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Food and Drink Industry:

Embracing the global market during a period of extensive change

Demand for food & drink may be growing, but the sector is faces its own set of challenges too. Covid-19 and Brexit are significant disrupters, wih changes in global trade, global warming impacting farming practices, price pressures, and changing trends and tastes all contributing to a rapidly evolving market.

Globalisation of trade means that consumers are enjoying increasingly eclectic and international cuisine, presenting both an opportunity but also a hindrance to producers who are branching out across the world.

We take a bite out of the food and drink industry and examine some of the challenges and opportunities for imports and exports across the world.

The effect of Covid-19

The spectacle of stockpiling

As reports out of China showed the extent of Covid-19, and the first cases were confirmed in the UK, supermarkets started to feel the repercussions.

In the few weeks before lockdown, shops were already seeing stockpiling. Toilet roll and hand sanitiser appeared to be the Holy Grail. Long-life milk, eggs, tinned goods and of course pasta were the chosen food & drink of stockpiling shoppers.

Warnings came from supermarket executives that they would put measures in place to stop such actions, but also offered reassurances that the country had enough food. However, the UK's supply chain is streamlined to roughly a three-week manufacturing model, meaning serious continuous stockpiling would eventually buckle the system. Limits on the amount of shoppers allowed in were introduced, with shorter opening hours and measures in store to ensure items couldn't be bulk bought.

Panic buyers were limited by Tesco to buy no more than five of certain goods, including UHT milk and tinned vegetables. Producers face a paradoxical situation – on one hand an increased demand for key food and drink products, but on the other hand there are labour shortages, with many workers self-isolating at home or off ill with Covid-19.

Lorries and logistics

Half of the food consumed in the UK is from overseas, with 30% coming from the EU.

While Brexit was set to be a big factor is affecting these figures, coronavirus has meant delivery companies and haulage firms have had to revise their supply chains and logistics to keep with increasing demand for food & drink, and decreasing demand for other products as nations found themselves in lockdown with less needs for non-essential purchases.

The Road Haulage Association (RHA) warned that transport firms are on the brink of collapse because of coronavirus.

The UK's supply of food, as well as medicine, relies on being transported, and in mid-April the RHA found that nearly half of lorries were taken off the road.

While demand for certain foods have increased, and therefore increased the demand of hauliers to deliver them, the main income for many haulage firms is transporting equipment to large events, which have all been suspended. The issue of many regional and international airports, and even ports closed or restricted has further squeezed the logistics of supplying food to the nation.

Seasonal labour shortages

A shortage of seasonal workers has meant many crops could be of risk of rotting in fields.

With workers under lockdown in their various countries, farmers are facing labour uncertainty, with The National Farmers Union (NFU) saying that up to 70,000 fruit and vegetable pickers are needed. Evoking the war time language the government has used, the NFU has called for a modern day 'land army' to save the crops.

Typically May sees the spring onion crop come ready to harvest, followed by June's pea and bean crops. Both months are now at risk of wasted food produce. Chartered flights for Eastern European workers have flown into Stansted to help with the labour shortage, with 150 Romanians arriving at Stansted in mid-April to help out on the farms. One of the biggest food producers in the UK, G's Fresh, confirmed to the BBC that they chartered two flights from Romania to the UK so their crops wouldn't be spoilt.

Public Health England is working with farms and firms to ensure stringent safety measures are in place for workers, including temperature checks and appropriate social distancing.

A national campaign to get those who have lost their jobs in hospitality and retail because of the lockdown could plug the labour gap for farmers, offering a glimmer of hope to both food producers and those currently unemployed in the UK.


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Changes in **trade & demand**

Two of the key concerns of food producers before Covid-19 were are the dual impacts of Brexit and the US-China trade war. The concern of additional tariffs and changing standards may present a risk to the food & drink industry. While Brexit appears to be on the backburner until Europe has got through the virus, the US-China trade war has waged on, in part because of rhetoric fuelled by the outbreak of coronavirus.

