



Johnston Carmichael and Food & Drink Federation: Industry Survey 2021





Introduction

Whether a leading corporate employing hundreds of people or an ambitious and entrepreneurial SME on the fast track to success, the main issues of significance for our food & drink companies will generally be driving profitability, encouraging innovation, targeting future growth and navigating the challenges that go hand in hand with importing and exporting goods.

However, as business people - and the rest of society - have been so frequently forced to remind themselves over the past 18 months, the landscape they once occupied has changed out of all recognition.

The Johnston Carmichael and Food & Drink Federation industry survey was conducted against the backdrop of seismic change which has had major consequences for both the business environment and for the wider world.

While one factor in that upheaval, namely the UK's exit from the European Union, was at least anticipated and planned for, its other key driver, the onset of the Covid pandemic, was, of course, entirely unforeseen. These two unprecedented developments have combined to create a series of issues and obstacles to trade which manufacturers across the food & drink landscape are having to work extremely hard to manage.

Supply chain disruption, increased bureaucracy, shortages of HGV drivers, border control changes and the reduction in both skilled and migrant labour are just some of the challenges which businesses are having to overcome.

The aim of the survey was to take these ongoing key themes of profitability, innovation, growth, and importing/exporting and assess how food & drink businesses of all sizes now view their prospects against the backdrop of the unprecedented circumstances created by Brexit and by the pandemic.

I hope you enjoy reading this summary of the survey findings and I welcome any comments that you may have.



Adam Hardie

Business Development Partner and
Head of Food & Drink

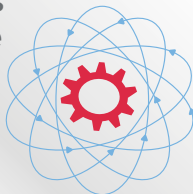
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Highlight Statistics

89% of respondents that indicated Brexit had made them reconsider their geography mentioned that they would decrease or stop EU exports



84% of respondents said they invest in innovation, automation, and digitalisation to reduce costs and improve productivity



40% of respondents consider the UK to have an attractive economic environment that encourages and facilitates growth



83% of respondents focus on premium produce



83% of respondents say their businesses are focused on organic growth



51% of respondents mentioned logistics as a key supply chain risk



28% of respondents reported changes from professional advisers through COVID-19 with the majority noting an increase in prices



35% of respondents are struggling with supply issues or lack of availability of materials

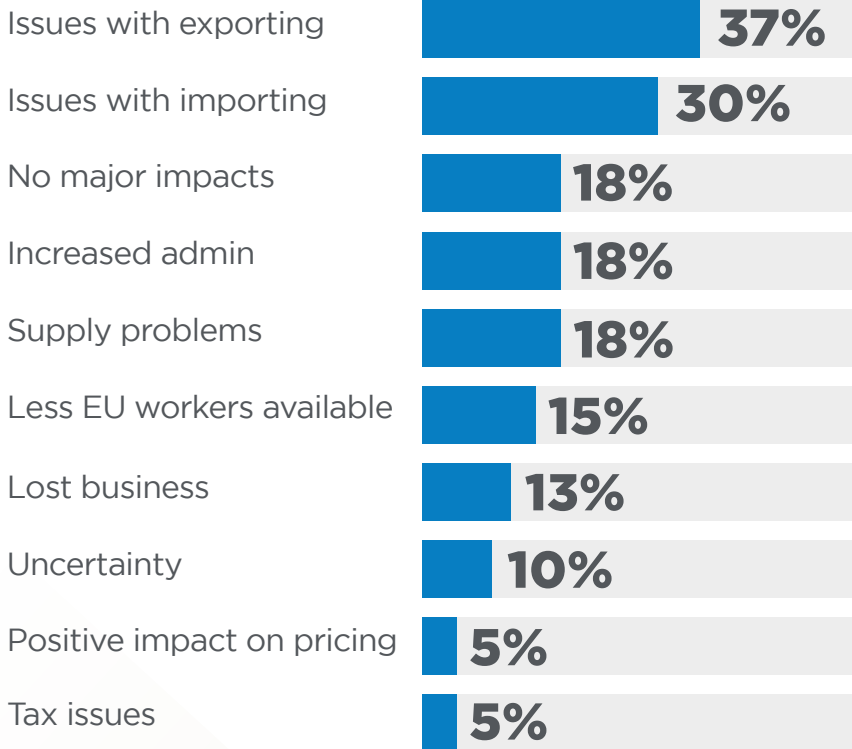


40% of respondents noted that inflation or rising costs have affected their business



Imports & Exports

What has the impact of Brexit been on your business?

