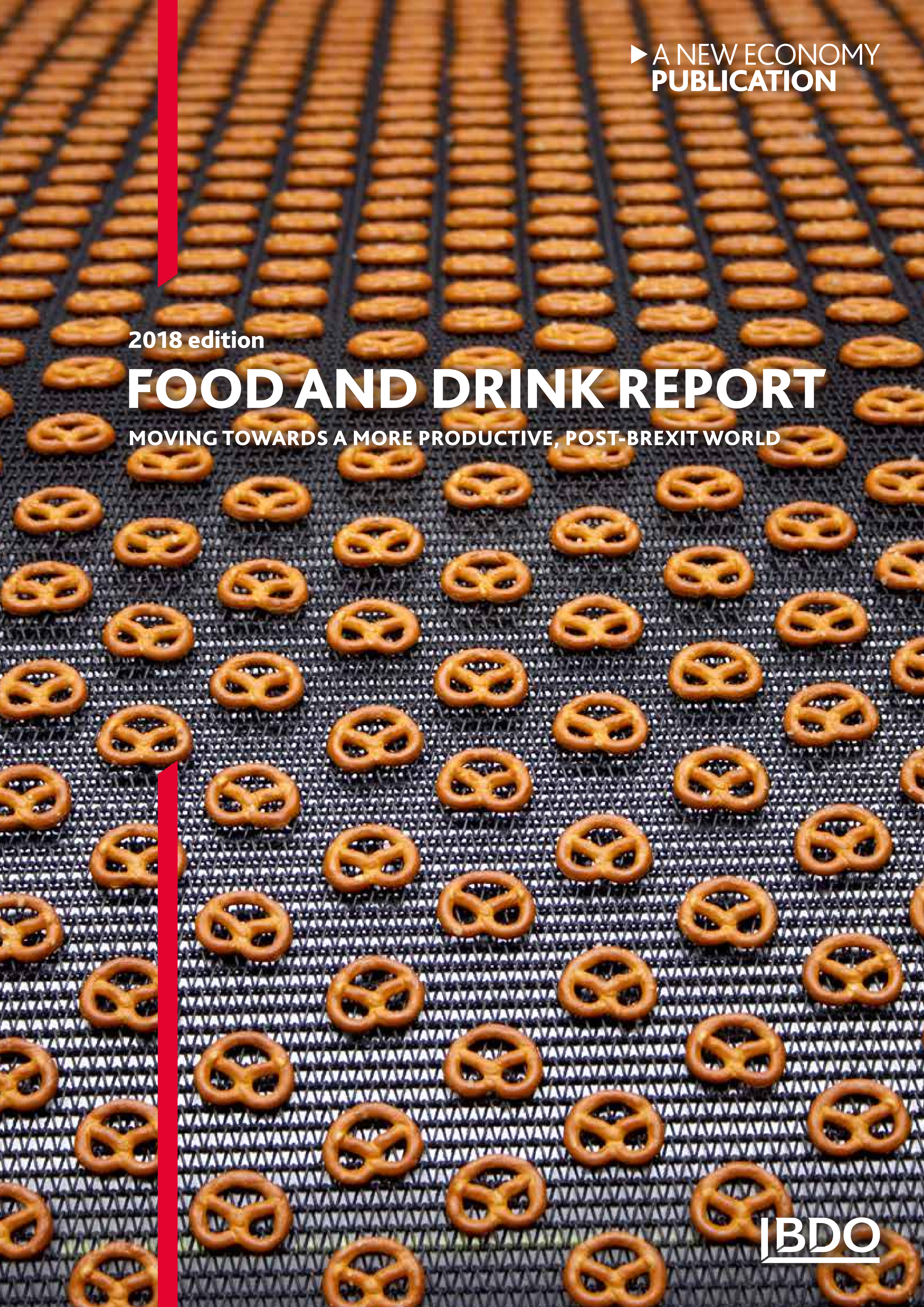

A NEW ECONOMY **PUBLICATION**

2018 edition

FOOD AND DRINK REPORT

MOVING TOWARDS A MORE PRODUCTIVE, POST-BREXIT WORLD

BDO

2018 edition

FOOD AND DRINK REPORT

MOVING TOWARDS A MORE PRODUCTIVE, POST-BREXIT WORLD

Contents

The food and drink industry at a glance[1]

THE INDUSTRY IS LARGER THAN THE AUTOMOTIVE AND AEROSPACE INDUSTRIES COMBINED

2017 EXPORTS WERE WORTH >£22BN

LAST YEAR IT CONTRIBUTED £28.8BN TO THE UK ECONOMY

A THIRD OF THE INDUSTRY'S 400,000 WORKERS ARE FROM THE EU

THE INDUSTRY HAS A TURNOVER OF £97.3BN ACCOUNTING FOR 19% OF TOTAL UK MANUFACTURING

THE FOOD AND DRINK INDUSTRY NEEDS 140,000 RECRUITS BY 2024

INTRODUCTION

Food and drink companies around the world face threats and opportunities from a range of factors, from automation to product safety regulation. Those in the UK, though, face a unique additional source of anxiety: Brexit.

This was already a major source of uncertainty for our industry a year ago. And if there were hopes that many of Brexit's unanswered questions would be resolved over the last 12 months, the reality is we are only now starting to dispel the unknowns.

What we do know is that food and drink, the UK's biggest manufacturing industry, could be unfairly hit by leaving the European Union (EU). We depend on foreigners for almost a third of our workforce and two of our three largest export markets are in Europe[1].

On top of this, a March report by the Food and Drink Federation warned the industry could face a 'hidden hard Brexit' because our supply chains may fail to comply with future origin requirements[2]. And Brexit is not the only preoccupation for the industry.

Our research also reveals concerns about productivity and skills gaps, and it is clear the industry is still grappling with issues such as the need for greater automation. It's not all bad news, though. The UK food and drink industry remains a dynamic and exciting industry, for a number of reasons.

Food and drink exports, for example, are going from strength to strength, inside and outside Europe. UK food and drink exports to China grew by 28% in 2017 alone, topping £564m[3]. And Scotland's food and drink industry hit a record with exports of £1.6bn in 2017, a 15% increase on 2016.

Scotland is now setting its sights on doubling the value of its food and drink industry, up to £30bn, by 2030[4].

Industry-wide, innovations such as automation are promising to deliver new levels of productivity and supply-chain efficiency.

The UK government continues to support innovative companies and offers incentives for companies that want to invest in research and development (R&D).

Across the industry, what we increasingly see is an opportunity for a shift towards a more efficient, productive and technologically sophisticated way of working. Charting the path ahead will not always be easy, of course.

To help, this report aims to offer further material upon which to base your view of the market and its prospects in the months and years ahead. I hope you find it useful.

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EXECUTIVE SUMMARY

A quick glance at this year's BDO Food and Drink Survey could be misleading. With 60% of respondents saying they are very or quite positive about future prospects, and only 6% predicting a negative outlook, there seems little for the industry to worry about.

But a closer look at the data reveals this level of optimism has been eroding over the last three years. In 2016, 79% of respondents were optimistic about the future. That level dropped to 73% in our last survey and is further down this year. Yes, people are confident. But increasingly less so.

This falling confidence contrasts with the economic health of the industry. So what future uncertainty could be unsettling our respondents? Without doubt, there is one clear challenge ahead: the UK's separation from the EU.

BREXIT SPARKS FEARS OVER ACCESS TO LABOUR…

The food and drink industry is heavily reliant on EU labour, with one in three workers coming from the Union. With Brexit being largely about applying restrictions on cross-border movement, the upcoming disconnection from the continent is seen as a major threat to business operations.

A mere 2% of respondents predicted Brexit would have a positive effect on their business, and 31% expected to see negative impacts on trading performance within a year. Another 36% thought trading pressures would last over the medium and long term.

Brexit will not only have an impact on access to labour, either. A third of the people we questioned believed it could also restrict access to raw materials.

…BUT CHALLENGES HAVE YET TO EMERGE

Despite concerns about access to human talent, there is little evidence that skills shortages are affecting the industry today. Three years ago, 70% of survey respondents were having problems finding the right people, but in 2017 it dropped to 57% and this year it went down again, to 54% - a surprising and unexpected result from this year's survey.

BUSINESSES STRIVE TO IMPROVE PRODUCTIVITY…

A classic reaction to trading challenges is to do more with less, so it is perhaps no surprise that food and drink businesses now see increasing productivity as a key priority. No less than 89% viewed productivity as a major focus area, with 63% looking to make better use of staffing resources and 54% aiming to improve materials utilisation and cut waste.

…BUT COMPANIES CUT BACK ON AUTOMATION

While 54% of respondents said their companies were increasing levels of investment in automation, this level has dropped markedly from the 66% we noted in our 2017 survey.

Nevertheless, it seems many businesses continue to recognise the role that automation can play in improving productivity, with 46% of projects having this aim.

A further 30% of automation programmes were aimed at improving process capability and 23% of respondents said they were automating to boost competitiveness and enhance product quality.

FOCUS MOVES TO NEW PRODUCT DEVELOPMENT

To drive business growth, respondents are now mostly looking at new product development. More than half of our survey respondents cited this, while a further 34% said they were planning to refresh existing products and services.