Looking ahead with optimism, the departure from the EU may provide an opportunity to negotiate deals with other countries across the world with a taste for British produce.

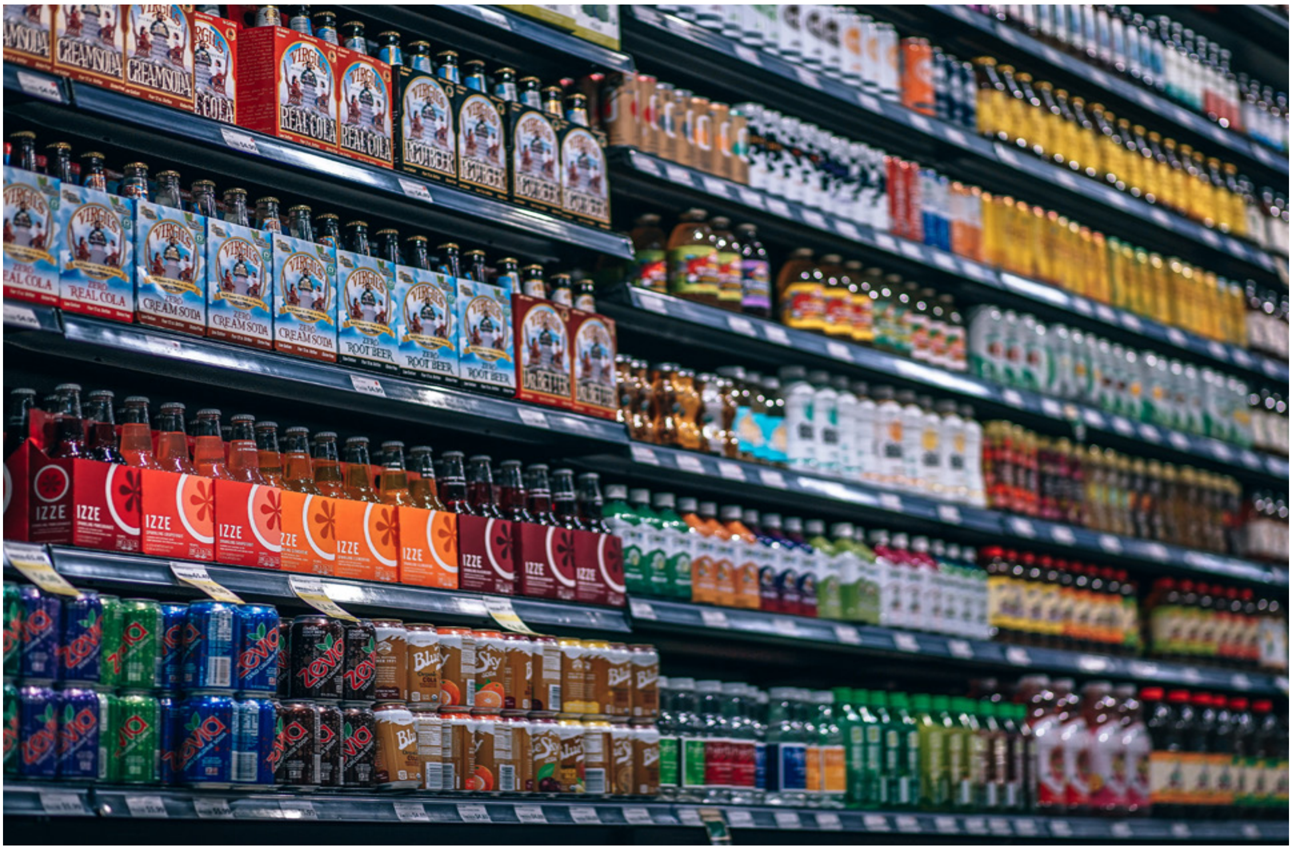
The US-China trade war continues to cause ripples in trade across the world. There are some concerns that changes in import and export markets may lead to changes in food standards but any new standards should take consumer tastes into account. There is a growing market for organic, ethical, high quality food which means that the current shake up of the status quo does not necessarily mean that standards will fall.