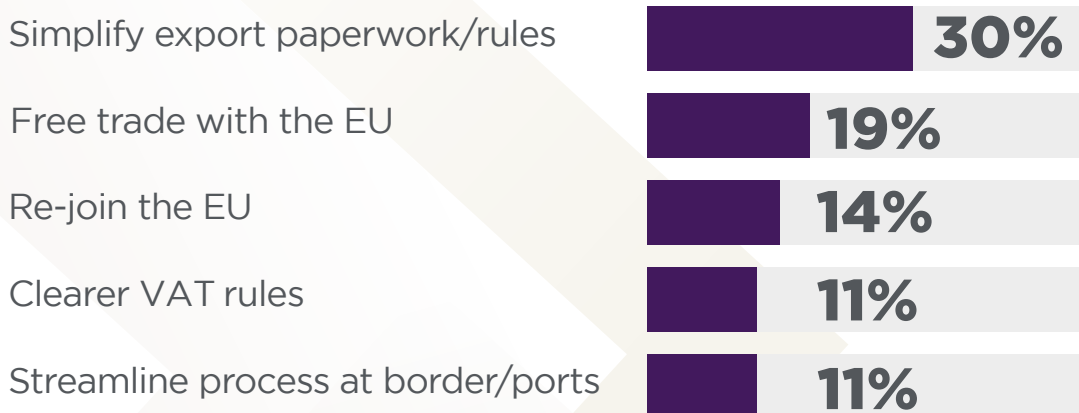


* Respondents were allowed to select multiple answers in decreasing order of priority



It's no surprise that the majority of respondents reported increased costs, additional administration and bureaucracy since the Brexit deal came into force. Some respondents commented that business leads had since gone cold given the reluctance of some foreign importers to deal with UK companies. Others reported a reduction in available labour; none more so than fruit farms who rely on a seasonal migrant workforce with one producer stating 'it is diminishing by the year.'

What single legislative change could the UK Government implement to assist with exports?



* Multiple answers were given but the top five responses are shown here



The new markets that respondents are looking to increase or start exports to include Asia (15%), North America (15%), and the Middle East (7%).

The JC View



“ The response from businesses confirms what was predicted immediately after the EU referendum – that Brexit would make it more difficult and expensive to trade with the EU. The lateness of the “deal” and the fact that it doesn’t facilitate tariff free trade, despite the way it was sold, meant that businesses faced a very tough start to 2021 as they tried to come to terms with a cliff-edge change in border controls and VAT rules.

As the year has progressed, things have settled down a little, but at a cost – longstanding supply chains have often had to change, there are new import and export requirements to be complied with - either internally or through outsourcing (at a cost) - and new EU VAT registrations may be required. All of this in an environment where the support infrastructure for international trade was also desperately trying to operate in the new world – not at all straightforward.

Unfortunately, things are likely to get more, not less complicated in 2022. The UK has operated a relatively relaxed border regime over the last 12 months, but a new stricter border control model will be introduced in the new year. This will be particularly tough for the food & drink sector, with additional licensing and controls being introduced for many animal and plant products. Add to this the new VAT rules for businesses supplying direct to consumers in the EU, introduced in the summer and still bedding in, and it is likely that the costs of Brexit will continue for some time to come. ”



Nigel Roberts,
Head of VAT & Duty



The Industry’s View:

“ We have lost 80% of our export market as costs to import for our partners have been too much to be bearable. ”

Dave Grant, Fierce Beer



The Industry’s View:

“ The supply of raw materials is exceptionally tough: with the continued price rises and shortages I don’t see things settling until mid 2023 and clearly the prices will never fall so ultimately the customer will have to pay more for things. ”

