

Reacting to changing customer behaviours

Summary from Intent Group Discussion on 13th May 2020

KEY TAKEAWAYS

- COVID has accelerated some shifts that were already underway – e.g. online mix
- Multi-channel retailers are looking at how to best use all estate assets to increase fulfilment capacity with minimal impact on overall cost base
- FMCGs and other B2Bs are seeing the need to pivot towards B2C product types and services
- Creating flexibility earlier in the supply chain will be important e.g. production of global brands instead of country specific
- Heavy regulation is a barrier to supply chain agility, how much will this pandemic situation serve to loosen some of the rules?

CONTEXT

- **Q: How are customer behaviours changing?**
 - **A:** For B2C: changing product mix, accelerating pre-COVID trends towards eCommerce, changing order structure
 - **A:** For B2B: mostly seeing wholesalers being squeezed on all fronts (service, capacity etc.); change in attitudes from people not wanting to hold much stock to now demanding more which presents challenges for being able to keep up with production
- **Q: How sticky will these changes be in the new normal?**
 - **A:** Very hard to say but unlikely to snap back to pre-COVID...some changes will stick to a large degree
 - **A:** A key factor will be government and regulatory policy. There are a lot of jobs and vested interests with the status quo so authorities may be reluctant to encourage wholesale, rapid change. For example, might they be likely to support the high street and so slow down the shift to online?

- **Q: What contextual factors are affecting the ability to respond?**
 - **A:** Particularly in pharma but for other sectors too, country-specific regulations around packaging, labelling etc. make it very difficult to have regional production and distribution strategies that would allow more flexibility
 - **A:** A heightened consumer awareness of resilience, sustainability and localisation of supply chains
 - **A:** Country-specific regulatory differences in terms of what can be sold, where and how

STRATEGY

- **Q: How are supply chains responding to changing customer behaviours?**
 - **A:** Rationalising SKUs, favouring global brands over local, reducing customisation for more general and flexible production, more mass production early in the SC and personalising / customising at later stages to make it easier to shift production as factory availability and capacity varies, change of pack sizes e.g. kegs to cans in the drinks sector
- **Q: What lessons are being learned? What will be done differently in future? How can the inventiveness borne of necessity be harnessed for lasting improvements?**
 - **A:** Expect there to be a greater role for scenario modelling across functions
 - **A:** Especially in developing markets where people tend to only have mobile phones and internet access may be restricted, ordering has shifted to online but using common public platforms like WhatsApp and Facebook. If the simple approach works under COVID, why complicate it in future?
 - **A:** Currently seeing more flexibility of regulations, in pharma in particular, they are hoping some of this will stick and allow them more flexibility for example to be able to trade online
- **Q: Has COVID accelerated a rethink of siloed online vs. in-store stocks towards a more flexible, hybrid approach**
 - **A:** A major UK retailer has supplemented capacity in the one dedicated online fulfilment centre by using 25 hybrid stores to fulfil some online orders, which has enabled improved customer promise and experience compared to the early stages of lockdown. And they are seeing this as a cost-effective permanent move to increase online capacity, utilising store space and staff

- **Q: Should wholesalers be looking to B2C models or just focus on B2B efficiency?**
 - **A:** Both, some are already having to do it now anyway, and depending on how slow some customer sectors recover they may need to do more B2C. B2B expectations are changing as well, with more expecting B2C-like service

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