Tariffs are a larger concern; import and export costs may rise, putting additional price pressures on the industry.

The Consumer Prices Index (CPI) could be affected by coronavirus, with demand for some produce sky-high.

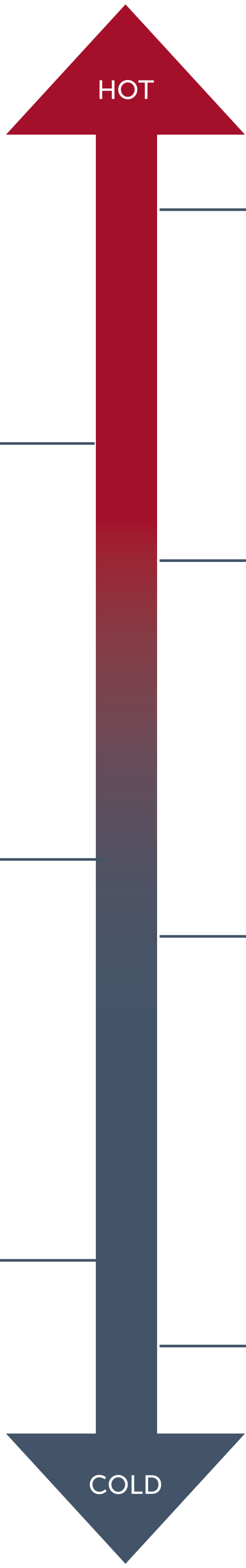
The typical basket of items on which the CPI base their findings is not representative of actual spending, with meals out and package holidays historically weighing more. In light of Covid-19, they will be non-existent.

It's important to also look at how much the UK can afford food & drink. Between January 2019 and January 2020, food prices increased by 1.4%. However, the price of high-demand foods have risen sharply in response to coronavirus, with the Office for National Statistics demonstrating that a basket of typical products (including sanitary products but also food produce such as tinned beans), costs 4.4% more than before the coronavirus lockdown.



Changing tastes

Consumer tastes are always changing. We take a look at the key emerging trends that are hot right now and gaining momentum - and some of those former fads that appear to be fading as the trend cools.



Juicy: Sales of orange juice rocketed due to Covid-19. The 'futures' price of orange juice has soared, with shoppers enjoying the immune boosting properties of citrus fruits. US sales are up 38% year on year, with demand also increasing for growers in Brazil.

The essentials: When Covid-19 made consumers shop for essentials shopping only. Brits went back to the basics, to milk, bread and eggs. Flour shot up in popularity as many were stuck at home and turned to baking to pass the time.

Conscious consumption: from ethical production to organic products, consumers are becoming more aware of the impact of the food and drink they eat and the packaging it's wrapped in.

Is the avocado toast? Some consumers are getting tired of the price premium and ubiquity and may be in search of a new trend, although the versatile fruit is still found on many menus.

Flexible hemp: although nothing new, suddenly hemp seeds and hemp oil are now being added to a wide range of foods and with CBD oil growing in popularity, it's likely to continue to increase.

Sugar isn't so nice: a focus on healthy eating has seen consumers cutting the amount of refined sugar and additives that are acceptable in food, in favour of healthier fresh options.

Doing it for the 'gram: with a growing focus on reducing waste and a growing trend for hearty food which doesn't make for the best picture, restaurant patrons are ditching their phones at mealtime.

Toasting the success of the British alcohol industry

A report by the British Beer and Pub Association in 2017 found that whisky exports from the UK were worth £80.7m and gin exports reached £108.3m.

