



# THE FOOD AND DRINK REPORT

2016



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# INTRODUCTION

## THE BDO FOOD AND DRINK REPORT 2016

**After decades of living in the shadows of more visible manufacturing sectors, the food and drink industry is stepping into the limelight.**

Food companies have always needed engineers and scientists, but the skills gap – estimated at 109,000 qualified people by 2022<sup>1</sup> – has prompted new research centres, a National Centre of Excellence for Food Engineering in Sheffield and recognition by the Business Minister Sajid Javid that food and drink can be a strategic industry to benefit from productivity improvements.

The supermarkets' battle to drive consumer prices lower has both challenged the supply chain and made it more resilient.

The food and drink industry has become more efficient and smarter to survive the price war through new product innovation, development of premium lines, investment in more automated processes and IT to create more competitive companies.

Media attention of the big supermarkets' behaviour, both in the news and TV documentaries, showed that supermarket and supplier relationships remain challenging.

Exports of UK food and non-alcoholic drinks, meanwhile, have fallen in 2015, a reflection of a wider, flat Eurozone trading environment. New markets for British food, such as Thailand and the Middle East, should spur producers to invest more in new product development and overseas marketing.

This report by BDO, in association with the Institution of Mechanical Engineers (IMechE), analyses the sentiment, challenges and changing macro landscape for UK companies operating in the food and drink industry, the single largest manufacturing sector in the UK, with a turnover of £95.4bn<sup>1</sup>. Members of the Institution and BDO clients were surveyed in December 2015.

We are grateful to all those who shared their opinions – we hope you find this report interesting and thought provoking for your business.



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1. Food and Drink Federation (FDF)

## EXECUTIVE SUMMARY

### BDO FOOD AND DRINK REPORT 2016

**There are many pressures bearing down on food and drink manufacturers within the UK.**

From supermarket pricing pressure and debates about the reformulation of food to be healthier, to the challenge of finding skilled people to maintain the workforce as more employees retire in the next 10 years.

But Britain's food and drink industry in 2016 has tremendous opportunities and is known for its new product innovation by companies of all sizes.

Food companies can grow quickly and the industry is a vibrant source of mergers and acquisitions. It is also the UK's biggest manufacturing sector.



In the first four months of 2015 loans company StartUp Direct received funding applications from 370 food and drink companies, compared to just 7 applications in 2014.



## FAST FOOD FACTS: BRITAIN'S FOOD AND DRINK INDUSTRY

Sourced from the Food and Drink Federation

- The UK food and drink industry's Gross Value Added (GVA) is £21.9bn, 14% of total GVA in UK manufacturing
- The food and drink industry employs around 400,000 people directly
- 40% of the workforce, about 170,000 employees will need to be replaced by 2020 due to retirement or them leaving the industry
- The industry will require 109,000 new entrants at engineering and managerial level by 2022 to meet its needs.

Price, driven by end-customer and consumer demands, dictates the food industry more than any other manufacturing sector. Conditions today in the UK grocery market are gruelling.

In 2015 the German supermarket chains Aldi and Lidl increased their market share of the supermarket sector to 5.5% and 4.2% respectively, according to market research firm Kantar Worldpanel (see table on page 04). The big four retailers have had to respond and Asda has said it will invest £500m into the price war; these discount chains have changed food retail for good.

But it's not all bad news for food suppliers. While prices are arguably tighter than ever, the rise of Aldi and Lidl could make often complex and punitive supply agreements simpler (see Key challenges on page 07).

The rising popularity of online sales and home delivery in 2015, as well as more "metro" style convenience stores, is also changing the food retail landscape markedly.

And it appears there is a strong connection between the tough market environment and product innovation. Last year saw many new food companies and products hitting the shelves. New brands like vegetarian pots maker BoL, health food Chia Pods and frozen organic childrens' meals are a few examples.

The food and drink industry provides a fertile ground for new entrants with innovative products. There is evidence that far more new food companies are taking start-up loans (see Growth and prospects on page 10) to get established.

The value of UK exports of food and non-alcoholic drinks fell in the first half of 2015 by 5.3% to £6bn, according to the FDF, although exports to non-EU countries rose by 1%.

Despite price pressures, optimism in the food and drink industry is generally high. In this survey of Institution of Mechanical Engineers members and BDO clients, 79% of those asked were either positive or very positive about the prospects for Britain's food and drink industry, while just 9.5% were negative or very negative.

A serious issue for the competitiveness of the food industry today is customer and supplier relationships. Media reports in 2015 showed that supermarket and supplier relationships remain challenging.

The BBC show Hugh's War on Waste in November 2015 showed Hugh Fearnley-Whittingstall highlight the problem of cosmetic standards. The programme showed the large scale rejection of harvested parsnips at the farm due to their imperfect shape.

## RESULTS HIGHLIGHTS from the BDO Food and Drink Survey 2016

**79%** of those surveyed were positive about the future of the food and drink industry

**86%** of firms expect revenue growth of up to 20% in the next year

**45%** of those surveyed employ strategies to mitigate changing energy prices. The most popular among these were:

**70%**  
Arranging fixed price agreements with energy suppliers

**65%**  
Investing in energy efficient technology and machinery

**MORE THAN 50%** of companies are currently increasing investment in process automation

**26%** of respondents said they would need to increase prices for customers to offset the cost of the National Living Wage

**70%** of those surveyed said they were experiencing difficulties in recruiting the skilled people they require

# BOARDROOM AGENDA

## KEY ITEMS IMPACTING BOARDROOM DISCUSSIONS

### SUPPLIER AND CUSTOMER RELATIONSHIPS

Supplier relationships in the food industry seem to be at rock bottom.