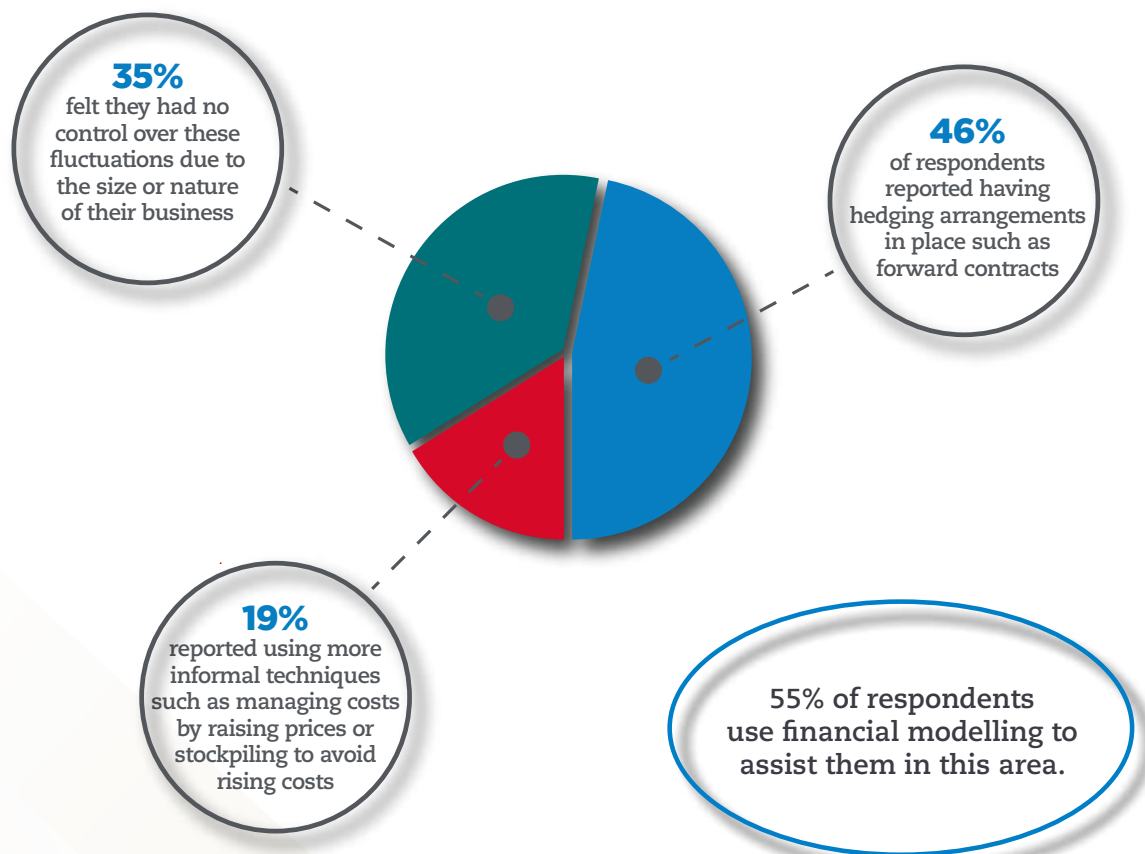
Matthew Gammell, Pickering's Gin





Profitability

How effective are you at managing raw materials costs with fluctuation prices? What strategies have you used, such as use of forward contacts or hedging?



The JC View



“In a challenging economic environment, profitability is clearly high on the agenda for the respondents. Unsurprisingly, the majority reported supply chain issues. Driver shortages are well documented, resulting in difficulties accessing raw materials, with specialist ingredients particularly difficult to source. In particular, flexible packaging, especially cardboard, has been in short supply, with glucose and starch also cited as areas of concern. These factors have resulted in concerns about ongoing inflationary pressures.

Size was a major factor in the ability to adopt more sophisticated cost strategies, with a significant number feeling they lacked control over input costs. However, it is clear that most businesses are being proactive, using financial models to assist in both cost control and revenue optimisation.

A variety of methods are used across the industry to assess profitability with one common theme: businesses recognise the need to understand where they make their money so they can allocate their resources in the most efficient manner. Businesses reported using detailed financial modelling by SKU to understand which costs need the most focus to lower pricing and to set initial pricing within customer expectations. It is clear there is a focus on three-to-five-year forecasting, with detailed annual cashflow forecast planning to ensure businesses remain competitive.”