Whilst having a fraction of the value, the British beer industry is growing and the wine industry isn't far behind. However, plenty of unused beer had to be destroyed as pubs and clubs faced lockdown due to coronavirus, with HMRC changing the rules on how to get rid of surplus alcohol. The EU only makes up a small proportion of the overseas market, so makers are less concerned with Brexit. China and India are the largest growth areas, increasing by 500% and 417% respectively in 2016. Traditional British drinks are also finding new audiences; pub staple Newcastle Brown Ale has been rebranded in the US as Newcastle and is a popular and fashionable choice with younger drinkers, for example. When it comes to the heritage and renown of vineyards in Europe, the US and Australia, the UK may struggle to compete, but changes to the climate are making British vineyards more competitive, while elsewhere they are facing greater risks from extreme weather. In addition, traditional British tipples such as whisky and gin are considered premium products abroad.

Veganism grows around the world

Statistics show that the number of vegans and vegetarians is steadily growing.

In the UK, it is estimated that one in eight people has ditched meat from their diet, with many more choosing only to eat meat occasionally. The trend coincides with an increase in awareness of the health benefits of cutting out animal products and ties in also with the growing awareness of the environmental impact of consuming meat. As a result, meat substitute products are growing in popularity and new favourites are emerging. For example, jackfruit, a fleshy fruit grown in south-east Asia, Brazil and Africa, is becoming a popular ingredient in vegan meals and can be cooked as a great alternative to pulled pork.

Plenty more fish in the sea

The seafood industry is undergoing a period of innovation.

Climate change has been a key driver, and has led to the development of new tools to track the effects which also aid the management of fisheries. A new "seatech" industry is emerging, providing data capture, analysis and visibility tools that support the industry in tracking environmental changes and keeping track of new traceability mandates.

This isn't the only area of the industry embracing innovation; biotech companies are developing fish feeds that don't come from other fish and deplete stocks and that alone is fast becoming a multi-billion dollar industry. Biotech firms are also finding ways to prevent disease and improve operations to ensure that the industry can keep up with the growth in demand. Every aspect of the food industry is aware of the need to reduce waste; in the seafood industry more use is being made of every part of the fish, creating new markets for products including leather from fish parts that have previously been thrown away.

Changes in the supply chain

Globalisation has increased the market for food production and also expanded consumer tastes.

This in turn requires effective supply chain management and shipping to facilitate servicing growing markets. Some industries are even cutting out the middle man and investing in direct-to-consumer sales which require a fresh approach to logistics. This is a growing, high value market and can be a way to deliver sustainable, fresh and healthy products that the market demands in new ways. This in turn requires effective supply chain management and shipping to facilitate servicing growing markets. When demand changes, it can knock the whole chain on its head. One in eight litres of milk produced at UK dairy farms is exported globally. With the rest, 50% goes to retailers, and the other half to food service, which includes restaurants, cafes and industrial suppliers. With coffee shops closed across many countries under lockdown, oversupply of milk is a real issue. Dairy Farmers of America, the country's biggest dairy co-operative, has estimated farmers are dumping 3.7 million gallons of milk every single day because of disrupted supply chains.

Dairy is just one sector in the food & drink industry affected. Overall, there are problems with producing food, because of labour shortages and lockdowns. On the other side, production is still up and running, but the ability to process and package the products isn't.

The food industry has developed to be a just-in-time supply basis, to keep freshness. Evolving to be globalised has in the past demonstrated its strengths, but with Covid-19 it showed the cracks in the systems.

Global warming heats up the industry

Ditching plastic costs producers in the short term

Recent campaigns and the David Attenborough series Blue Planet has brought the issue of plastic waste to global attention.