The findings underscore the continuing importance of innovation within the food and drink industry. The UK government supports this through research and development incentives, but there is still relatively low awareness around the range of activities that might qualify for R&D reliefs.

RESULTS HIGHLIGHTS

FROM THE BDO FOOD AND DRINK SURVEY 2018

60%

OF RESPONDENTS ARE **POSITIVE** OR **VERY POSITIVE** ABOUT THE PROSPECTS FOR THEIR BUSINESS

52%

SAY **NEW PRODUCT DEVELOPMENT** WILL OFFER SALES GROWTH OPPORTUNITIES FOR THEIR BUSINESS

42%

OF RESPONDENTS THINK **BREXIT** IS THE **BIGGEST THREAT TO THEIR BUSINESS**

54%

OF RESPONDENTS ARE INCREASING THEIR **INVESTMENT IN AUTOMATION**

39%

OF RESPONDENTS HAVE EXPERIENCED A **DECREASE** IN **OPERATING MARGINS**

54%

ARE HAVING **DIFFICULTY RECRUITING THE SKILLED PEOPLE** THEIR BUSINESS NEEDS

89%

OF RESPONDENTS SAY **PRODUCTIVITY** IS A **KEY FOCUS** FOR THEIR BUSINESS

34%

EXPECT **GROWTH** OVER THE NEXT 12 MONTHS FROM **EXPANSION INTO NEW UK MARKETS**

ONLY 24%

ARE CONFIDENT THE GOVERNMENT WILL **NEGOTIATE** A FAVOURABLE **POST-BREXIT ENVIRONMENT** FOR THE INDUSTRY

50%

OF RESPONDENTS ARE EXPECTING **PROFITABILITY TO INCREASE** OVER THE NEXT 12 MONTHS

ONLY 2%

OF RESPONDENTS THINK **BREXIT** WILL HAVE A **POSITIVE IMPACT** ON **TRADING PERFORMANCE** IN THE SHORT TERM

55%

SAY **BREXIT** WILL HAVE A **NEGATIVE IMPACT** ON ACCESS TO **LABOUR AND SKILLS**

GROWTH AND PROSPECTS

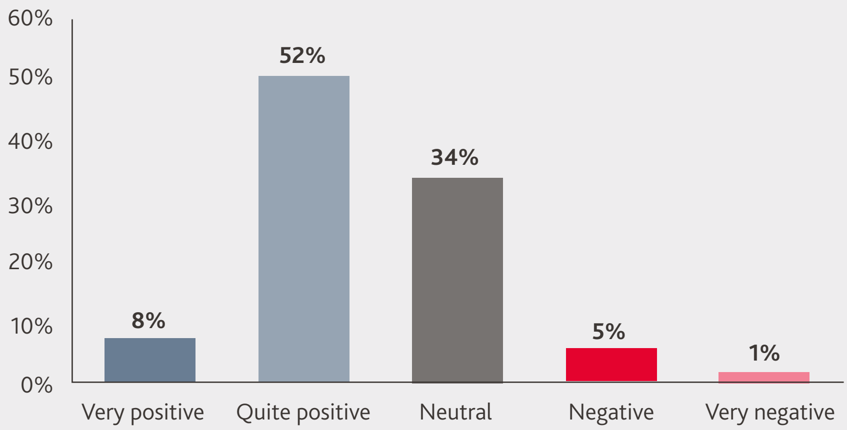
NEW PRODUCT DEVELOPMENT CORE TO DRIVING GROWTH

This year's BDO Food and Drink Survey shows the industry still feeling good about the future. In our survey, 60% of respondents claimed to be very or quite positive about the industry's prospects. A further 34% had a neutral view, and only 6% viewed things negatively.

The finding looks good until you consider what we have seen in previous years. In our 2016 survey, 79% of respondents felt positive about the future. In 2017, this level dropped to 73%. Against this backdrop, a positive rating from three in five respondents no longer seems that great.

Even with falling confidence, food and drink businesses continue to be resilient and robust in responding to the challenges and commercial issues they face. At the same time, the industry looks more vulnerable than many to the impact of Brexit.

FIGURE 1. HOW POSITIVE DO YOU CURRENTLY FEEL ABOUT THE FUTURE PROSPECTS OF THE FOOD AND DRINK INDUSTRY IN THE UK?



Hence it is perhaps understandable that respondents are being more cautious with their optimism than before. And it remains the case that respondents are still generally positive about the outlook for their businesses over the next 12 months.

On all of five measures—profitability, revenue, new orders, headcount and capital expenditure—respondents tended to expect improvements over the coming year.

The most heartening scores were for revenue and new orders, where only 5% and 3%, respectively, of those questioned expected to see a decrease in the next 12 months. Revenue-wise, 76% expected an increase. And 67% believed order levels would increase.

The most muted reactions to business performance in the coming year were for measures of headcount and capital expenditure. On headcount, 44% of respondents expected to recruit, 36% expected staff numbers to stay the same and 20% forecast a decrease.

Regarding capital expenditure, meanwhile, 47% of respondents foresaw an increase, 35% expected no change and 18% predicted a decrease in the coming year.

In line with respondents' mutedly optimistic outlook, only 13% of respondents did not expect to see business growth in the next year.

FOOD AND DRINK BUSINESSES CONTINUE TO BE RESILIENT AND ROBUST IN RESPONDING TO THE CHALLENGES AND COMMERCIAL ISSUES THEY FACE

DOUGH OR CRUMBS?

FIGURE 2: HOW DO YOU ANTICIPATE YOUR BUSINESS PERFORMING IN THE FOLLOWING AREAS OVER THE NEXT 12 MONTHS?

	INCREASE	STAY THE SAME	DECREASE
Profitability	50%	37%	13%
Revenue	76%	19%	5%
New orders	67%	30%	3%
Headcount	44%	36%	20%
Capital expenditure	47%	35%	18%

INDUSTRY TRENDS: SHRINKFLATION

From Jaffa Cakes to Toblerone, food product sizes are getting smaller. In the last five years, manufacturers have been offering less product for the same price, a trend known as 'shrinkflation'.

According to industry bible The Grocer, shrinkflation is now endemic in the food and drink industry, as manufacturers face pressure on prices[5]. But while Brexit is frequently cited as the cause, the Office for National Statistics has stated ingredients such as sugar are now cheaper than ever[6].

Whatever the reality behind the trend, the fact is that UK consumers are now getting used to having less product for their money.

GROWTH AND PROSPECTS

GROWTH: WHERE WILL IT COME FROM?

When asked to select the key areas which would offer businesses sales growth, more than half the respondents expected to experience growth as a result of new product development, highlighting the value of innovation within the UK's food and drink industry (see p24).

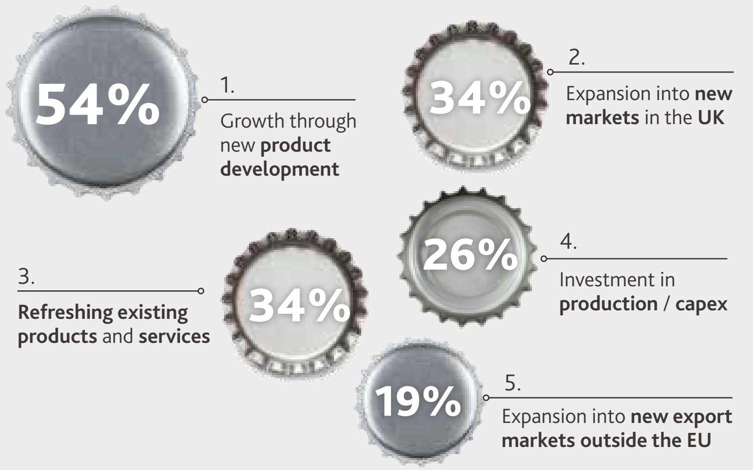
The two second biggest drivers of growth in the next 12 months, both cited by 34%, were expected to be refreshing existing products and services, which again links back to innovation, and expansion into new markets in the UK. A further 26% said growth would come from planned capital investments.

More respondents expected their businesses to grow via new export markets outside the European Union (19%) than those predicting growth from markets within (15%).

Interestingly, too, mergers and acquisitions were seen as one of the least popular routes to growth, cited by just 3% of respondents.

ON TOP OF GROWTH?

FIGURE 3: IF GROWTH IS EXPECTED, WHERE DO YOU ANTICIPATE THE MAJORITY OF THIS SALES GROWTH TO COME? TOP 5 OPTIONS SELECTED.



INDUSTRY TRENDS: CHANGING CONSUMER TASTES

2017 saw sales of organic food and drink rising to a record high in the UK, with a 6% hike yielding a market worth £2.2bn. And the trend shows no sign of letting up, with organics and other healthy foods and drinks increasingly moving out of specialist outlets and into the high street[7].

It's not only a trend towards healthier eating and drinking that is offering up new opportunities for manufacturers and retailers, though. The spread of hipster culture has also sparked growing interest in niche drinks ranging from speciality coffees to craft beers and gins.

Last year was also a record year for gin sales in the UK, with 47 million bottles flying off the shelves. Growth in gin sales outstripped that for any other spirit and represented a doubling in value over the last six years, according to the Wine and Spirit Trade Association[8].

