Bridgewater Logistics plc

Bridgewater Logistics plc is an English logistics company specialising in the transport of food and other goods throughout the wholesale supply chain. The company was originally established in western England in 1946 and specialised in the transport of milk from farms to dairies and thence to grocery stores. With the rise of supermarket chains from the 1970s onward, Bridgewater branched out into other areas of food distribution and is now established nationwide. In recent years the company has branched out still further into sectors such as home hardware/DIY, construction, defence and general merchandise. In 2014 the company also established a European operation, with a major depot at Haren on the outskirts of Brussels. The company went public in 2016 with a listing on the London Stock Exchange, and no single shareholder has a controlling interest.

Revenues in the most recent financial year were just under £1.2 billion, with a profit before tax of £51.09 million (see Appendix 2).

Until recently, Bridgewater has never been involved in the procurement of goods; its sole function was to ensure that goods are transported in a timely manner and arrive at their destination in good condition. Contracts are established between suppliers and wholesalers, or wholesalers and retailers. Bridgewater then facilitates those contracts by effecting the physical transport of goods. By and large this remains the case, although the acquisition of another company, Stratum Drinks (see below) has added a further element to the business model.

Speed of delivery and price are Bridgewater's main competitive advantages. The company has warehousing and transport facilities to deliver in all of the three main categories:

1. Frozen: goods must be stored at below freezing point, typically a temperature of at least -18 degrees Celsius, typically between -18 and -22 degrees
2. Chilled: goods must be stored somewhere between 0 and 8 degrees Celsius
3. Ambient: goods may be stored at room temperature, typically between 15-25 degrees Celsius

Bridgewater has contracts with many leading food wholesalers and retailers, including several supermarket chains, and also two of the country's leading DIY chains. Defence contracting is a relatively recent addition to the portfolio, and consists mainly of contracts to transport non-military goods (i.e. no weapons or weapons system components, which are handled separately) to Royal Air Force stations around the country. This contract is still in its early days but is proving to be quite lucrative, with a profit margin higher than many other contracts. The contribution to overall revenue and profit from each area of logistics activity is as follows (note this is prior to the acquisition of Stratum Drinks):

	% of revenue	% of profit
Food distribution	62	58
Home hardware/DIY	21	23
Construction	5	6
General merchandise	7	6
Defence	5	9

Bridgewater has come through the pandemic fairly well. Slight declines in construction and general merchandise volumes have been more than compensated for by increased business in food. The company did not have to furlough staff or take advantage of government compensation schemes. The CEO also says that so far there has been little immediate impact from Brexit, thanks in part to the fact that the company's UK and European operations are largely separate. However, risks to food imports from Europe mean the company's forecasts are cautious for the long term.

Bridgewater has a fleet of around 4,000 vehicles and employs 22,000 staff across 182 sites around the country. The sites include maintenance depots and distribution centres, including five 'mega-centres' each with more than 40,000 square metres of storage space. These are located in Avonmouth (west of England), Warrington (northwest England), Leicester (English Midlands), Potter's Bar (north London) and Haren (near Brussels, as above). The other sites are smaller warehousing and distribution centres, some of which are embedded in larger wholesale and distribution centres owned by clients.

Bridgewater's fleet of lorries and trucks are mostly ageing vehicles with diesel engines. Fuel and maintenance currently account for 42 per cent of the company's costs, with most of the rest (39 per cent) being staff costs. Other energy costs – especially for chilled and ambient warehousing – and administrative overheads and office expenditure account for the remainder.

A highly competitive environment

The distribution business, especially, in food, had for many years been a relatively stable one with few new entrants and no single player dominant. Recently this has begun to change. The arrival on the scene two years ago of EV Cargo, formed by a merger of six other distribution companies, is a formidable threat. EV Cargo is now the largest distribution company in the UK, and is ambitious for growth. Overseas players like Allcargo and DPD are also seeking to enter the market, which will put further pressure on Bridgewater and on smaller transport and distribution companies like Devon-based Gregory Transport. EV Cargo in particular is also more efficient with lower energy and overhead costs, and most competitors are running newer vehicles with lower fuel costs. In order to compete in this new environment, Bridgewater needs to increase its income but it also needs to reduce costs.