A whale found dead in the Philippines last year had 40kg of plastic in its stomach. It's clear that plastic waste is taking over the planet and choking wildlife and consumers are looking to companies to find a solution. For many companies, this will require a change in production and processes that could increase costs in the short term and new practices could mean that revenue takes a hit. Coffee Chain Boston Tea Party reported a loss of £250,000 in revenue due to the removal of disposable coffee cups; this may not be great news for the bottom line but it's a positive for the environment in being at the vanguard of taking action against waste. The actions of the company will enhance the brand and help to encourage a change in consumer habits that is likely to pay dividends in appealing to ethical consumers who are willing to pay more for a company that matches their values. This issue puts additional pressure on the bottom line, but it's one that companies can't ignore.

Green farming and manufacturing

As ethical consumers start to make their presence felt at the supermarket checkout, green farming practices and manufacturing processes are becoming increasingly important.

From a reduction of plastic packaging to organic goods and a reduction of waste, there are multiple demands being made of the industry. This also brings some good news; there is a rising trend for selling "ugly" fruit and vegetables which are not of the uniform size and shape of standard supermarket produce. This reduces waste, which is good news for the world, can be a cheap way for consumers to eat more fresh fruit and vegetables and it provides a new revenue stream for the industry when previously those goods would have been discarded or sold cheaply for mass produced or tinned goods.

Certain fresh produce have come under new scrutiny because of growing awareness of environmental and ethical issues. For example, the growing popularity of avocados was brought to a halt as consumers became aware of the level of deforestation caused by farming and areas of pine forests being illegally razed to grow the fashionable "superfood". In addition, the avocado boom brought more issues after crime cartels seized the crops, leading to stories of bullets embedded in avocados and an awareness of a "blood avocado" trade, worth £150m a year to Mexican drug lords. Honey is another area under scrutiny due to the importance of bees in the ecosystem. In some cases, farmers are helping to increase the population of bees by planting wildflowers and reports show some bees important for the pollination of crops such as oilseed rape are growing in population. Organic farming is best for bees, but organic certification is difficult for UK-based honey producers because beekeepers can't limit bees only to organically-grown flowers. Fully organic and fairtrade honey can be imported from overseas, but this comes with a higher carbon footprint. In these cases, consumers will start looking at the details to see which option has the least effect on the environment, perhaps buying locally from a small producer – or will start to look for greener and more ethical alternatives.

Like all innovation, green farming and manufacture requires investment, but as the industry continues to feel the heat from climate change and consumers seek ways to reduce their carbon footprint, it's likely that it will become an essential aspect. Technological growth should accelerate a change to greener practices, but it's likely that partnerships and alliances will develop to reduce the cost of implementation.

Extreme weather causes chaos in agriculture

The change in the climate is proving to be a significant challenge to farmers.

In 2018, UK farmers had to delay planting due to the cold front, dubbed the Beast from the East, which hit the UK in February. This was followed by an extended period of heavy rain and flooding in April. The summer heatwaves of 2018 and 2019 may have come as a relief to many after prolonged bad weather but this also had an impact on crop yields. The change in production patterns and unpredictable yields are pushing up prices and it's clear that climate change is an issue that agriculture cannot ignore.

Price pressures weigh on the industry

All the current changes are increasing the pressure on prices.

Changes in consumer behaviour may be leading the change in more ethical, greener consumption but it's also clear that people are feeling the pinch. Rising inflation and increased prices mean that many people have less disposable income which means that producers are stuck in the middle, with a need to innovate pushing up costs while falling demand may suggest a need to cut prices. The end result is squeezed margins, and for producers importing ingredients from overseas, this is compounded by currency costs. The weak pound caused by Brexit has made British exports attractive to overseas buyers for a few years since the EU referendum. Currency values fluctuate which can lead to reduced margins or some goods becoming priced out of the market.

Understanding currency fluctuations

There are so many factors that impact a currency – situations such as Brexit, the US-China trade war and of course coronavirus are major examples. Currencies also fluctuate due to economic statistics, political changes and business confidence too.