BUSINESS VIEW: PROPERCORN

"PROPERCORN continues to be the driving force behind the booming popcorn category, innovating in flavour and format for the increasingly health-conscious shopper.

When seasoned properly, popcorn is a totally natural, wholegrain snack - gluten-free, high fibre and low calorie but, crucially, a brilliant vehicle for flavour innovation.

Our latest creation, a chocolate popcorn, was two years in the making with extensive trial and development from our in-house product team at PROPERCORN. Working closely with industry experts in chocolate and our manufacturing partner, we looked to recreate the indulgent satisfaction of chocolate whilst upholding our commitment to creating delicious, healthier snacks.

By combining Fairtrade cocoa with whole milk and demerara the team developed a seasoning with the mouthfeel and flavour of chocolate but without the high fat content of traditional confectionary.

We have an ambitious pipeline of innovation lined up for 2018 and will continue to create unique snacking propositions in response to ever-changing shopper needs and global flavour trends."

EMMA LOVE
HEAD OF PRODUCT, PROPERCORN

WHILST THE OUTCOME OF BREXIT LOOMS LARGE, IT HASN'T DAMPENED THE FOOD AND DRINK INDUSTRY'S APPETITE FOR M&A

INDUSTRY TRENDS: M&A ACTIVITY

"The M&A market in 2017 saw a continuation of the key value drivers evidenced in recent years, with the majority of transactions driven by either a focus on strength of brand such as Unilever's sale of its branded spreads portfolio to KKR, or the sale of Aspall Cyder to Molston Coors, control over supply chain, or the proliferation of health and nutrition. The major international food and drink groups continue to drive M&A with the top 100 transactions spending in excess of £50bn[9].

Whilst the outcome of Brexit looms large, it hasn't dampened the food and drink industry's appetite for M&A, with many in the market continuing to use this as a route to competitive advantage. Coupled with the much talked about growth in private equity 'dry powder' also fuelling deals, it could be said that 2017 was a good time for vendors in the industry."

JASON WHITWORTH
PARTNER, CORPORATE FINANCE, BDO

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RISKS AND CHALLENGES

BREXIT TAKES THE LEAD

The risk landscape for UK food and drink businesses seems to have changed significantly in the last year.

Whereas in 2017 the top risk perceived by industry experts was the volatility of raw material prices, this year it was relegated to joint third place, along with attracting and retaining labour, and was a concern for just 32% of respondents.

It is unlikely that food and drink companies would be unconcerned about the supply of materials, so it is probable that the drop in this score reflects the onset of another risk that is attracting more attention. The biggest worry for food and drink companies now, it emerged, is Brexit (see p13).

This was a preoccupation for 42% of respondents, followed by pricing pressure from customers (34%). While Brexit concerns are clearly not overwhelming, affecting just over two out of every five respondents, it is worth noting that labour worries are likely also linked to the UK leaving Europe.

IN A PICKLE?

FIGURE 4. WHAT ARE THE TOP RISKS / CHALLENGES FACING YOUR BUSINESS IN THE NEXT YEAR? TOP 5 OPTIONS SELECTED.

INDUSTRY TRENDS: PRICING PRESSURES AND COMPETITION

When the UK Food and Drink Sector Council met for the first time in January 2018, it had a clear purpose on the agenda: to help make the industry more resilient, sustainable and competitive[10]. And no wonder.

When the UK leaves the European Union, the cost of food and drink ingredients is likely to go up, sharpening competition in national and international markets. Food and drink companies need to start building their competitive edge now. They haven't been doing too badly so far, either.

According to the Food and Drink Federation, the UK has historically had the highest level of new product launches of any major market outside the US, along with one of the highest levels of investment in research and development[11].

Even this frenzied rate of innovation may not be enough to stave off fierce price competition, though. UK supermarkets have already experienced a war of attrition since the arrival of discount retailers such as Aldi and Lidl.

By 2015, the impact of discounters had already led to significant financial stress for UK farmers and other food suppliers[12].

In 2017, meanwhile, research firm Mintel warned that price competition between foodservice operators was on the rise even though the market was forecast to grow 26% by 2021[13].

And the recent announcement of the planned merger of Sainsbury's with Asda, Sainsbury's has promised its shoppers a 10% price cut on popular foods[14]. This will all only put further pressure on the industry's already thin margins.

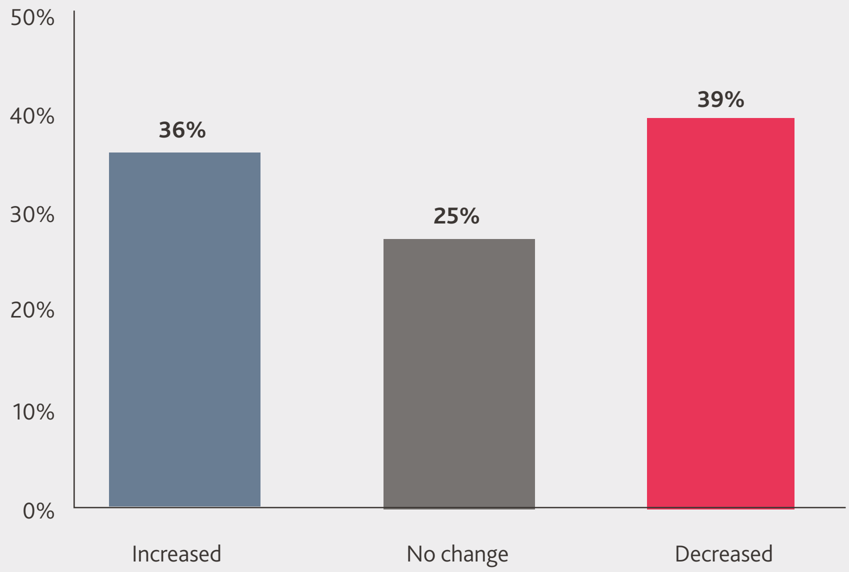
MARGINS: ERODING DESPITE A BUOYANT YEAR

Worries over the future may in part be related to the fact that, despite a generally buoyant year, many companies have seen their margins eroding.

While 36% of survey respondents managed to improve their margins over the last year, 25% saw no change and 39% experienced a decrease. This is a big change from our survey results last year, in which 28% of respondents said they had suffered margin cuts.

A fall in the value of the pound since the Brexit referendum may be a factor in this, along with a drop in consumer spending as customers watch their pennies[15]. What all this adds up to is that many UK food and drink companies are facing an uncertain future at a time when profits are already being eaten away. Little wonder, then, that the mood is perhaps not as upbeat as it has been in previous years.

FIGURE 5. IN COMPARISON TO A YEAR AGO, HOW HAVE YOUR OPERATING MARGINS PERFORMED?



BUSINESS VIEW: 3V NATURAL FOODS

"3V Natural Foods, headquartered in Sutton Scotney near Winchester, owns the Rocks Drinks and Meridian Foods brands. Our group has been growing fast, with turnover increasing from £7m to £29m in the five years to 2017.

The operating companies have grown by maintaining flexibility in production to allow innovation and wide product ranges to drive sales growth, but this has meant that our operations are relatively labour intensive.

If Brexit results in a restricted labour supply this could result in upward cost pressure for the group and so we are proactively seeking to increase automation in our processes over the next two to three years.

About £3.5m of group turnover is generated in the EU so tariffs for exports to the EU could be a threat. But several of our competitors import their nut butters from the EU, so tariffs could increase their cost base for selling in the UK, too."

NEIL BUTLER
FINANCE AND OPERATIONS DIRECTOR, 3V NATURAL FOODS

THE QUEST FOR PRODUCTIVITY

A FOCUS ON BETTER UTILISATION OF LABOUR AND MATERIALS

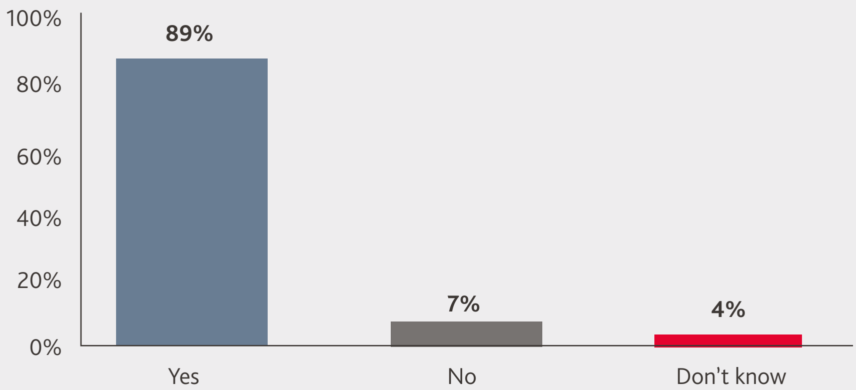
If there is one trend that stands head and shoulders above all others in this year's survey, it's the need for improved productivity. Faced with lower margins and growing uncertainty, food and drink business leaders know they must find ways to do more with less.

Productivity is a key focus area for 89%. The big question is how to improve things, and here there are two strategies that stand out. 'Better utilisation of labour' was cited by 63% of respondents, while 54% mentioned making better use of materials and cutting down on waste.

At the other end of the spectrum, only 5% of respondents said they were looking to cut energy costs. This represents a big shift from two years ago, when 45% of those surveyed said they were employing strategies to mitigate changing energy costs.