In October 2015, Tesco boss Dave Lewis had to apologise to suppliers for the 'unintended consequences' of chasing margins, which led to damaged supplier relations.

The Groceries Code Adjudicator Christine Tacon in January 2016 found that the retailer had acted unreasonably when delaying payments to suppliers, often for long periods of time and also in January Holland and Barrett was criticised for passing on several operational costs to its suppliers, such as the cost of additional anti-theft measures.

### DISCOUNTERS RISING

With more competition in the supermarket sector pricing is likely to continue to dominate the supply side. Discount stores Aldi and Lidl have grown their market share impressively, so that by January 2016 they occupied 5.5% and 4.2% of the total UK supermarket sector.

In the 12-weeks to 3 January 2016, Aldi and Lidl grew by an impressive 13.3% and 18.5% respectively compared with the same period in 2015. The responses of the big four – Asda, Morrisons, Sainsbury's and Tesco – varied but price slashing has been the norm, which has inevitably affected the supply chain.

While this strategy failed to prevent the loss of 300 jobs at Asda's head office in January

2016, the other big retailers fared better over Christmas than analysts expected with sales at Tesco over the period up 1.3%, although group sales were down 0.5% in the quarter.

The price wars waged between these big retailers can hit suppliers hard and 67% of those surveyed said that pricing pressure from customers is the biggest risk to their business, followed by changes in consumer spending levels. Despite this, 79% of those surveyed were positive about the food industry's future. However, this could be interpreted that companies believe the food industry will prosper and grow in volume, but that pricing pressure will remain a problem for suppliers whose margins will continue to be squeezed.



### MARKET SHARE – TOTAL TILL ROLL – SUPERMARKET CHAINS IN THE UK

	12 Weeks to 04 January 2015		12 Weeks to 03 January 2016		Change
	£millions	%*	£millions	%*	%
<b>Total Grocers</b>	<b>27,387</b>	<b>100.0%</b>	<b>27,342</b>	<b>100.0%</b>	<b>-0.2%</b>
<b>Total Multiples</b>	<b>26,881</b>	<b>98.2%</b>	<b>26,836</b>	<b>98.1%</b>	<b>-0.2%</b>
Tesco	7,962	29.1%	7,748	28.3%	-2.7%
Asda	4,588	16.8%	4,426	16.2%	-3.5%
Sainsbury's	4,622	16.9%	4,658	17.0%	0.8%
Morrisons	3,084	11.3%	3,004	11.0%	-2.6%
The Co-operative	1,617	5.9%	1,639	6.0%	1.4%
Waitrose	1,399	5.1%	1,421	5.2%	1.5%
Aldi	1,322	4.8%	1,498	5.5%	13.3%
Lidl	962	3.5%	1,139	4.2%	18.5%
Iceland	598	2.2%	574	2.1%	-4.1%
Other Multiples	727	2.7%	730	2.7%	0.3%
<b>Symbols and Independents</b>	<b>506</b>	<b>1.8%</b>	<b>507</b>	<b>1.9%</b>	<b>0.2%</b>





*"Companies need to have clear differentiation to help them compete in markets. There needs to be a real intent to continuously strive to add more value to end users. This added value can come from a wide range of areas, companies need to think strategically and align their skills and knowledge towards future market trends, and at the same time also understand that not all their customers will be looking for the same values."*

**CHARLES BAUGHN**

Managing Director, Westaways Sausages

*"The survey has once again shown the continuous price pressure the industry is under from both customers and raw material suppliers, forcing companies to push harder on innovation in product development and seek new market entry opportunities."*

**DR TIM FOX**

FIMechE, Chair, IMechE Food and Drink Engineering Committee

## NEW PRODUCT DEVELOPMENT

There is evidence that the healthy eating agenda is gaining importance for food suppliers.

The profusion of healthy food brands in 2014 and 2015, for example Imbiberry, Manilife peanut butter, and health bars such as Aduna Moringa Green Superleaf Energy Bar, as well as the proliferation of so called "superfoods", have made a big impression on food retail with customers seemingly happy to pay premium prices for healthy foods. The correlation between this trend and the "war on sugar" and obesity that gained ground last year is almost certainly no coincidence.

In January, retail industry magazine The Grocer reported that healthy lunches and healthy snacks on-the-go are becoming more popular, with grain-based foods, fruit bars, superfoods and snack suppliers such as Graze on the rise.

42% of those surveyed said customers were placing more focus on the healthy food agenda. Whilst food intolerances fuelled the dairy and gluten free markets, the celebrity promoted trend for "free from" snacks has resulted in considerable growth, with the UK market worth over £200m. Jason Whitworth, corporate finance partner at BDO said "healthy eating is at the top of many agendas and this focus is evident from the growth in mergers and acquisitions activity in this market".



## OPERATING MARGINS

With competition and supermarket behaviour, margins are affected. 82% of respondents had experienced similar or worsened operating margins in comparison to 2014. The continued strain on profit margins has been impacted by pressure on prices from customers with little relief from raw material cost pressures.

## SUSTAINABILITY

Sustainability appeared to rise further up the corporate agenda in 2015. The survey showed that the average rating of importance for sustainability across five business areas was 3.44 on a 1-5 scale, with sustainability of new product design the most important (rated 3.68). Organisations including the FDF, the Waste and Resources Action Programme (WRAP) and the Institute of Grocery Distributors (IGD) have worked with manufacturers more closely in 2015 to reduce food waste.

