experienced issues associated with insolvency in the past.



Analysis

Managing the insolvency threat



Natasha Atkinson

Partner and insolvency specialist at Weightmans

No business is immune from the risk of a supplier insolvency and, as this survey bears out, it is an issue that a significant proportion of supply chain companies are likely to face at some point.

If a key supply chain partner becomes insolvent, it can have a serious and even fatal impact on a business. According to research by the Association of Business Recovery Professionals, unsecured creditors receive an average of just 1% of the debt due to them from a company that undertakes a pre-pack sale. This rises to just 3% when the company is sold as a going concern.

Given such poor prospects, it is critical for managers to be aware of and manage the risk.

“ It is a good idea to carry out due diligence at the start of any trading relationship to establish a benchmark against which to measure any deterioration in the above areas. ”

There are several warning signs that a partner may be vulnerable, and companies would be wise to remain vigilant to the following:



Is your supplier holding notably less stock, so that deliveries are short or late?



Are there signs that your supplier is subject to creditor pressure such that their creditors are repossessing goods and/or issuing winding up petitions?



A request to amend your terms and conditions can be a red flag. For example, a reduction in quality standards or demands for the title to goods not to pass until payment is received by a supplier's supplier.

Other warning signs include official announcements to shareholders or the stock market; such as profit warnings, or large-scale redundancies or key personnel suddenly being removed.

It is a good idea to carry out due diligence at the start of any trading relationship to establish a benchmark against which to measure any deterioration in the above areas.

This includes regular health-checks of key customers and suppliers. If possible, applying limitations to the amount any individual supplier provides can limit exposure to risk. Close relationships and regular communication with partners can help keep you informed on any changes.

There are also a number of contractual measures which can offer protection. For example, 'all monies' clauses, where

titles to goods don't pass until payments have been made, insolvency termination clauses and requiring customers to ensure unpaid goods are distinguishable and stored separately can all mitigate losses.

The likelihood of receiving payment or being able to continue a working relationship with an insolvent business depends on the type of process they are subject to.

A liquidation is essentially the process of last resort, and any unsecured creditors are very unlikely to receive payment or have any ongoing arrangements.

In an administration process, however, there may be a continuation of the business and, in many cases, a relationship may be able to be carried forward on new terms agreed with the administrator. Creditors are often able to negotiate continued supply in exchange for payment of all outstanding sums owed.

“ No business is immune from the risk of a supplier insolvency and, as this survey bears out, it is an issue that a significant proportion of supply chain companies are likely to face at some point. ”



Modern slavery

Despite four years having passed since the introduction of the Modern Slavery Act 2015, our research finds an industry struggling to gain oversight of risk in the supply chain.

Almost half of our respondents (49%) claim modern slavery is a difficult issue to monitor in supplier businesses:

57% say this is due to limited visibility of processes

53% claim operating in different markets makes monitoring challenging

Equally concerning is that over a third (38%) said they do not have processes in place to check for modern slavery convictions, a figure which rose to 47% among c-suite respondents.



Analysis

The vital importance of monitoring for modern slavery



Bhavesh Prajapati

Principal associate and employment law specialist at Weightmans

Any organisation that does business with suppliers who employ people under terms which constitute modern slavery – or who do not disclose their policies around the practice – is leaving itself open to serious risk of prosecution.

The issue is alarmingly widespread, even in the UK. The most recent government statistics available estimate that there were between 10,000 and 13,000 potential victims of modern slavery in the UK alone in 2013. [UK annual report on modern slavery 2018. HM Government.](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/749346/2018_UK_Annual_Report_on_Modern_Slavery.pdf)

While cases of businesses being prosecuted have, so far, been rare, the consequences of being associated with modern slavery are likely to be significant, in terms of reputational or contractual costs.

While there is no obligation on a business to visit every supplier and carry out forensic analysis, it is advisable to maintain a 'risk register' of partners and be comfortable that no supplier is engaging in slavery practices.

Companies should carry out a detailed audit of suppliers' jurisdictions, as well as the processes they have in place to stamp out slavery.

This requirement can also be written into contracts to ensure suppliers are doing their bit and scrutinising their own supply chain partners in the same way. Offering modern slavery training to all staff who have contact with your supply chain will further enhance the likelihood of bad practices being identified.

Any business with a global turnover of £36 million or more must make an annual modern slavery statement, explaining what steps are being taken to ensure its supply chain does not benefit from the practice.