As they fluctuate in relation to each other, a major change in another country will have a knock-on effect on other currencies. The biggest challenge is that given that there are so many factors, and that it involves areas such as politics, the currency market is difficult to predict. This in turn makes it difficult to set prices with overseas partners. In addition, there are some suggestions that the current economic situation may lead to a shift in buying patterns. The overall approach to your company's currency exposure will depend on a number of factors, but here are some key steps to take when planning ahead in uncertain times.

Managing currency risk

STEP ONE: UNDERSTAND THE NATURE OF YOUR CURRENCY EXPOSURE

Take a look at your balance sheet and consider what fraction they are of overall incoming and outgoing funds because this will indicate your measure of risk. If it's only 10% of your business, you may think you have less to worry about than if it's currently 70% but the issue isn't quite that simple. Of course, a company with higher currency exposure bears more risk due to currency fluctuations, but you may want to look beyond the numbers at your strategic plans. You should consider where the market may be growing or shrinking and where the future opportunities lie. In trying economic times, whatever the percentage of your overall profits and losses are consumed by currency, you should aim to make the most of every penny.

STEP TWO: UNDERSTAND THE CHOICES AVAILABLE

There are a number of currency tools which can help you make the most of your company's resources and still expand into further overseas markets. A forward contract allows you to lock in a prevailing rate of exchange for a set period of time. (Please note, a forward contract may require a deposit.) This can help with forward planning and provide some certainty but it carries its own risk. Currency can go up as well as down, and it depends on what is going to work best for you. In addition, there's the fact that this works best when you have a clear pipeline and this isn't always possible in some areas of the food and drink industry, which relies on the weather and other uncontrollable environmental factors. If you have definite commitments then a forward contract may be the best approach. However, you can also set up a market order; this allows you to specify your target rate and the funds are transferred if that rate is reached. There are no guarantees with a market order but you can pair this with a stop-loss order which specifies the lowest limit you are willing to accept. This allows you to protect your profit margin while also having the opportunity to take advantage of movements in the market. These are both longer term strategies that require some planning, but if you operate a more agile business, you may feel like the best approach is to wait and see what the market brings and adapt accordingly. This does carry some risk, but if you work with a specialist who can keep you updated on the latest changes in the market then it could allow you to maximise your profit margin and help protect against too severe losses.

STEP THREE: SPEAK TO A SPECIALIST

All of the above products and services are available via a currency specialist but that isn't the only advantage. Currency specialists typically offer better rates and lower fees than high street banks. You also get the benefit of expert guidance from someone who not only understands the foreign exchange market but also the challenges of producers and manufacturers within the food and drink industry. Whether you're just starting to consider your currency exposure or are simply looking to review your current approach, the additional expertise can shed light on the opportunities and risks of different approaches – and you can get all this extra help for free when organising your international payments through a specialist.

Controlling currency costs

Fluctuations in the exchange rate have an impact on the cost of international payments, but it isn't the only factor.

Different providers offer different rates of exchange, and even a fraction of a percentage point can make a big difference. In addition, if you're working with multiple partners, perhaps working on innovative new production processes or smart labels, exchange fees can soon add up and can further erode the profit margin. If you're working across multiple markets around the world, then it may be time consuming to set up and deliver the broad range of currency transactions required and to keep track of cash flow when working in multiple currencies.