WRAP estimates that waste within food and drink manufacturing is valued at a staggering £6.7bn a year, and 6.5 million tonnes, and this message is being acknowledged across the food industry via waste reduction programmes like the Courtauld Agreement. Greencore is one example of a producer taking waste seriously. It signed up to the IGD's industry wide Working on Waste Campaign, with the aim of encouraging its employees to reduce their household food waste. Marks and Spencer has signalled that it intends to reduce food waste in its own stores by announcing a partnership with the Neighbourly app to build links between stores and local charities that can use unwanted food items.

# BOARDROOM AGENDA

## ENERGY

Energy prices had perhaps a surprisingly muted effect on food and drink manufacturers in this survey. The average rating was 2.84 out of five, showing prices affect profit margins but not very significantly.

Nearly half the survey (45%) employ strategies to mitigate changing energy prices. The most popular among these were arranging fixed price agreements with energy suppliers (70%) and to invest in energy efficient technology/machinery (65%).

Less than one third (29%) use energy brokers to negotiate best prices.

## LIVING WAGE

The introduction of the National Living Wage (NLW) in April 2016, which says that workers aged 25 and over will be legally entitled to at least £7.20 per hour, will be significant in the food and drink industry, where average salaries can be lower than in some engineering manufacturing sectors. 32% of the sample said the Living Wage will mean an increase in automation investment, and 26% said they would need to increase prices for customers to offset the cost. Nearly one in five said the NLW would lead to headcount reduction. However 13% of respondents said they pay the NLW already, with some paying above it.

## BUSINESS GROWTH OPPORTUNITIES – MERGERS AND ACQUISITIONS IN FOOD INDUSTRY

There continues to be strong deal activity in the food industry with 511 deals completed in 2015. There are three apparent key drivers behind M&A in the industry:

- Big brands continue to remain a key driver for activity, with both trade and private equity investors alike. British and Western food brands saw particularly high levels of interest.
- Demand for security in the supply chain as well as improving ethical reputation has provided a key incentive for a number of acquisitions, both domestically and abroad.
- The healthy eating agenda.

Notable deals in 2015 included:

- AB InBev's acquisition of SABMiller for £71.2bn
- Quorn Foods, UK-based meat free food manufacturer sold for £550m to Monde Nissin
- Urban Fresh Foods, UK manufacturer of fruit snacks bought by Lotus Bakeries for £70m
- Iglo Foods Group Limited, UK-based producer and distributor of frozen food, bought by Nomad Foods Limited for £2.6bn.

## BRITAIN'S FOOD AND DRINK EXPORTS

Sourced from the Food and Drink Federation report June 2015

- Value of exports sales shrank by 5.3% in H1 of 2015 compared to the previous year, reaching a total of £6bn.
- Value of exports to non-EU markets improved +1%, increasing the non-EU share of exports by 1.7 percentage points.
- Exports to EU fell by 7.5%, reflected in a smaller share of exports.
- Including alcoholic drinks, total food and drink exports for H1 2015 reached £8.6bn, down 4.8% on 2014.
- Exports of whisky (the UK's largest food and drink export) were down 4.3% at £1.7bn.
- The food and non-alcoholic drink trade deficit increased by 1.1% to £11.4bn for the half year.
- The H1 figures are often not as strong as H2 and while the value of exports has fallen slightly in H1 2015, food and non-alcoholic drink exports are still performing above pre-recession levels.