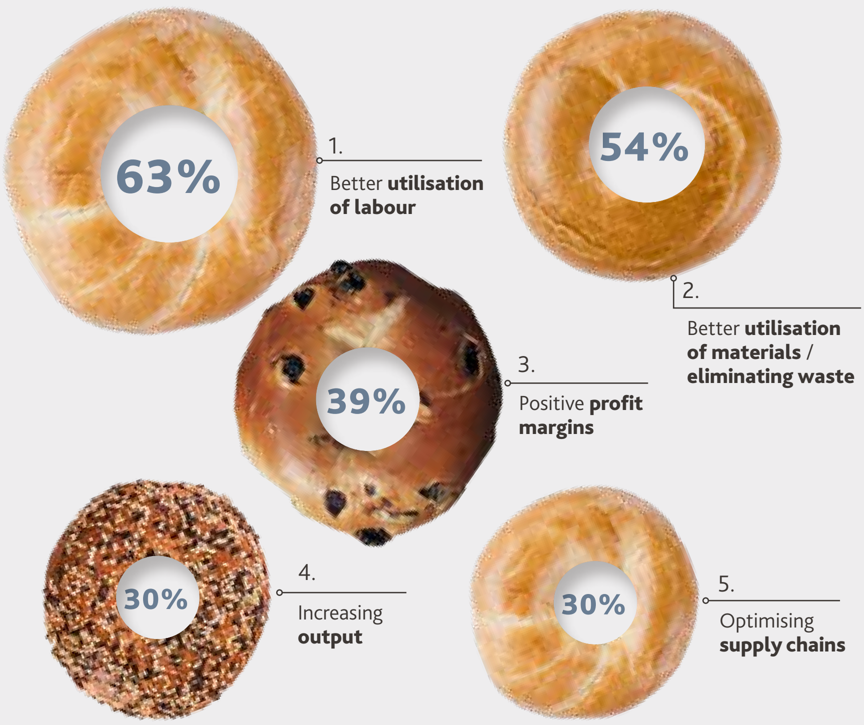
Also interesting, given the focus on innovation, is the fact that only 18% of respondents were planning on improving productivity by adding value to their products.

FIGURE 6. IS PRODUCTIVITY A KEY AREA OF FOCUS FOR YOUR BUSINESS IN 2018?



MORE TO SHARE?

FIGURE 7. IF YOU ARE FOCUSING ON PRODUCTIVITY, WHICH AREAS ARE A PRIORITY FOR YOUR BUSINESS? TOP 5 OPTIONS SELECTED.



THE PRODUCTIVITY PUZZLE

UK productivity is a cause for concern, clearly: in our research, more than four out of five respondents cited it as a major focus area for their businesses. And it's not just vexing for the people we surveyed.

The manufacturer's organisation EEF is so concerned with productivity that in May 2018 it launched a major report, 'Unpacking the Puzzle' on the issue[16]. Productivity has stagnated in the UK for the last decade, it says. And "labour productivity, its growth and levels, matters for wages and international competitiveness," it notes.

What is causing the problem? The exact causes are unclear, but EEF's research uncovered three potential factors.

One is size: larger UK companies seem to be able to exploit economies of scale and vertical integration opportunities to achieve higher levels of productivity than their smaller counterparts.

Another possible factor is that UK companies may tend to be at the end of value chains and so find it harder than international peers to uncover productivity gains. Fortunately, this also allows UK companies to enjoy higher profits.

Finally, says the EEF: "Management practices across UK manufacturing do not reflect international best practice, with a long tail of companies with poor management practices. Evidence suggests companies with better management practices are more likely to have higher rates of productivity growth."

One thing that didn't seem to make much of a difference was capital investment. Italy invests more than Germany, for example, but has lower productivity.

And what of UK food and drink, specifically? The good news is that food and drink (which the EEF assessed along with tobacco) had enjoyed significant productivity growth in the UK, compared to other European countries, in the run up to 2008.

As a result, UK food and drink industry productivity levels are ahead of those in countries such as Germany, Italy and Spain. However, as with other UK manufacturing industries, productivity growth has plateaued in the last ten years.

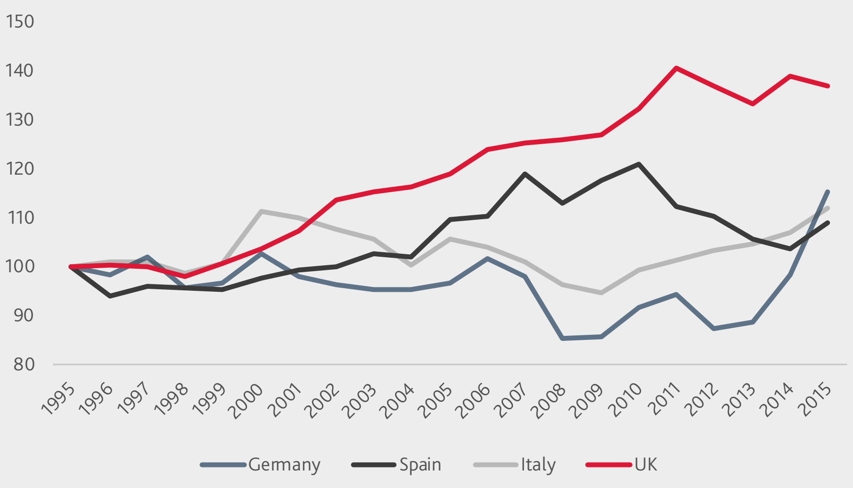
In the meantime, Germany, Italy and more recently Spain have seen productivity following an upward trend. The upshot is that UK food and drinks companies cannot afford to rest on their laurels; other European markets could soon catch up in terms of productivity.

The research prompted the EEF to hold the Government to account regarding the promise of an independent Industrial Strategy Council, which was pledged in a 2017 white paper.

"Lee Hopley, chief economist at the EEF, said the council was needed 'urgently'," the Financial Times reported, "not only to ensure the strategy was implemented but also to 'identify how the overall strategy can improve productivity'."[17]

FIGURE 8: FOOD AND DRINK – A COMPETITIVE SECTOR ON THE WORLD STAGE

Real GVA per hour, 1995 = 100



Source: EEF - Unpacking the Puzzle Report (Eurostat, OECD and EEF analysis)

FURTHER INSIGHTS: PRODUCTIVITY

There are a number of steps food and drink companies can take to improve their productivity, and BDO's Stephen Cooney shares six steps (p12) businesses may want to consider as a starting point.

The food and drink industry has ample opportunity to go even further through the implementation of technology trends such as automation (p20), innovation, which can qualify for UK government support in the form of research and development (p24) and reviewing supply chain strategies (p26).

THE QUEST FOR PRODUCTIVITY

SIX STEPS TO GET YOUR FOOD AND DRINK BUSINESS IN SHAPE

ONE

SET YOUR EXPECTATIONS HIGHER... BUT BASE THEM ON FACTS

When did you last download your competitors' annual accounts? Surprisingly few management teams do this, but it's an easy way of judging how well you're really doing.

TWO

GET A GRIP ON THE NUMBERS, QUICKLY

Invest the time now in getting concise, timely management information to drive operational decisions. This has to be trustworthy and ideally available weekly, so simple is best.

THREE

PRIORITISE AND MOVE ON

Identify the three to five most important operational challenges and prioritise them. Ruthlessly cull any business project which doesn't support one or more of the priority areas.

FOUR

CREATE AND IMPLEMENT AN IMPROVEMENT VISION

Determine an improvement programme with distinct initiatives. Sell internally and secure funding and resources to implement. Execute with an appropriate governance structure to eliminate roadblocks and mitigate risks.

FIVE

DRIVE SOME PACE INTO MANAGEMENT MEETINGS

Reduce meetings to free up time to drive improvements. Challenge the meetings your managers attend - are they really effective? Are they attended by the right people to take decisions? Does everyone contribute?

SIX

PLAN FOR THE DOWNSIDE

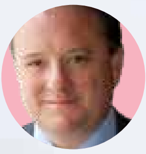
A lot of business plans model a single scenario which is more or less what you expect (or hope) the year ahead will look like. To prepare for hard times, test some downside scenarios.

THE BDO VIEW: PRODUCTIVITY

"Manufacturing faces an array of threats over the coming year. Although some of the uncertainty over the nature of the UK's transitional arrangements with the European Union has been dispelled, the March 2019 deadline is looming. In the meantime, migration from Europe has fallen, worsening manufacturing's ongoing skills shortage.

Manufacturing has had a short-term advantage from the falling pound, but when raw materials tend to be imported all that really matters in the medium term is net value add, and productivity is at the root of this. With UK productivity lagging most other major economies, this advantage won't last long.

If all this wasn't enough to worry about, interest rates have started to rise, with clear signals from the Bank of England of more to come. It's time to get fit for a tougher future."



STEPHEN COONEY
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THE BREXIT EFFECT

ACCESS TO LABOUR AND SKILLS: CAUSE FOR CONCERN

As might be expected given the prominence given to Brexit among current threats to the food and drink industry, our survey revealed fears of a wide range of impacts arising from the UK's departure from Europe. The most serious of these was expected to be access to labour and skills.