Managing international payments

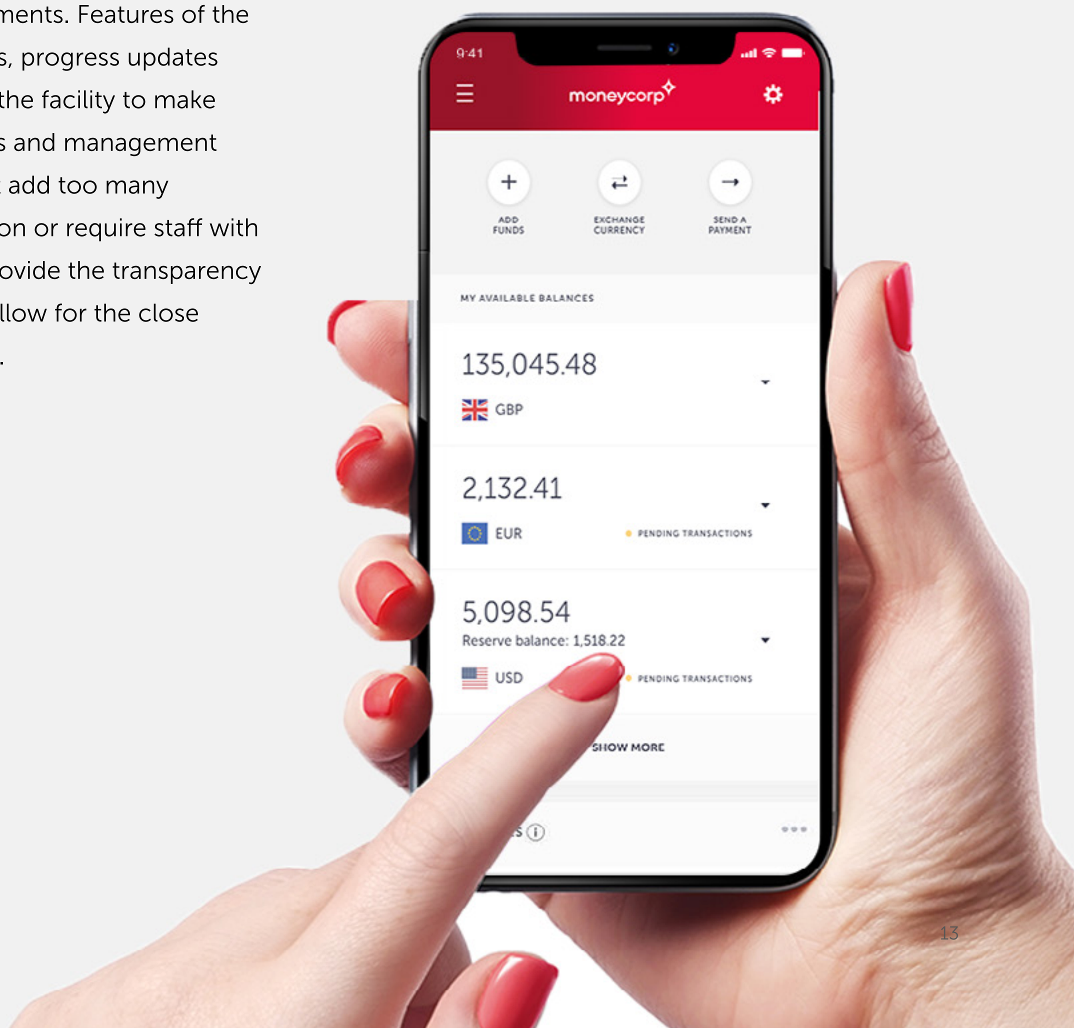
Working in partnership with a currency specialist like moneycorp can improve the process of managing international markets and partnerships.

As well as expert guidance on the currency market and available currency tools for managing risk, moneycorp provides clients with an online platform for managing international payments. Features of the platform include live statements, progress updates on international payments and the facility to make payments in multiple currencies and management controls. This approach doesn't add too many additional layers of administration or require staff with specialist expertise, but does provide the transparency and checks and balances that allow for the close management of currency costs.

Currency support for the global food and drink industry

For many organisations, a global approach can help to offset some of the challenges of shrinking domestic markets, political changes such as Brexit and Covid-19.

Wherever the market is expanding, the cost of international transfers and the risk of currency exposure are likely to be a key factor in whether your plans succeed – after all, there is no point in tripling your sales through overseas markets if you find that you didn't make a penny of profit. The corporate foreign exchange service from moneycorp helps companies to manage their foreign exchange risk. Our expert team works directly with the food and drink industry and provides guidance on the foreign exchange market and insight into currency tools and market developments and how they might impact individual businesses.



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