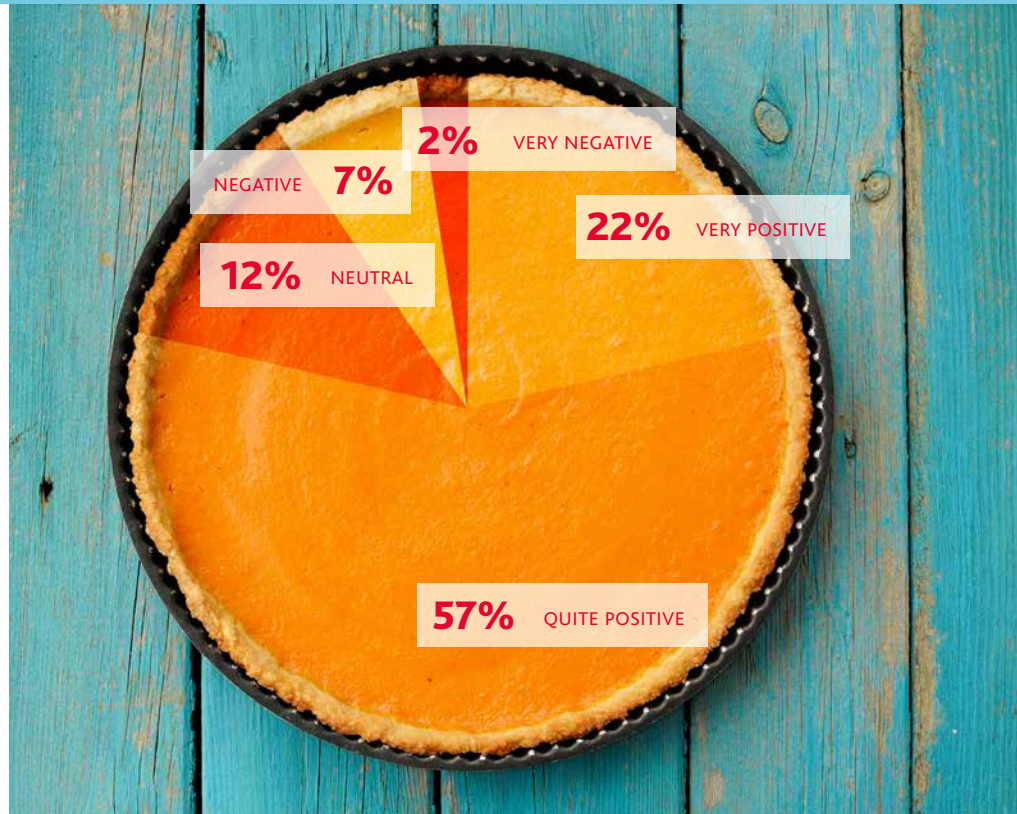
# GROWTH AND PROSPECTS

## OPTIMISM, GROWTH AND INTERNATIONAL OPPORTUNITIES

HOW POSITIVE DO YOU FEEL ABOUT THE FUTURE OF THE FOOD AND DRINK INDUSTRY IN BRITAIN?

**Manufacturing companies are characteristically conservative in their outlook, so it was very encouraging to see that 79% of companies surveyed were either positive or very positive about the prospects for UK food and drink industry.**

Only 2% were very negative and 7% negative in some degree.



# GROWTH AND PROSPECTS

## BUSINESS OPTIMISM

Most respondents (52%) forecast growth to be 0% to 5% in the next year and 33% of the sample expected their business to grow between 5% and 10% in the next five years – a bullish proportion. 19% expected growth to be 11%-20%, another positive indicator of the general mood.

The sources of growth revealed an interesting pattern, with nearly two thirds saying that product development would be a major source of growth. 60% and 43% respectively said growth would derive from accessing new UK markets and from new export markets. The latter seems bullish when an FDF report in June 2015 showed that UK food and drink exports had fallen by 5.3% in first half of 2015.

Interestingly this report showed a small 1% rise in exports to non-EU countries, where for example exports to Saudi Arabia (55%) and Thailand (263%) had risen fast. Selling food to Thailand and South East Asia is one subject of the 2015 UK Trade and Investment advertising campaign encouraging more UK businesses to export.

In December 2015 Dame Fiona Kendrick, president of the FDF and CEO of Nestlé UK and Ireland, announced a pledge to grow value-added food and drink exports by a third by 2020.

In January 2016, a Great British Food Unit was announced by Environment secretary Elizabeth Truss to help turbo-charge UK food exports and support growth plans, like the Government's target of increasing manufactured food exports to £6bn by 2020. The long term ambition of the unit is to match France and Germany, which both currently export more than double the UK in terms of the value of food and drink products.

The launch comes as the Government announced 2016 as the Year of Great British Food. Companies seeking to be involved in the Great British Food Unit will be offered practical support to help them innovate and identify new markets for export.

Expected growth through acquisition was low, just 15% of respondents.

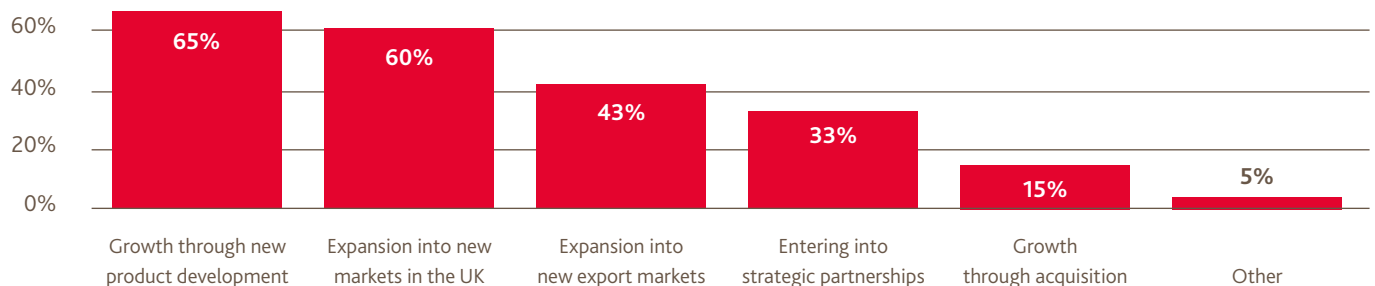
## START-UPS

An interesting trend in 2015 was the rising number of new food suppliers arriving on the supermarket shelves, such as Justin's Natural Maple Almond Butter, Kiddyum the frozen food brand for kids, Wallaby Organic Downunder yoghurt and the profusion of the new 'thins' style of sliced bread.

In November Startup Direct, a government-sponsored loans organisation, showed a year-on-year increase in overall funding applications for new businesses, from 713 in the first four months of the year in 2014 to 2,000 over the same period in 2015. Moreover, within these totals, just seven applications were for food and drink startups in 2014, while the number for 2015 was 374.