**Graham Marjoribanks,
Head of Audit**

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The Industry’s View:

“ Having the ability to accurately measure and monitor performance in all areas of our business is key to ensuring we can track progress towards our objectives and supports a culture of accountability. One of my frustrations is that the accounting principles which our statutory financial statements are required to follow don’t portray a sufficiently meaningful picture of underlying business performance. That’s why we have developed a suite of KPIs that allow us to measure the underlying performance and profitability at each level of our business. We constantly review the capability of our MI system to make sure it is delivering quality information especially as the shape of our business changes and grows in both the UK and internationally.”

Audrey Baxter, Baxters Food Group





Innovation

What sort of impact does assessing profitability have on your innovation with respect to new products or production methods for existing products?

Overwhelmingly respondents commented that their methods of assessing profitability had a positive impact on the launch of new products.

19% responded that they assessed the profitability of all products before launching them

17% indicated that doing this allowed them to consider the whole lifecycle of the project

13% said the focus when launching new products is on continuous improvement

13% felt that assessing profitability is helpful for launching new products

* Multiple answers were given but the top 4 are as above

R&D tax credits – are you actively using them?

Over half of respondents are using R&D credits (**56%**) – of the remaining respondents, 40% said R&D credits are not applicable to their business whilst 20% had looked into it but decided that the cost outweighed the benefits.

15% indicated that assistance from professional advisers in utilising tax credits would be useful; the remainder were either currently in discussion on the matter, have had professional assistance in the past, or are unsure.

The JC View

“Innovation within UK food & drink companies has never been more important, enabling businesses to thrive through providing the solutions necessary to achieve both business sustainability and growth. The level of innovation taking place within food & drink companies has been even more impressive given the recent highly variable and complex challenges faced by the industry post-Brexit and during the current pandemic. Far from holding the industry back, the exceptional times that we are living through have acted as a driver for R&D, with significant trends noted towards the development of ready-to-drink and food-to-go solutions. In addition, with many companies experiencing raw material supply issues, we have noted significant investment in the development of alternative recipes and processing methods to achieve continued production at scale.”



**Dr Mari McCrossan,
Innovation Taxes**

“Innovation is the lifeblood for future growth. We are continually looking at consumer and shopper habits to understand emerging trends, that can lead to future product development. Adopting a test and learn model is a regular approach we take, especially for unproven concepts or those with a high start-up cost, ahead of embarking on full launch and roll out.”

Simon Oldham, Highland Spring Group



“After assessing the potential profitability of the business model, Market Row Botanical Rum was successfully launched in 2020. We are definitely benefiting from the power of being a flexible independent spirits business: it’s allowed us to develop an innovative product in an emerging sub category, the output being Market Row which is a lighter drier style of rum that’s proving very positive with consumers. Having sampled our product now with over 1000+ consumers in Fortnum & Mason, we know we have something that addresses some key consumer insights.”

Patrick Venning, Brixton Distillery





Growth & Planning

Do you consider the UK to have an attractive economic environment that encourages and facilitates growth? If not, why?

From our survey we found that 40% of respondents consider the UK to have an attractive economic environment that encourages and facilitates growth. Of the 30% that answered no, reasons why included lack of government support, being held back by too much legislative 'red tape', costs being too high, taxes being too high, and a lack of consumer confidence.

How important is succession planning? Have you addressed this in your business?

62% of respondents have or are in the process of addressing succession planning

38% have not yet addressed it

The JC View



“ The majority of those business leaders surveyed (83%) are focused on organic rather than acquisitive growth and are of the view that the UK is an attractive economic environment that encourages and facilitates growth. For those seeking investment to enable growth, food & drink continues to be an attractive sector for private equity, high net worth individuals and overseas buyers. Meanwhile the implications of the Deposit Return Schemes cast a significant shadow in the years ahead for drinks producers; we need a UK-wide solution.

Succession, or lack of it, is often a killer of businesses. Larger businesses will typically always have a plan, however, raw material and supplier cost increases, the impact of Brexit, labour and export challenges are all making trading more difficult and therefore valuation of these businesses less certain. It is even tougher for smaller businesses to address in this climate, but the message continues to be ‘always have succession on your agenda.’ ”



Adam Hardie,
Head of Food & Drink



The Industry's View:

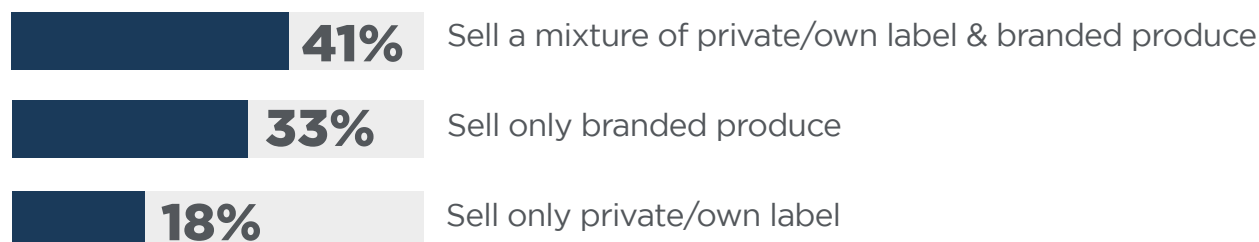
“ For those in bakery, snacks and confectionery, one aspect which may hinder growth is the new legislation for retailers in the promotion of HFSS foods, high fat, salt and sugar foods scheduled for 2022. ”

David Simson, Lees of Scotland



Other Responses of Interest

How do you balance manufacturing, sales and marketing of private/own label and branded produce?



The JC View



“The vast majority of food & drink industry leaders that we surveyed produce premium foods. When considering the introduction or mix of own label versus branded products it came as no surprise to note the critical factor being the need to seek and strike the right balance. The number one priority is that private label should never dilute the brand as this is the beating heart of the value proposition in a business. Branded produce allows for better margin whilst private label can smooth sales curves, drive additional volume and help provide stable working capital which is something that many businesses now value more highly than they perhaps did pre-pandemic. Of the companies surveyed, twice as many are selling branded rather than private label.

It will be fascinating to see how businesses alter their sales mix and wider strategies in the light of so many turbulent variables now impacting the sector. From Brexit, supply chain issues and labour challenges, to changing regulation and of course sustainability ambitions, all businesses will need to evaluate their strategies to identify a successful way of navigating headwinds, grasping opportunities and ultimately delivering profits from a core position of economic viability. The SME market in particular has demonstrated an extraordinary resilience and ability to adapt and be flexible and these traits are set to remain key as we continue to navigate uncertain waters.”



Stewart Pennington,
Business Advisory Partner



The Industry's View:

“We aim to prioritise our branded sales, selling private label where we have capacity or it complements our branded business.”

Giles Henderson, KP Snacks

Conclusion

The turbulence of the last 18 months is very clear in this excellent and comprehensive survey of UK food & drink businesses. The headwinds of Covid and Brexit have meant that all food & drink businesses have had to change course and adapt in one way or another – from finding new routes to consumers to thinking carefully about the production and sales of individual products.

The survey bears out what we have seen - true resilience and innovation over the past year from the hidden heroes who work in our fantastic food & drink industry. These headwinds mean that governments across the UK must remain alive to the challenges the food & drink industry continues to face and which are highlighted in this consultation summary - from struggles with workforce and logistics to the need to find new export markets and enhance support for innovation. We will need sympathetic and understanding governments with a desire to work with the industry as we face the challenges the next decade will bring – from net zero and plastics and packaging taxes to health regulation and price inflation.

At the Food & Drink Federation we know that the need for the best quality advice has never been more necessary. The survey highlights that last year 28% of respondents reported changing from existing advisers – with 75% of those reporting an increase in price and 40% of them reporting a negative impact on quality of service. As we face 2022 with both challenge and opportunity in our sights, building the right partnerships will be critical to business success.



David Thomson,
Food & Drink Federation

About Johnston Carmichael

Johnston Carmichael is a top 20 UK firm UK accountancy and business advisory firm with over 800 partners and staff. Acting for over 400 food and drink businesses, we have a strong voice across the UK and our dedicated sector team has an excellent understanding of the industry's opportunities and challenges. This blend of insight and expertise allows us to make a vital contribution to our client's businesses. We have a proven track record of producing strategic forward-thinking advice and our ability to make introductions and bring the right people to the table is a recipe for our clients' success.

Comments on data

Where questions are open for respondents to type their answer rather than selecting a 1-5 score or a yes/no answer, no maximum or minimum limit on the number of issues respondents could mention. In many cases the data included lists the percentage of respondents that specifically mentioned a topic within their response. Percentages should be viewed as an indication of the most pervasive matters, not as a hard figure on the proportion of businesses that would agree with a given statement

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