In the three years that he has been in post, Hannay has attempted to diversify the company. Under his direction, several strategies have been developed. One is to expand in Europe, and in particular to replace the existing depot at Haren with a new depot in a more central location. The Belgian operation is a subsidiary company registered in Europe so is unaffected by Brexit, and there are definite growth opportunities in the European market. However, the depot at Haren is not in the ideal location for expansion across Europe in general as it is too far from major population centres in central and southern Europe. The Haren distribution centre was established to serve only the Benelux countries and northern France. Setting up the centre cost the equivalent of £95 million, and changing to a new, more central location would require an equal or greater investment.

Hannay's other venture was the acquisition of Stratum Drinks, a wholesaler providing pubs, bars and restaurants with alcoholic and soft drinks, including tea and coffee. Stratum also supplies bar snacks and some bar equipment. A detailed breakdown of its accounts can be found in the accompanying spreadsheet. Hannay believes Stratum has prospects for significant growth in the near future, and believes further that Bridgewater can generate further revenue by distributing Stratum products. Some investors have expressed a fear that this acquisition will prove a distraction to management, and that Bridgewater should concentrate on its core competencies in logistics.

Hannay also believes that Bridgewater might be able to move into the retail market and establish a fleet of delivery vehicles to compete with the likes of Ocado and DHL. This too would require considerable investment in vehicles and distribution facilities, and Hannay has yet to convince the board that this investment will pay off. Talks with Amazon with a view to taking on distribution contracts for the online giant have been inconclusive; so far, Amazon is unwilling to pay the kind of fees that Bridgewater would need to break even.

Several shareholders, increasingly influenced by ESG considerations, are also looking at the cost base and wondering why fuel in particular is such a large portion of costs. The board, under pressure from shareholders to improve performance and cut costs, has passed this pressure on to managers and instructed them to find cost savings, boost income and increase margins. CEO John Hannay and CFO Patricia Blake know they need to improve the company's performance, very soon. Hannay is confident that newly-acquired Stratum Drinks will be just the boost the rest of the company needs.

Issues and challenges

Environment and fuel economy

As noted, much of Bridgewater's fleet consists of older vehicles which have poor fuel economy and high levels of emissions. Environmental groups are aware of this, and in January 2020 one pressure group named Bridgewater as the road haulage industry's worst polluter. There are significant reputational risks here and, again as noted above, several shareholders are putting pressure on the company to both cut costs and improve environmental performance. The operations director, Paul Reilly, has resisted pressure to upgrade the fleet, arguing that this would require high levels of investment and larger write-offs for depreciation in subsequent years.

The Covid pandemic has increased pressure on the company to be more environmentally conscious. Covid deaths in the UK were often highest in areas where air quality is poor, and not only fuel emission but tyre and brake dust are important contributors to air pollution. The pressure group mentioned above has called for Bridgewater to clean up its act and become a net positive contributor to public health.

Poor structure and communications

Bridgewater has grown largely through a series of acquisitions of smaller regional logistics firms which have then been integrated into the parent company; Haren in Belgium is the only depot the company has built from scratch, with all the other depots and their management teams being acquisitions. There is poor communication between them, and some depot managers have complained that they feel isolated within their own company. IT systems are cumbersome and slow, and data does not always reach the people who need it. Stratum Drinks, the new acqusition, is not even on the same IT platform as the rest of the group. Beyond IT, reporting channels are not always clear and there is a lack of communication between departments. Company headquarters is seen as being out of touch and not connected with the realities on the ground.