Only 2% of respondents expected Brexit to have a positive impact on this issue, and 55% were downbeat about the prospects. Furthermore, 33% said Brexit could have a negative impact on access to raw materials.

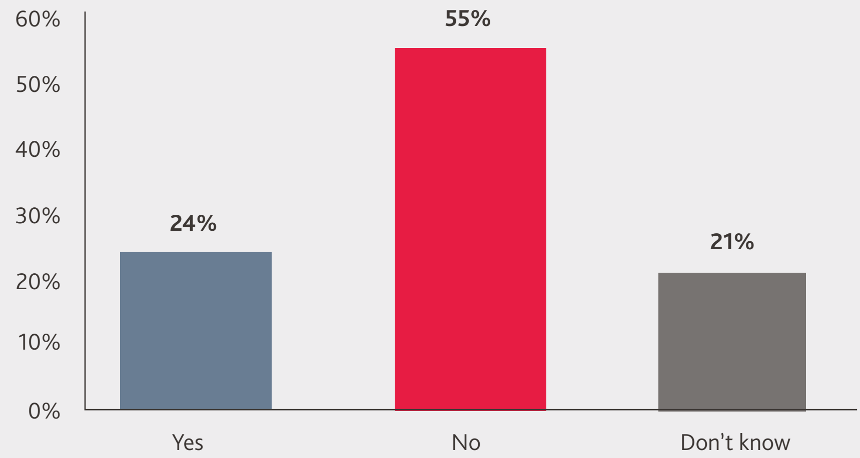
This likely explains why 31% expected to take a hit to trading performance within 12 months and another 36% expected negative impacts to persist over the medium to long term.

Carried out before the UK agreed a transition deal with Brussels, our survey also revealed concerns over the Government's ability to agree favourable post-Brexit terms for the food and drink industry.

TABLE 1: WHAT IMPACT DO YOU THINK BREXIT WILL HAVE ON YOUR BUSINESS IN THE FOLLOWING AREAS?

	Negative impact	Neutral	Positive impact	Too soon to judge
Trading performance in the short term (12 months)	31%	47%	2%	20%
Trading performance in the medium/long term (2/3 years)	36%	25%	7%	31%
Export opportunities	13%	49%	18%	20%
Access to imported raw materials	33%	42%	4%	22%
Access to labour and skills	55%	33%	2%	11%
Capital investment	13%	71%	4%	13%
R&D investment	7%	75%	4%	15%
Availability of funding	7%	75%	4%	15%
Regulatory environment	27%	31%	11%	31%

FIGURE 9. ARE YOU CONFIDENT THAT THE UK GOVERNMENT WILL BE ABLE TO NEGOTIATE A FAVOURABLE POST-BREXIT ENVIRONMENT FOR THE FOOD AND DRINK INDUSTRY?



FURTHER INSIGHTS: THE BREXIT EFFECT

See pages 16 and 17 where BDO specialists highlight key areas food and drink businesses need to consider when preparing for Brexit.

THE BREXIT EFFECT

WHAT WOULD HELP? A NEW ECONOMY

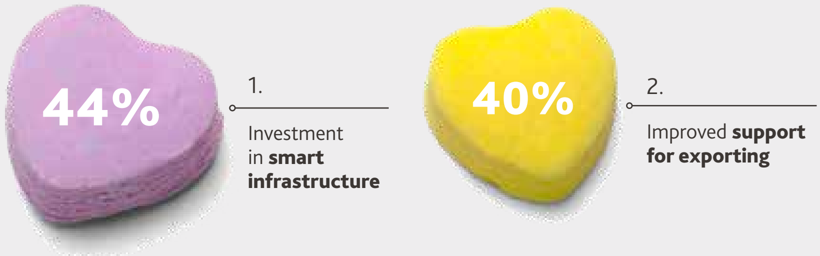
How should food and drink businesses react in such uncertain times? And how can policymakers create the right environment for the industry to flourish?

The top two measures that respondents felt would help their businesses cope with Brexit are investment in smart infrastructure and improved support for exporting.

These are both measures BDO is pushing for as part of a New Economy proposal to help businesses thrive post-Brexit.

THE SWEET ESCAPE?

FIGURE 10. WHICH OF THE FOLLOWING ELEMENTS WILL HELP THE FOOD AND DRINK INDUSTRY'S GROWTH IN THE CURRENT UNCERTAIN LANDSCAPE? TOP 2 OPTIONS SELECTED.



Investment in smart infrastructure to create the right environment for businesses and local communities to flourish

Businesses in the new economy cannot succeed without infrastructure fit for the future. World-class infrastructure allows businesses to be run from anywhere in the country, linked physically by road and rail and digitally via superfast broadband.

Our New Economy paper suggests focusing on small projects to achieve quick wins, building local engagement and encouraging foreign and pension fund participation in investments, and creating social facilities, such as schools, alongside big developments.

Better roads and rail links will give the best return if they connect potential powerhouses - helping areas on the cusp of sustainable economic success to cement their position and help their businesses to thrive.

In uncertain financial times, the Government needs to get the best possible value out of any investment, and some plans will deliver far more value than others.

Improved support for exporting

Regarding exports, meanwhile, our report proposes removing tax barriers for UK exporters opening a new branch or subsidiary overseas.

The opportunity to negotiate new and independent trade agreements with foreign markets is a chance to put the internationalisation of mid-sized businesses, including many food and drink companies, at the heart of our economic strategy.

We also suggest introducing a VAT zero rating of supplies to companies that export once Brexit negotiations are finalised, to encourage more firms to trade abroad. The UK currently allows manufacturers to zero rate their exports.

However, it is less generous with reliefs for domestic companies that supply to UK exporters. In contrast, Ireland has a more generous relief for regular exporters, where a qualifying exporter is able to inform its suppliers of its export authorisation and those suppliers can then zero rate their supplies.

There are many more suggestions in the New Economy paper that could benefit the food and drink industry, such as increasing the annual investment allowance to help increase productivity, simplifying tax and supporting business growth by tackling the UK skills gap.

It will be interesting to see if the Food and Drink Sector Council, which was launched early 2018, will be able to help bring some of these measures to pass. Given the strategic importance of the industry, every piece of help would be worth it.

THE BREXIT EFFECT
THE BREXIT COUNTDOWN

THE BREXIT COUNTDOWN

With less than a year to go to Brexit day, we now know a little more about how the changes will play out.

The first bit of good news is that it is likely that nothing much will change on 29 March 2019: there will (probably) be an implementation agreement in place that will freeze the existing rules on the UK's membership of the European Union (EU) until 31 December 2020.

Of course, 'nothing is agreed until everything is agreed' so, for example, failure to resolve the Northern Ireland customs border issue could, theoretically, lead to a hard Brexit in 2019.

Over the following pages, BDO specialists consider what we already know and how businesses in the food and drink industry may be affected.

BREXIT COUNTDOWN: PEOPLE

Of the 2.35 million EU nationals working in the UK in 2017[18], around 20% work in the food and drink industry[19].

The UK's original proposals on freedom of movement for EU citizens during the transition period would have forced EU nationals relocating to the UK after March 2019 to apply for 'temporary status'.

However, the transitional agreement sets out that all EU citizens, including UK nationals, are likely to have full freedom of movement until 2021, although simple registration will be required if they intend to stay for three months or more.

After 2021, the Government still intends for the 'settled status' rules to apply for EU citizens living in the UK. Individuals who are given settled status would be entitled to work in the UK, access all public services and build up UK state pension entitlements. To qualify, EU nationals would need to have been resident in the UK at 31 December 2020 and have established five years' continuous and legal residence in the UK. Irish citizens and those from Crown dependencies would not need to apply.

Individuals who have not built up the five-year period by 2021, will be able to apply for leave to remain in the UK until the five-year period is established and then apply.

EU nationals arriving in the UK from 2021 onwards will not be able to establish settled status. However, it is expected that they will be able to apply for a visa or immigration status under a new scheme (similar to the current visa requirements for non-EU nationals) and there will be a two-year 'grace period' to do this.

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BREXIT COUNTDOWN: GROUPS

After the transitional period, businesses will no longer be able to rely on EU directives to eliminate double taxation and withholding tax on dividends and payments of interest and royalties.

Without the directives, UK businesses may have to rely on relevant double tax treaties to establish whether payments from EU subsidiaries are exempt from withholding tax (WHT) or subject to a reduced rate of WHT. Treaties often reduce the rate of WHT below domestic rates, and sometimes to nil. To check out what rate of WHT you may have to pay from 2021, see **www.bdo.co.uk/wht-after-brexit**.

Where WHT is suffered at source, a double tax agreement (DTA) allows overseas tax to be claimed as a credit against UK taxes arising on the same income ('DTA tax credit relief'). In the absence of relief under a DTA, the UK allows unilateral relief and, provided the income has a foreign source (not always straightforward to work out), a credit for overseas taxes can be claimed.

Of course, depending on the final trade deal, there may be strong regulatory or business reasons to maintain or develop a local presence to access EU markets. Therefore, UK businesses that are restructuring their EU operations should investigate WHT issues as part of the process of mitigating tax costs after 2021.

To road test your position on Brexit, try out our online tool at **www.bdo.co.uk/start-brexit-planning**.