**IF YOU EXPECT SALES GROWTH, WHERE DO YOU ANTICIPATE THE MAJORITY OF IT WILL COME FROM?**  
(RESPONDENTS WERE ASKED TO SELECT ALL THAT APPLY)





*"Despite the stated ambition by the UK government to grow exports to £6bn by 2020, the FDF recently reported that food and drink exports fell by 0.7m in the first half of 2015. The overall fall in exports was largely driven by a fall in trade with the EU.*

*This is perhaps not surprising given the wider economic backdrop and the strength of Sterling against the Euro. However, there was positive news with significant growth in exports to some markets including Thailand and Saudi Arabia, albeit from a lower base. In contrast to recent export levels, 43% of our survey respondents expect exports to deliver opportunities for growth over the next few years.*

*It remains to be seen what effect the proposed EU referendum to be held during 2017 might have on trade with the UK's main trading partner and export opportunities for the sector."*

**PAUL DAVIES**

Partner, Head of Food & Drink, BDO LLP

*"Exporting has not traditionally been the forte of the UK food and drink sector, but recent high level Government led campaigns and initiatives have boosted confidence in this area, as reflected in the results of this survey with 43% of respondents anticipating growth to come from working in new markets outside the UK."*

**DR TIM FOX**

FIMechE, Chair, IMechE Food and Drink Engineering Committee



### EXPORTS SHARE

Exports as a proportion of sales are relatively low in this survey, with an average rating of 4 on a 1-10 scale, or about 5%-10% of total sales.

The respondents are expecting exports to increase in the future, with 43% saying their growth will come from expansion into new export markets.

### INFLATION

As market research firm Kantar reports in its January press release, grocery inflation now stands at -1.8% for the 12 week period ending 3 January 2016. Kantar says: "This means shoppers are now paying less for a representative basket of groceries than they did in 2015.

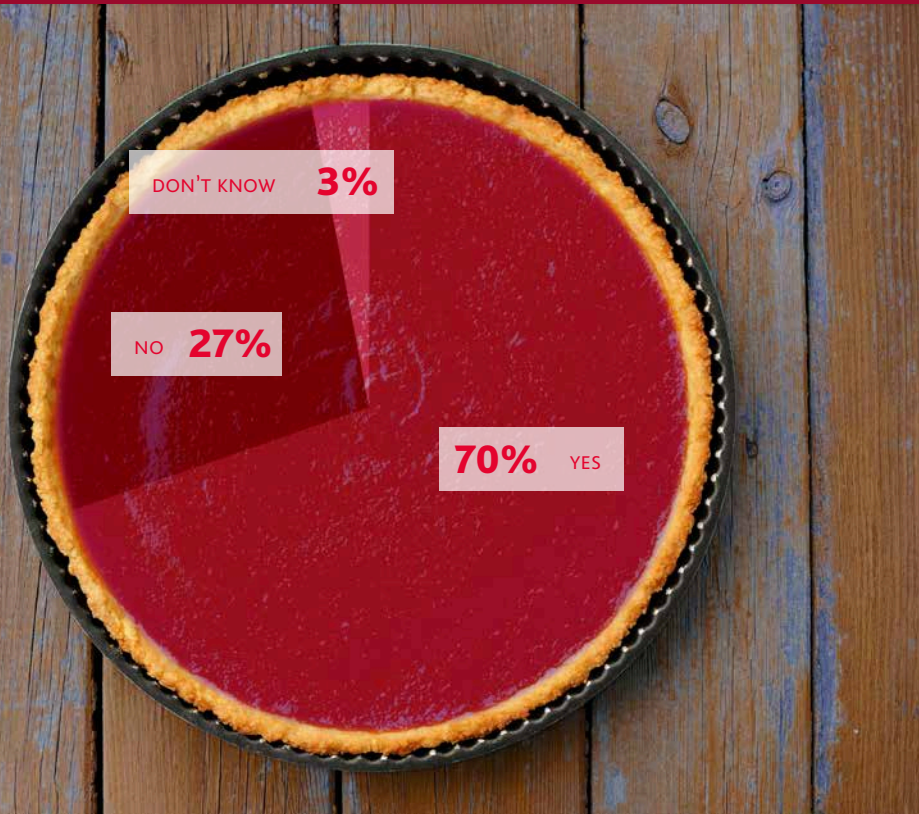
This is the 17th consecutive period of grocery price deflation. Falling prices reflect the impact of Aldi and Lidl and the market's competitive response, as well as deflation in some major categories such as crisps, eggs and butter, as well as important product categories such as ice cream, fresh and frozen poultry and cheese."



# KEY CHALLENGES

## HUMAN CAPITAL AND PRICING PRESSURE

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

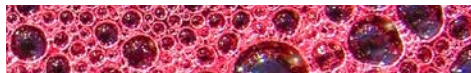


**Recruitment in the food and drink industry for many companies is still a big challenge.**

70% of those surveyed said they were experiencing difficulties in recruiting the skilled people they require and is highlighted as the second highest key challenge being faced in the next year.







## HUMAN CAPITAL

Recruitment in the food and drink industry for many companies is still a big challenge. 70% of those surveyed said they were experiencing difficulties in recruiting the skilled people they require.

The food industry has historically struggled to attract and retain qualified engineers and technicians at all levels, which has been blamed in part by engineers' desire to work in more attractive sectors such as aerospace and automotive, and perhaps also by a lack of visibility of the depth of technical jobs required by the food industry.

The FDF says the food and drink industry's specific problem with skilled labour is that it is an industry with high job loyalty where people stay for their whole careers. Consequently, in the next five to ten years the industry will see an exodus of skilled people as a large block of long-standing employees retire.

"There is action on several fronts to tackle the skills shortage," says Selga Speakman-Havard, Skills, Employment and Innovation Policy Manager at FDF.

"We have pledged a further increase in the number of apprenticeships in the food industry, from our previous target – a doubling by 2018 – to a trebling of the current number by 2022".