Quality control in home hardware/DIY deliveries

Speed of delivery has always been one of the company's hallmarks thanks to a highly efficient internal dispatch and tracking system. Six months ago the DIY chain Build It Better, one of the company's key customers in the north of England, complained that deliveries were arriving anything up to 3-4 days later than scheduled. The same customer has since repeated this complaint. Operations director Paul Reilly has dismissed the complaint, arguing it is the customer's fault for not placing orders in a timely fashion. Build It Better disputes this and says it is complying with Bridgewater's deadlines. This has led to friction between Reilly and the marketing director, David MacLean, who was responsible for bringing in Build It Better as a customer.

This friction is mirrored lower down the organisation. Communications between the operations department and marketing are poor, and distribution centres have very little direct contact with customers; they receive customer orders through an automated system with information fed in by the marketing department, but controls intended to show how quickly orders are fulfilled are not working properly, in part because managers don't always input the correct data. Attempts to fix the problem have so far failed.

Quality control in depots

As noted, frozen food must be stored at -18 degrees Celsius or below. If the temperature rises above -18 C there is a risk that food will become discoloured and less attractive, and people will not buy it. One of the major supermarket groups recently rejected several consignments of frozen food on the grounds that the contents have been stored at temperatures higher than -18 C. Replacing the food cost Bridgewater more than £60,000 and, more importantly, has damaged the company's reputation. Marketing director David MacLean has had to intervene personally and promise this will not be repeated. An investigation found that junior staff, under pressure to cut costs, were changing the thermostat settings on freezers in order to reduce energy consumption. Several members of staff were disciplined and two were given final written warnings.

Working conditions in depots

The same investigation found a series of health and safety issues in the workplace. Old and faulty equipment had not been replaced, and at the Potter's Bar distribution centre, forklift trucks had not been maintained properly and several were in a dangerous condition. The investigation concluded that a potentially fatal accident was only a matter of time. A urgent upgrade of old equipment and a detailed health and safety investigation were recommended to the board. CEO Hannay and operations director Reilly are reluctant to implement the recommendations as improvements will lead to further costs and be potentially disruptive to operations.

High staff turnover

Although Bridgewater pays well, slightly above the industry standard, turnover among depot workers and drivers is high. The average age of drivers across the company is 48, and many are taking early retirement, partly because they are tired of the job and partly because morale is low. The company is making very little effort to retain them, and recruiting younger drivers to replace them is proving challenging, to say the least.

Morale among depot workers is also low, in part because of working conditions and in part because of a comman-and-control style of management and leadership within the operations department, where orders are given and never questioned. The culture is strongly based around performance; teams are given targets and told to hit them. The company's training budget is modest, meaning staff and managers are not always fully trained in the procedures they are expected to carry out.

Sexual harassment

Two years ago, a junior female employee made an allegation of serious sexual harassment against Bob Blunt, the company's head of accounts and effectively deputy to CFO Patricia Blake. According to the employee, Blunt invited her to join him at a music festival, informed her than he and his wife were in an open marriage, and invited her into his office for a topless backrub. The subsequent investigation ended when the employee withdrew her complaint and left her job. She later told friends she had been under strong pressure from Blake to withdraw the complaint, who valued Blunt's support and did not want to lose him.

A year ago another junior female employee made another complaint against Blunt, alleging that he told her she would never get promoted unless she slept with him, that he had groped her on several occasions, and that he had called her into his office where he exposed himself to her. The employee became severely stressed and was forced to take time off work. Blunt was allowed to retire from his job without any further investigation. He was also given a year's pay in compensation, given an interest-free loan by the firm to set up his own consulting business, and allowed to keep his company car. The female employee, receiving no support from the company, has since resigned. One of the non-executive directors has asked repeatedly why the employee was not supported and why Blunt was effectively rewarded for sexual harassment, but has not received a satisfactory answer.