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BREXIT COUNTDOWN: IMPORT/EXPORT

In 2016, 30% of all food and drink consumed in the UK was imported from the EU and 50% of all UK food and drink exports went to other EU countries[20].

We have already seen a Brexit impact through currency fluctuations increasing costs, but more fundamental changes lie ahead. By 2021, it is hoped a new trade deal will be in place, but it is highly likely that some basic administration issues will still arise. When the transitional arrangements end, UK arrivals of goods from EU countries will become imports for indirect tax purposes, and UK dispatches of goods to EU countries will become exports.

So EU imports will require some form of customs import declaration and possible payment of customs duty and import VAT before the goods are allowed in: goods are likely to take longer to import.

Instead of accounting for acquisition tax on the VAT return, import VAT (where applicable) would be payable on arrival of the goods and there may also be customs duty liabilities. While deferment and warehousing procedures may mitigate the cash flow impact, these will require additional administration to ensure compliance.

From 2021, exports sent to other EU countries will remain zero-rated for VAT purposes, but more complex documentation (export declarations) can be expected: goods will probably take longer to clear through customs. Equally, UK businesses may not benefit from VAT simplifications such as triangulation and call-off stock. They may need to register for VAT in EU countries and it may become harder to reclaim VAT incurred in Europe.

Expect both imports and exports to be delayed as HMRC gets used to dealing with the huge increase in transactions to process: a challenge for those specialising in perishable goods and fresh produce.

Any final trading deal may well include some tariffs as the UK will be a 'third' country under EU rules. Even if the UK enters into a free trade agreement with the EU, businesses may not automatically benefit from duty-free trade in goods. Businesses may need to ensure their goods meet rules of origin to demonstrate sufficient economic value to benefit from duty-free movement between the EU and UK.

Applying for authorised economic operator status should not only help speed up customs clearances but will make it easier to apply for the other customs duty reliefs. It is expected that the Government will update the existing customs warehousing rules and inward processing relief to help businesses manage the cash flow implications of new EU customs duties.

However, all food and drink businesses may still benefit from a detailed review of their supply chain to minimise duty costs.

EVEN IF THE UK ENTERS INTO A FREE TRADE AGREEMENT WITH THE EU, BUSINESSES MAY NOT AUTOMATICALLY BENEFIT FROM DUTY-FREE TRADE IN GOODS

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A SKILLS SHORTAGE?

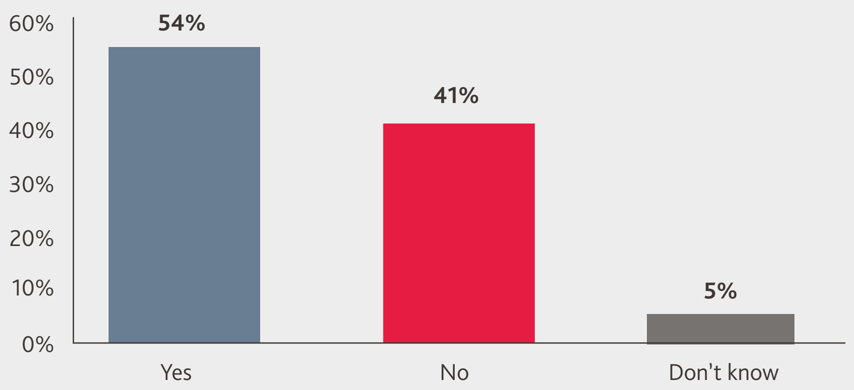
An oft-quoted fear about Brexit is that it will prevent the food and drink industry from getting access to the labour force companies so badly need. With a third of the industry's workers coming from the European Union, these fears seem well founded.

However, the challenge of finding skilled employees seems to have diminished over the last three years. In 2016, 70% of those surveyed said they were having trouble attracting the right talent. In 2017 that level dropped to 57%. And this year it fell further, to 54%.

Among companies struggling to find staff, the most sought-after employees were labourers and unskilled manual workers. Almost a third (29%) of respondents reported problems in this area, compared to 23% seeking production-related technical skills and 14% looking for sales and marketing people.

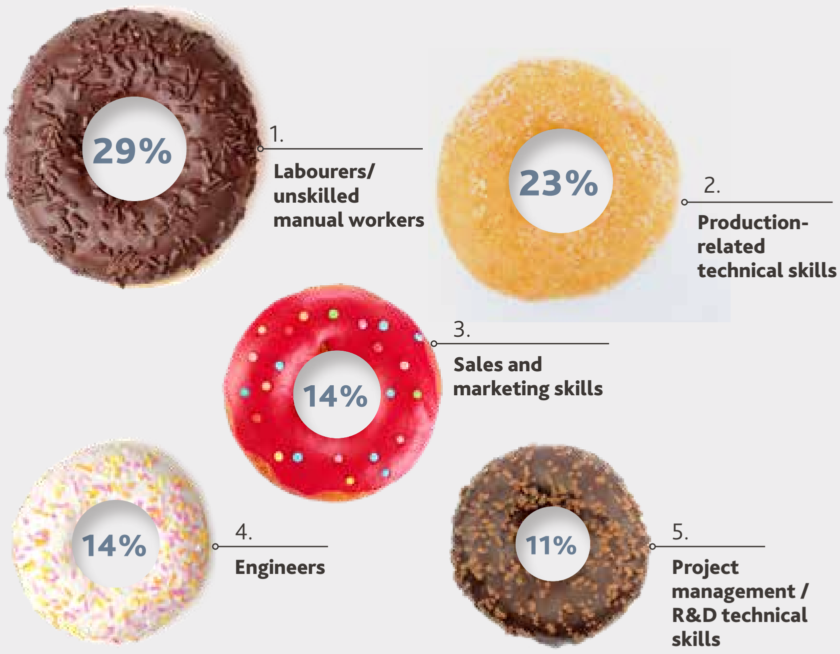
Unusually, too, food and drink companies do not seem to be having problems recruiting people with talents that are generally seen as being highly desirable in other industries. Thus, only 5% reported a software and IT skills shortage, and no respondents claimed to need design specialists.

FIGURE 11. IS YOUR ORGANISATION EXPERIENCING DIFFICULTIES IN RECRUITING THE PEOPLE AND SKILLS IT REQUIRES?



LOOKING FOR THE PERFECT ALL-ROUNDER?

FIGURE 12. IF YOU ARE EXPERIENCING RECRUITMENT DIFFICULTIES, WHICH SKILLS ARE YOU STRUGGLING TO RECRUIT? TOP 5 OPTIONS SELECTED.



BUSINESS VIEW: ABP UK

"Our apprentice strategy is a vital part of the ABP Talent Academy, encouraging entry-to-work through initiatives such as work experience, industrial placements and the graduate programme as part of our wider approach to talent and development.

In 2018, ABP's apprenticeship programme has 72 learners enrolled, located across the 14 ABP UK sites and sitting within four strategic focus areas.

The total investment of these current apprenticeships is significant, and we have ambitious targets to expand these numbers year on year. The apprenticeship programme is not without its challenges, though.

It is increasingly difficult to attract colleagues to operations within the food industry and we have noticed a sharp decline in applications to the more traditional apprenticeships such as butchery and engineering, with the conditions frequently cited where offers are rejected.

BY REMOVING ANY PRIOR SKILLS OR EDUCATION BARRIERS FOR CERTAIN APPRENTICESHIP AREAS, WE HAVE OPENED ENTRY TO YOUNG PEOPLE WHO EXPRESS INTEREST REGARDLESS OF THEIR BACKGROUND

Apprenticeships as a whole too have a degree of stigma attached to them and are not always the first choice for the applicants we attract, with many initially perceiving opportunities in the meat industry in particular as second or even last choice.

However, our skill ambassadors are spending more time and making progress with school leavers to present a career in the food industry as a viable option. Other challenges include entry requirements where functional skills aren't as advanced or English is spoken as a second language.

Some of our recruits have low levels of education and may have had a difficult start in life. The ABP apprenticeship programme provides such colleagues with access to pre-programme traineeships or additional educational and pastoral support to ensure that they are able to achieve.

By removing any prior skills or education barriers for certain apprenticeship areas, we have opened entry to young people who express interest regardless of their background and who are able to commit themselves to the work involved in progressing through the apprenticeship programme.

Despite the success of the apprenticeship programme, we would always welcome more applicants to engineering and operations.

Our award-winning programme sees colleagues of all ages gain work experience and a well-recognised qualification. In return, ABP gains exceptional new talent to add different perspectives and suggestions to our ways of working.

Our senior leaders are pleased with the progress made so far, with skills gaps being closed, and with the wider social benefits, and are committed to investing in the programme for the future."