There is evidence that employers are responding but it is coming from a low base, partly because food industry apprenticeships have not been popular compared with those in engineering manufacturing.

## APPRENTICES

More than a third of respondents have employed up to five apprentices in the last two years and just over one third said their company will hire from five to twenty apprentices in the next two years.

About 27% of the sample had not hired apprentices in recent years and do not expect to in the next two years.

## ACTION: SKILLS SHORTAGES IN THE FOOD INDUSTRY

The FDF says that the UK will need to find 109,000 engineers and technical and managerial level people by 2022 to fulfil industry needs.

Some recent actions:

- September 2014 - Creation of a new Industry Skills Partnership which enables collaboration between food and drink businesses and industry bodies to boost skills and training provision.
- The National Centre of Excellence for Food Engineering (NCEFE), being built on a site at Sheffield Hallam University, is due to open in 2017. This centre, with support from the FDF and with £6.9m Higher Education Funding Council for England funding, is industry-led and will support the university's food degree programme with a modern training factory, food laboratories and other facilities. Companies backing the NCEFE include Premier Foods, Nestlé, Mondelez, Burton's Biscuit Company, KP Snacks and Tate and Lyle Sugars.



*"Acquiring and retaining employees with the right aptitude and technical skills for working in the food and drink industry is a perennial problem, and though counter-intuitive this challenge is likely to increase as we move further down the road towards greater automation, big data utilisation and Industry 4.0.*

*But signs are that Government and industry bodies are recognising the importance of attracting bright young technically literate people into the industry and beginning to take action to address these challenges."*

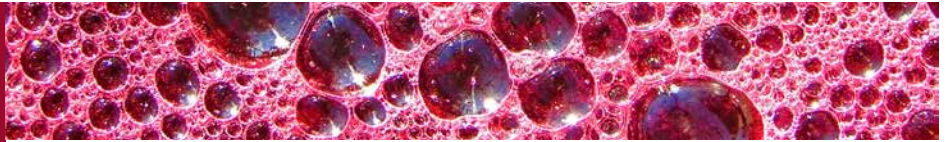
**DR TIM FOX**

FIMechE, Chair, IMechE Food and Drink Engineering Committee

## ENGINEERS: A 69,000 ANNUAL SHORTFALL

Sourced from the EngineeringUK 2016 report, The state of engineering

EngineeringUK's extension to the Working Futures 2012-2022 shows that engineering companies will need to recruit 2.56 million people with 1.82 million needing engineering skills (an average of 182,000 people per year). Within this demand, 56,000 jobs per year will be needed at level 3 (Advanced Apprenticeship) and 107,000 at level 4+ (HND/C, foundation degree, undergraduate or postgraduate and equivalent). Yet latest figures show that only 27,000 people are entering engineering jobs with level 3 and only 66,000 at level 4+, a shortfall of 69,000.



When asked about key challenges in the next year unsurprisingly, pricing pressure was the top challenge reported, with two thirds of the sample selecting this. The volatility of raw material prices and the acquisition and retention of skilled labour was the next highest challenge, with 43% selecting both. Nearly one third (29%) said that the availability of funding was a business challenge. Despite the fall in the number of media stories reporting that banks are not lending to SMEs, our survey shows that food companies are still experiencing borrowing challenges.

Notably, just 10% of people said that the supermarket contract length was a business challenge. This is in contrast to media reports that short-term supplier / quick cancel agreements had been a big issue for food suppliers.

### PRICING PRESSURES

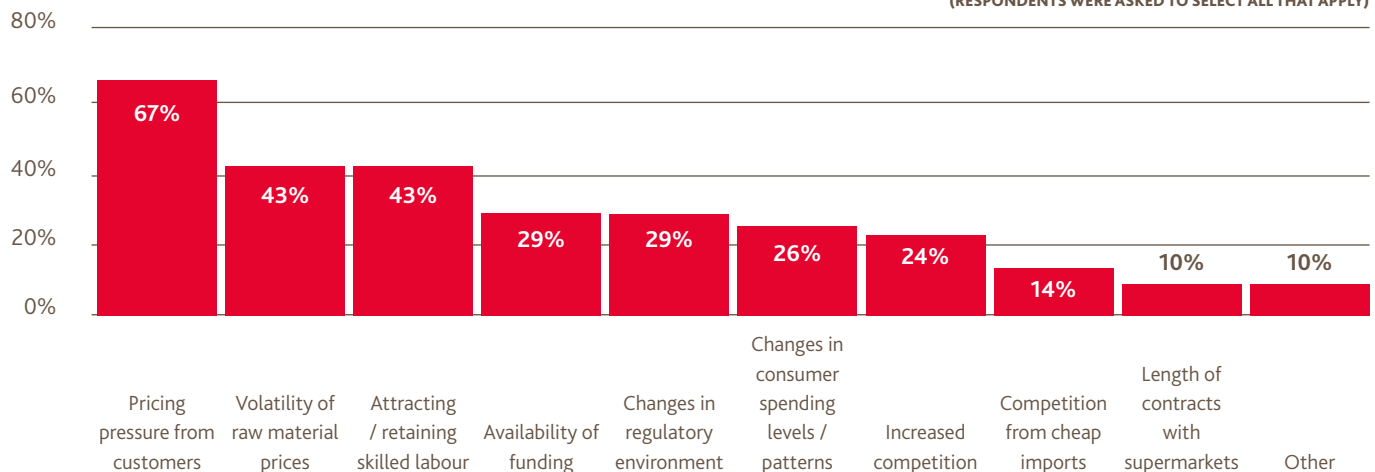
The rise of the discounters has added fuel to the fire of the supermarkets' price war. In January supermarket chain Asda predicted another year of "intense pressure" for the struggling sector as the global economy remains "turbulent".