Appendix 1 The executive team and board at Bridgewater plc

Executive directors

John Hannay, CEO. After leaving university, Hannay joined Bridgewater on a management training scheme and has spent his entire career with the company. He later took time out to do an MBA, sponsored by the company, and was identified by the company's succession planners as a potential high-flyer. He was fast-tracked to senior positions, and was put in charge of the European project at Haren, which he established successfully. However, he annoyed some previous members of the board by suggesting that Haren was the wrong location and the company should have considered locating further east, perhaps in the German Rhineland. Despite this, Hannay was promoted to deputy CEO five years ago, and took over as CEO three years ago when the incumbent retired.

Patricia Blake, CFO. Blake started her career in banking and then switched to the hospitality industry where she was financial comptroller of a very large international hotel chain. After twelve years in this role, she was recruited by Bridgewater and has been in her present post for a further seven years.

David MacLean, director of marketing. MacLean has a background in the food industry, where he was previously regional marketing director for one of the large supermarket chains. Bridgewater recruited him for his contacts in the food industry. MacLean's personal relationships with clients are strong, and this has a played a role in helping the company hold off competition, but he does not have strong relationships with other executives. MacLean also took the lead in securing the profitable RAF contract and has ambitions to develop further business in the defence sector.

Paul Reilly, director of operations. Reilly served as an army officer in the Royal Engineers before taking an MBA degree and pursuing a career in management. He has worked for several logistics companies, each time leaving to take up a more senior post with another firm. He is very experienced, but he tends to be quite set in his ways and is not always open to innovation, preferring the tried and tested operational methods he knows.

Non-executive directors

Dame Janet Burgess, non-executive chair of the board. Burgess was with one of the Big Four accounting firms for twenty years and the Bank of England for another ten before taking up an appointment as director of the Serious Fraud Office, where she oversaw the prosecution of a number of cases of high level business fraud. Following retirement from the SFO she held non-executive director posts at several FT-100 companies, and was previous chair of another, smaller logistics company, Carmel Distribution, based in Glasgow. She has been chair of Bridgewater for five years, and has indicated she intends to step down at the end of next year

John Pollard, senior independent director. Pollard has served on the board of Bridgewater for sixteen years. His professional background is in insurance, where he was regional director of a major international firm. He is largely retired but continues to act as a professional consultant in the insurance industry. Although he is the custodian of the organisation's memory, he can be prickly to work with and makes no secret of his dislike of CEO John Hannay, whose appointment he initially opposed. He was a strong supporter of the Haren venture, and resisted suggestions by Hannay to locate the operation in Germany instead.

William Venables, non-executive director. Now in his mid-seventies, Venables has a background in senior management in the communications sector. Since retiring, he has developed a portfolio of non-executive director posts and now serves on the boards of a media and newspaper group, an electricity generating company and a hotel chain, as well as Bridgewater. He has no experience of the logistics sector, but was recruited onto the board three years ago for his experience of governance.

Dr Callum McLeod, non-executive director and chair of the audit committee. An engineer and mathematician, McLeod initially pursued an academic career before moving into management. He was director of operations on Bridgewater for eleven years until his retirement, and was then appointed a non-executive director six years ago. After Pollard, he is the most senior member of the board. McLeod is known to dislike conflict and prefers mediation to resolve disagreements.

Noor Khan, non-executive director. Khan is a solicitor specialising in commercial law and a partner in a prestigious London legal firm. Appointed eighteen months ago, she is the newest member of the board. She is the board lead on diversity and inclusion, and also on environmental issues, but she has trouble making her voice heard. Pollard and Venables in particular do not respect her and believe she is a token appointment to the board. Burgess, whose protégé she is, is sympathetic and tries to give her a voice whenever possible, but when Burgess steps down she will lose that support. Khan is depressed and unhappy, and is considering her future.

Appendix 2 Financial Overview

These are the key financial highlights of the last financial year

Revenue:	£1,198.99 million
Underlying profit before tax:	£51.09 million
Underlying profit before tax margin:	4.4%
Profit before tax:	£41.39 million
Basic earnings per share:	29.42p
Net debt	£5.05 million
Net assets	£8.8 million

For the accounts of Stratum Drinks, see the separate document