VANESS DI CUFFA
PEOPLE CHANGE DIRECTOR,
ABP UK

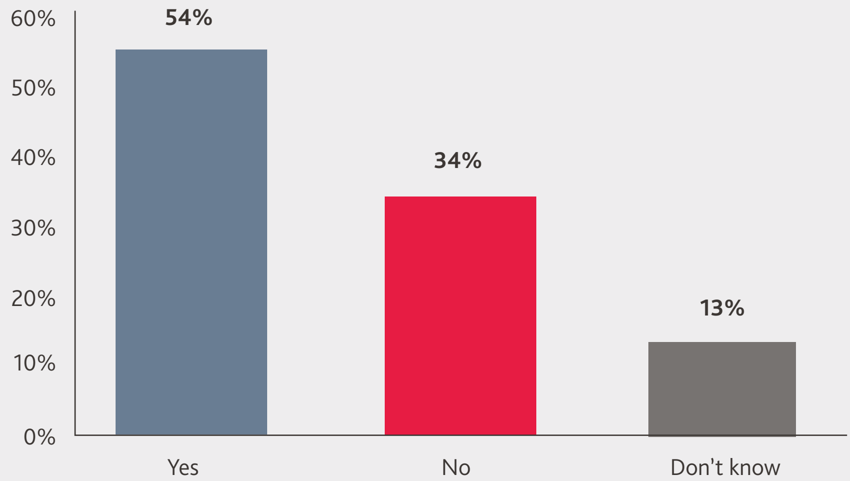
UNPICKING THE AUTOMATION CHALLENGE

Automation offers significant scope to reduce and stabilise costs while boosting output in the food and drink industry. No wonder, then, that 54% of respondents in our survey said their companies were increasing their investment in process automation.

This figure is, however, down on the 66% level we found in 2017, perhaps as a result of the heightened uncertainty that was evident in other parts of our survey this year.

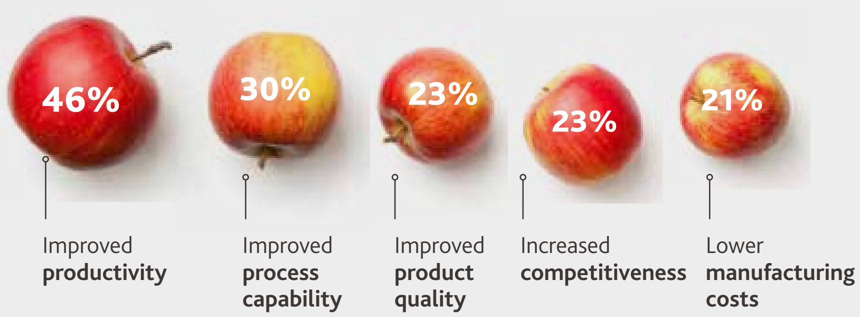
Among those companies with known automation programmes, the most common reason for automating processes, mentioned in 46% of cases, was to boost productivity. This was followed by increasing process capability (30%), improving product quality and boosting competitiveness (both 23%).

FIGURE 13. IS YOUR COMPANY INCREASING ITS INVESTMENT IN PROCESS AUTOMATION FOR FOOD AND DRINK PRODUCTION?



AUTOMATION NATION

FIGURE 14. IF YOU ARE INVESTING IN PROCESS AUTOMATION, WHAT ARE THE MAIN REASONS FOR DOING THIS? TOP 5 OPTIONS SELECTED.



FUTHER INSIGHTS: AUTOMATION

Specialists from The Manufacturing Technology Centre and University of Lincoln share insights over the next few pages focusing on automation in the food and drink industry, including pointers for success in automation and a case study on the Automated Processing Robotic Ingredient Loading (APRIL) 'robotic chef'.

EMBRACING AUTOMATION

It'll take more than robots to solve the industry's staffing worries.

It's no surprise automation is high on the food and drink business agenda when leaders are asked how they will handle working in a post-Brexit world. Those of us who have been in the industry for some time know the stream of workers returning to the continent has accelerated since the Brexit vote.

Couple this reducing labour pool with ageing equipment, older workforces, shorter-term supply contracts, a faster pace of change of products and an expanding population, and the industry is genuinely challenged.

Businesses are actively protecting existing headcount and have to find ways to re-train and redeploy their staff to more value-added roles. The challenge is how to free up these operators from the roles they're currently engaged in.

Automation looks like the answer. All aspects of food production are potentially suitable for automation, and now is a great time to do this, since many operations remain exclusively manual.

But automating your workforce is not as simple as getting a robot to do a simple job so your humans can do more complex ones. After all, the average line-side operator represents the most flexible piece of automation equipment we've ever seen.

Easily moveable and able to learn, a typical operator is fitted with a range of advanced sensing and automation equipment and can perform a range of tasks while in one space. They can be redeployed from one task to another and are capable of solving complex problems on the fly.

Trying to find a robot that can cover all these bases is practically impossible. Only by considering the operations, and not the operator, can we look at solutions that might work.

That is why successful automation projects will not usually involve replacing like for like, or one human with one highly complex robot or vision system. Instead, they will use a range of solutions to undertake a range of tasks.

These individual solutions may not be expensive, and by connecting them to share data the sum of the parts can become far greater than the individual elements. And some of the elements may remain human.

Witness, for example, the rapid growth in 'collaborative robotics,' where a robot can share the same space as a human operator with reduced or intelligent guarding. This has unlocked potential solutions to traditionally complex problems.

Their low cost, simple hand-guided teaching and small footprint means they are ideally suited to production tasks and have immediate application in end-of-line packing or standard clean environments.

Coupled with collaborative robotics, there is growth in autonomous intelligent vehicles, which are designed to work in unstructured, dynamic environments.

Using internal software and sensors, they are able to build up maps of their environment, which is ideal for the busy and moveable production facilities that they will be faced with. These solutions seem to be the panacea the industry needs, but there are still challenges to adoption.

Understanding where best to use these solutions, the risk assessments needed, the system integrators that will produce this equipment and the skills that the operators require are all areas that need further development.

More importantly, though, while it is easy to see robots as the anthropomorphic copy of a human worker, businesses still need to focus on productivity in general. This addresses the whole business and so has more profound benefits than just dealing with a perceived problem of staffing in one area.

There are numerous improvements in productivity that can have a more impactful result on your business than simply introducing automation. Streamlining an area of your facility, for example, could cause large jumps in productivity and profit without the use of high-tech, high-risk solutions.

And being able to capture, measure and then understand when, where and with what stocktaking units you're most productive is more important to a successful stable future business than any amount of automation.

So, by all means look into automation, but make sure your thinking also encompasses a more general consideration of work practices.

A food and drink industry where robots can be taught by hand and autonomous self-learning vehicles and systems can be connected through smart devices is all well and good, but if it is also more attractive to young people and more productive all round then that will really offer hope for the future.

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UNPICKING THE AUTOMATION CHALLENGE

CASE STUDY: SWITCHING APRONS FOR APRIL

Only an experienced chef can come up with a winning recipe. But once a recipe is in place, you don't necessarily need an experienced chef to follow it. And if you are cooking food on an industrial scale, it might help to have a worker who never gets tired and never makes mistakes.

That's the thinking behind the APRIL 'Robotic Chef' system developed by OAL, a leading provider of process and automation solutions for the international food industry, with the University of Lincoln.

APRIL is a fully automated robotic system that can mix, load and cook ingredients in a manner similar to professional chefs yet on an industrial scale, using modern cooking and material handling technologies. It was launched at the University of Lincoln's National Centre for Food Manufacturing in 2016.

The robot was one of the first in the industry to be aimed at food production and manufacturing rather than end-of-line processes such as palletisation or product packing[21]. OAL says APRIL fully automates cooking operations with:

- Consistent, homemade product quality due to smaller batch sizes and enhanced control
- Up to 50% reduction in factory space and capital equipment from parallel processing
- Extended shelf life from minimal human intervention and a controlled environment
- Minimal human intervention and major productivity improvements
- Sub 1% yield losses[22].

APRIL not only works without breaks or mistakes but also has modules of extreme accuracy. The system can weigh out free-flowing and non-free-flowing powders to an accuracy of 1g, for example, overcoming the traditionally labour-intensive tasks of handling, weighing and preparing raw ingredients.

Currently, this area of the food processing industry costs manufacturers up to 5% of their turnover, according to OAL[23].

Simon Pearson, professor of agri-food technology at the University of Lincoln, says technologies such as APRIL could help UK food and drink businesses automate even grocery and chilled goods production, which has traditionally been resistant to automation.

"These areas have high labour costs and have typically relied on large numbers of seasonal workers, which could become a problem after Brexit," he says.

APRIL NOT ONLY WORKS WITHOUT BREAKS OR MISTAKES BUT HAS MODULES OF EXTREME ACCURACY

POINTERS FOR SUCCESS IN AUTOMATION

- If you have enterprise resource planning and/or material requirements planning software, great. Consider advanced production and scheduling software as well to unlock your factory potential.
- Plan for productivity: create a space where productivity and automation projects have the same importance as new product development.
- Ensure you have synergy between planning and making. Is the facility making products in the same order as you're planning them?
- Think about funding: matched funding loans are available through the Innovate UK framework.
- Create a value-stream map for your site, to understand all of the production processes, and keep it up to date.
- With a value-stream map created, use simulation tools to understand more about your production site.
- Think about the data you are capturing from your production line: can you do more with it?
- Look for support: catapults and universities are ready to help solve your complex issues.
- Digitise your production facility and try to eliminate paperwork on the production floor.
- Try measuring overall equipment effectiveness for each of your production lines.
- Think productivity, not automation.

INNOVATION: KEEPING THE JUICES FLOWING

Maintaining the focus on fresh thinking could be key to overcoming challenges ahead

Coffee with nitrogen? It may sound like madness, but when Nescafé unveiled its Azera Nitro drink this year[24], it was only doing what the food and drink industry has been doing since the beginning of time: innovating.