Modern slavery is an issue that affects millions of people around the world and ensuring complex supply chains are free from the issue is challenging. However, it is something that businesses must now make significant efforts to eradicate, not only on moral grounds but also in order to avoid significant potential business risks.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/749346/2018_UK_Annual_Report_on_Modern_Slavery.pdf



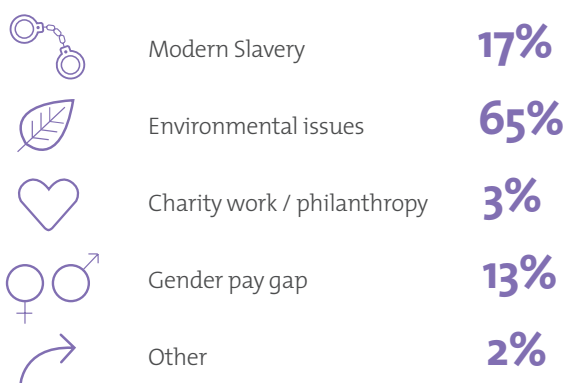
Environmental sustainability

The environment trumps gender equality and modern slavery among ethical concerns

Environmental sustainability is at the top of supply chain professionals' agendas when it comes to ethical considerations.

65% of respondents considered environmental issues (such as their carbon footprint) to be more important than modern slavery (17%) over the next five years.

We asked respondents, out of the following ethical considerations which do you consider to be the most important for supply chains over the next 5 years?



Analysis

Ethical evolution is the future

BIBBY
DISTRIBUTION



Nigel Tullett

Director at Bibby Distribution

The desire for ethical evolution seems to be the clearest outcome from this survey – the supply chain of the future takes its responsibilities to colleagues and the wider community seriously, and will be rewarded for it through customer loyalty and new business opportunities.

One of the starkest statistics for me is that only one quarter of respondents believed the shortage of workers was the most pressing concern for them. In the transport and logistics sector, driver shortage is a significant industry wide problem – it drives inefficiency, can compromise safety and ultimately, drives up costs. Logistics isn't seen as a lucrative or interesting career option for the younger generation, which is something we at Bibby Distribution are working hard to counteract with our pioneering apprenticeship programme and focus on flexibility – just like we must take into account the changing nature of consumerism, so must we listen to our workforce – unsociable hours and long shifts have to make way for a work/life balance that helps us drive recruitment forward.

The supply chain of the future will also look to technology to manage any labour shortage – and we're not necessarily talking about driverless or electric lorries, which are likely to play a part in our more distant future. At Bibby Distribution we are embracing technology such as telematics and other technology such as an integrated TMS solution that is helping us manage the driver population better - at Bibby, we have set up a transport optimisation team – set up to ensure better load utilisation and reduce empty miles. This has already proven successful, strategically assisting with labour shortage issues and crucially, delivering very positive environmental benefits, reducing our CO2 emissions and reducing empty running.

Fostering positive relationships within the supply chain is critical to enable growth both economically and ethically, and I think we are going to see this more in the future. If you have a greater understanding on how you can collaborate with other companies, you can work together to come up with the most efficient solution which is not just cost effective but enables you to better utilise your assets and reduce empty mileage. In the future, any successful supply chain will need to look end to end embracing all elements of the cycle and shake off that silo mentality and embrace the entire process in order to truly succeed.

Concluding thoughts

“The supply chain of the future will need to be dynamic, operate in a more holistic structure and work innovatively to deliver outstanding products in an efficient and effective way.”

Whether selling B to B or B to C, the customer journey reigns supreme, and the methods used to engage with customers have become increasingly sophisticated. Customers take the quality of the goods as a given - they are more educated and know what they want – and often, they are spoilt for choice. The differentiator therefore may not be the product itself, but rather the ease in which they can communicate with a seller, and how quickly they receive the goods. It may even be their ethical reputation, or their unrivalled returns policy. Those involved in the constituent parts of the supply chain certainly seem to agree. How it is managed is therefore absolutely key to the success of a business.

The findings in this report were interesting in places, and surprising in others. There seemed to be a lack of confidence in areas, particularly around political support and insolvency – a sentiment the strength of which we didn't entirely expect. New technology is going to be the way that the future expectations of customers are fulfilled, whilst enabling those in the supply chain to still make a profit.

The supply chain of the future will need to be dynamic, operate in a more holistic structure and work innovatively to deliver outstanding products in an efficient and effective way. It is clear that there are hurdles ahead – shortages of labour, power and regulatory support to name a few, but we hope this report shows that there are many ways in which we can tackle these issues to be better, faster and stronger in the coming years.

We hope you agree that this report has made for interesting reading – please don't hesitate to get in touch should you wish to discuss anything raised in the report in detail with a member of the team.

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