Asda chief executive Andy Clarke said he would sink another £500m into the price war with his rivals, as part of "radical action to win back our customers".

Steve Barnes, director of economics and commercial services at the FDF says that, rather than finding multiple ways of extracting money from suppliers, the discounters are more likely to say "we agree a price and you deliver. Suppliers are moving away from complex buying processes," he says.



### WHAT ARE YOUR KEY RISKS/CHALLENGES IN THE NEXT YEAR? (RESPONDENTS WERE ASKED TO SELECT ALL THAT APPLY)





# INNOVATION AND AUTOMATION

## SHIFTING FOCUS TO AUTOMATION

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

**Automation is a hot topic in the manufacturing sector as a whole and 51% of food and drink manufacturers surveyed said their company was increasing its investment.**

In line with National Living Wage implementation, results suggest that nearly one third of companies will increase process automation as a result of, or partly linked to, the NLW.



# INNOVATION AND AUTOMATION

*"As a manufacturer of healthy snacks for the UK market, one of our aims is to be admired for our pioneering innovation in this market. As we have something completely unique to share we are able to capitalise on an ongoing trend for innovation, taste and healthier options. We have taken advice from our parent company in Japan and have developed one of the most technologically advanced manufacturing facilities in Europe, using automation to improve the production process.*

*We hope to achieve a turnover of £65m in the next five years thanks to the business model that we have in place, which includes being a company that is driven by real values.*

*And our values mean we must earn the respect, admiration and love of our colleagues and we aspire to be recognised as one of the UK's best employers. This approach has attracted a best in class workforce, that share our vision to become a leading supplier of savoury snacks by 2020."*

**RICHARD ROBINSON**  
Managing Director, Calbee UK

**Future-proofing UK manufacturing,** a recent report by Barclays, which surveyed 740 manufacturing companies in Britain and Germany, said that automation has one of the highest impacts on the food industry where 63% of those surveyed have some level of automation.

It says "food and pharmaceutical manufacturing are expected to have the greatest potential to add incremental value to the UK economy through automation, given the "double whammy" effect of their relative size (food processing accounts for 14% of all manufacturing) and importance to the economy and their above-average capacity to benefit from additional investment in robotics."

UK manufacturing companies have been accused for years of avoiding even simple automation investments such as energy-saving variable speed drives and sensors, and of "sweating their assets" rather than investing in the latest production kit.

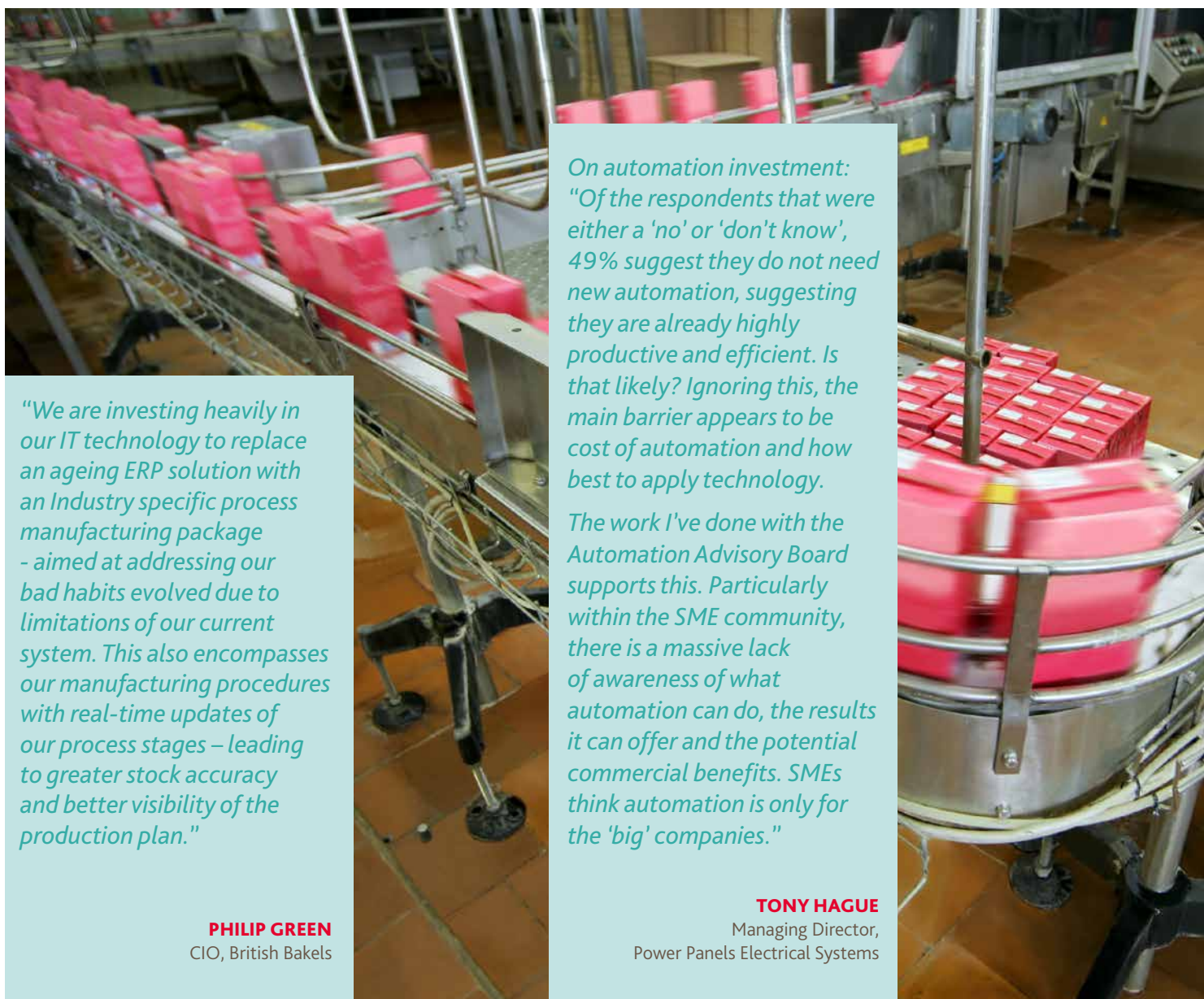
Some companies have been slow to adopt automation and upgrade production lines due to the downtime and retraining period needed, an understandable reason in a busy factory. The expected increase in investment in automation by respondents probably reflects the realities of modern business, that in order to compete on quality and cost, companies have no choice but to automate.