Almost everything we eat and drink has been the subject of experimentation over time, and today developing new products and formulations remains a key activity for the industry.

Alongside Azera Nitro, this March saw the launch of a pineapple Powerade, a water brand in juice boxes and non-dairy milk tea, for instance. With Brexit threatening to undercut employment and upend relations with two of our top three export markets, it's vital to keep up that spirit of inventiveness.

Innovation can help food and drink companies face up to the challenges ahead in a number of ways. Applying automation to production processes can help lower your cost of operations and avert possible staff shortages, for example. New, recyclable packaging materials can help you avoid plastics.

New product development, meanwhile, can generate extra revenue streams and help your business maintain profitability in the face of changing regulations, such as this year's tax on sugary soft drinks. And innovation can even extend to areas such as markets, distribution channels and your supply chain.

With so much scope for new directions, where do you start? Although it is hardly a guide, the leading market intelligence agency Mintel last year listed five major trends to watch out for in food and drink during 2018[25].

Take a look and ask yourself if your business could benefit from these new fashions.

- **Make it be as good as it tastes:** Today's consumers are stressed and worried. Give them reasons to feel cheerful. Rather than guilty pleasures, how about healthy pleasures—products that provide nutritional, physical or emotional benefits?
- **Put products on tap:** With Amazon delivering almost anything to your doorstep, customers are increasingly comfortable with home delivery, automated re-ordering and subscription services that can keep your sales flowing.
- **Deliver honesty:** In an age of fake news, consumers need reassurance from your brand, Mintel says. So be sure to stand by ethical and environmental claims and be transparent on issues such as sourcing and labelling.
- **Apply science to your supply chain:** "In 2018," Mintel says, "technology will begin to disrupt the traditional food chain as enterprising manufacturers aim to replace farms and factories with laboratories."
- **Try a new texture:** Teens and young adults are keen to try, and share, new experiences, creating opportunities to dazzle customers with new textures and formulations.

The best thing about all of these potential sources of innovation, and more, is that you may get support for trying them out.

The Government continues to support innovative businesses and as part of its Industrial Strategy, which aims to improve productivity, it has announced it will work with industry to boost spending on R&D. R&D tax relief should be high on the agenda for innovative food and drink businesses.

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INDUSTRY TRENDS: FOCUS ON PLASTICS

From hedgehog-flavoured crisps to smooth Branston pickle, the UK food and drink industry has long been known for its love of novelty.

But one of the big upcoming trends is likely to have less to do with the ingredients and more to do with packaging, as plastics increasingly come under fire for their role in polluting the planet.

Amid estimates that humans have created about 8.3 billion metric tons of plastics to date[26], the UK Government has already announced plans to ban plastic straws[27]. And campaigners are pushing for an end to all single-use plastics by 2025[28]. Ditching our addiction to plastics won't be easy, though.

Cucumbers, for example, get wrapped in 500 tons of plastic a year. But removing this would cut their shelf life from two weeks to just three days[29].

IN WITH THE NEW

With 52% of our survey expecting future growth to come through new product development, there can be little doubt over the importance of innovation to our industry.

The level is far ahead of any other strategy that food and drink companies are looking at to grow their businesses.

And beyond its obvious application in new product development, UK food and drink businesses are relying on innovation for growth in other areas. More than a third of respondents, for example, are planning to refresh their existing products and services.

As the UK Government acknowledges, "the industry is renowned for its innovative approach to food development, high-tech manufacturing and high-quality raw materials."[30]

This approach is in as much need as ever, not only because the food and drink industry needs to up its game to cope with the demands of Brexit but also because of a wide range of societal and regulatory factors, from a trend towards healthier eating to a growing need to replace plastics in packaging.

There is a potentially serious upside to investing in innovation, too. In recent times the UK food and drink consumer has shown itself to have a healthy appetite for novel tastes and experiences, meaning there could be substantial rewards for companies that come up with a popular new products.

RESEARCH & DEVELOPMENT TAX INCENTIVES IN THE FOOD & DRINK INDUSTRY

BIG COMPANY OR SMALL?

R&D tax relief comes in one of two flavours, depending on whether your business is a small-to-medium enterprise (SME) or larger company.

The SME scheme

Available to companies with less than 500 staff and either turnover of less than €100m or gross assets of less than €86m, this gives you tax relief at 230% delivered as an enhanced deduction against taxable profits or a cash tax 'credit' you can claim.

The R&D Expenditure Credit (RDEC)

The RDEC delivers R&D relief in the body of your company's profit and loss account using a taxable credit of 12% of qualifying expenditure.

WHAT CAN YOU CLAIM?

R&D tax relief can be applicable on any activity where you 'seek an advance in science or technology, through the resolution of scientific or technological uncertainty.' In practice, this could include:

- Development of new products, for example resulting in reduced sugar or gluten-free items
- Research into maintaining organoleptic properties whilst moving to low-fat alternatives
- Production of new colouring or flavouring ingredients
- Development of 'clean label' declaration products
- Improvements to cooking/freezing processes
- Advances in processing/packing technology.

Tip: Take advantage of R&D tax relief when developing low-sugar products in the wake of the sugar tax introduced in April 2018.

HOW TO MAKE A CLAIM

Your claim is made within the company's tax return, but we recommend you support this with a self-contained report that explains the nature of the work and addresses the questions that HMRC typically asks. If in doubt, speak to us.

Our experience since the relief was introduced, and more recently through representation on consultative committees, means we know what HMRC expects to see from a claim and ensures you minimise the risk of lengthy enquiries after submission.

THE SUPPLY CHAIN CONUNDRUM

Leaving Europe could be a good time to check the resilience of your supplies.

The food and drink industry faces a strong challenge when compared to many other industries. The goods the industry relies on often have to be grown, fed, cultured and harvested. They can take seasons or even years to be ready for consumption. And in this time, they can be blighted by myriad hazards, from cold to disease.

To make matters worse, once these goods arrive at the point of sale they often have to be consumed within a fleetingly brief period of time, often weeks and sometimes days.

From a supply chain point of view, getting the months-to-years-long production of food and drink to match up with that tiny window of sales opportunity is a bit like putting an extremely long thread through a very small needle.

And for food and drink companies in the UK, Brexit could be a bit like trying to thread that needle as a gale comes blowing in.

The smooth flow of goods we enjoy with our closest neighbours is likely to be changed in as yet unknown ways, but which will almost certainly add cost, time and uncertainty into the equation.

Take just one variable, port clearance: in April this year, Bloomberg reported Brexit-related checks could add one to two minutes of delay per truck at busy ports such as Rotterdam.

That doesn't sound like much, but multiply it by Rotterdam's 200 to 400 trucks per ferry and you could have delays of up to 13 hours and perishable goods sitting in queues up to 2.5 miles long[31].

The good news is that if any industry can weather this storm then it has to be the food and drink industry. Precisely because UK food and drink companies are used to dealing with supply chain uncertainty, they could be well placed to adapt to the changes that lie ahead as a result of Brexit.

Looking on the bright side, the UK's departure from the European Union might even serve as a handy excuse to review your supply chain arrangements and make sure they are shielded not just from Brexit but also from other potential shocks.

Presented opposite is a brief list of things you might want to consider as you run through your supply chain strategy to make it Brexit-proof.

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BLOOMBERG REPORTED BREXIT RELATED CHECKS COULD ADD ONE TO TWO MINUTES OF DELAY PER TRUCK AT BUSY PORTS SUCH AS ROTTERDAM

POINTERS FOR A BREXIT-PROOF SUPPLY CHAIN STRATEGY

- **Build supply chain relationships**: A chain is only as strong as its weakest link, so make sure all your links are secure. Bear in mind some European supply partners may be looking at Brexit as an opportunity, not a threat; on ports, for example, Antwerp is said to be looking for business as a Brexit-friendly option[31].

- **Know where your stuff comes from:** As we leave the European trading block, certificates of origin will likely become essential for all materials coming from the continent. But having a closer handle on where things come from might not be a bad idea, as it could help you identify particular supply risks.

- **Put contingency plans in place:** Although there is still significant uncertainty over Brexit, there is no harm in planning for worst-case scenarios. Do you have alternative suppliers in place if your goods get held up in customs, for instance? Have you made provisions for duties on imported materials?

- **Think strategically:** It is easy to think of a supply chain as just being about procurement and logistics, but in reality it's much more than that. Ultimately, much of it is about identifying and controlling risks to your business. Technology can help you deal with this; don't be afraid to call in the help of an adviser.

- **Understand customer demand patterns:** Stocking turkeys at Christmas is an obviously smart move, but uncertainty over European trade means it might be more useful than ever to capture and analyse consumption behaviour so you can accurately forecast what goods you will need, and by when. Building collaborative relationships with customers and suppliers is important.

- **Make allowances:** Even in the best of cases, Brexit is likely to add delays and increase costs. Have you checked that your supply chain and product positioning are flexible enough to handle this? What will happen to your business, for instance, if your costs and time to market both go up by 10%?

- **Find new options:** As part of your Brexit planning, take the opportunity to build resilience into your supply chain. You might not only want to look for alternative suppliers, but also providers in alternative locations. This makes sound business sense, but even more so as European Union disconnection looms.

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18-04-1302