The types of automation equipment where companies have increased their investment include: refrigeration, handling and filling, automated packing and packaging, weighing, mixing, machine controls, software and remote centralised SCADA monitoring and control.

Of the reasons given for not investing, nearly 60% said that there was no need to increase automation within the business. 29% said the cost of new machinery was a barrier and only 7% said the availability of skilled operators stopped them from investing.







*"We are investing heavily in our IT technology to replace an ageing ERP solution with an Industry specific process manufacturing package - aimed at addressing our bad habits evolved due to limitations of our current system. This also encompasses our manufacturing procedures with real-time updates of our process stages – leading to greater stock accuracy and better visibility of the production plan."*

**PHILIP GREEN**  
CIO, British Bakels

*On automation investment: "Of the respondents that were either a 'no' or 'don't know', 49% suggest they do not need new automation, suggesting they are already highly productive and efficient. Is that likely? Ignoring this, the main barrier appears to be cost of automation and how best to apply technology."*

*The work I've done with the Automation Advisory Board supports this. Particularly within the SME community, there is a massive lack of awareness of what automation can do, the results it can offer and the potential commercial benefits. SMEs think automation is only for the 'big' companies."*

**TONY HAGUE**  
Managing Director,  
Power Panels Electrical Systems

# GOVERNMENT AND THE FOOD AND DRINK INDUSTRY

## SUGAR

Probably the most visible area where the government has intervened in the food industry is its proposed tax on sugar in food. The issue is also popularised by TV chef Jamie Oliver's project, Jamie's Sugar Rush.

In October a long-awaited report by Public Health England said that a sugar tax and cutting buy-one-get-one-free deals are part of its "key actions" to tackle people's addiction to sugar. The report said the nation is "eating too much sugar" leading to health problems and obesity. The report also called for less marketing aimed at children in-store, on TV and online. A new sugar-in-food app was launched at the end of 2015 that scans bar codes and tells users the sugar content of processed food.

In January NHS England imposed its own sugar tax of 20% on all sugary drinks and foods in hospital cafes and health centres in an attempt to tackle the obesity problem. Prime Minister David Cameron in January said he would not rule out a national sugar tax.

## INVESTMENT ALLOWANCE

The food industry uses process automation and, as this survey shows, it is set to use more. Manufacturers welcomed the Chancellor's move in the 2015 Budget to increase the annual investment allowance (AIA) to £200,000, with a temporary increase to £500,000. But BDO believes the Government could go much further and has called for the Treasury to increase the AIA for expenditure on plant and machinery to £5m for five years.



"This increase would provide a meaningful incentive for mid-market food and other manufacturing businesses to invest in the capital assets that will drive future growth," says BDO Head of Manufacturing, Tom Lawton.

## NATIONAL INSURANCE

Employers' NI is also a barrier to businesses taking on new workers. The government has sought to tinker with National Insurance reliefs over the past few years but the impact of these measures has so far proven negligible. To back up the Government's rhetoric on targeting a doubling in exports, a bold step is required. A temporary reduction in Employers' NI, for UK businesses that take on all new employees involved in manufacturing production processes, would be a targeted relief aimed at those businesses that are most likely to be exporters or that supply exporters. With the NLW arriving soon, this would be a welcomed relief.

## FORGING BONDS

England, Wales and Northern Ireland could look at Scotland as a United Kingdom region that is making food a priority industry.

The Scottish Food and Drink Federation (SFDF) is working hard to forge bonds with the Scottish Government in a strategic way, publishing 'Feeding Scotland's Economy' which sets out the industry priorities for the 2016 elections and beyond.

SFDF is calling for the Government to continue to ensure food and drink companies have the right skills, appropriate regulation and advice to allow the industry to continue to flourish across Scotland.

SFDF asks Government to support and encourage the voluntary action of companies that wish to reformulate product composition or reduce their environmental impact, and is working on a national food safety system.

Selga Speakman-Havard says the food industry's main lobbying achievement last year was recognition of the strategic importance of the industry by politicians. An example is the productivity plan that Business Minister Sajid Javid is working on with employers including retail group John Lewis and UKCES, the skills commission. Mr Javid, with help from Charlie Mayfield, chairman of John Lewis, identified the huge opportunity for higher productivity in the food industry.





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