

The Food & Drink Industry

CURRENT IMPACTS & FUTURE SOLUTIONS OUTLOOK



Executive Summary

We are all facing a challenging business environment with high inflation and a slowing economy, but the food and drink (F&D) industry was among the first to feel the impact due to the quick turnaround of the goods it trades. The ongoing effects of the disruption caused by the COVID-19 pandemic and, more recently, the war in Ukraine, have further added to the difficulty, affecting not only supply chains but also consumer behaviour.

These developments are re-shaping the F&D sector's market approach and individual business strategies. While closely monitoring the market environment is key to success, subsequent decisions and their impacts on the business need to be supplemented with an equally thorough analysis of the effect on businesses' risk exposures.

This report shows that businesses in the UK F&D sector are taking a variety of measures to address inflation. Among the most popular are "seeking additional finance" (32%) and "looking to use new or existing overdrafts" (30%). The hope is that such strategies will insulate businesses against higher costs and allow them to make the necessary investments needed to thrive. At the same time, changes in ownership structure or shifting debt levels can bring volatility and, for example, impact credit risk ratings.

One notable pressure facing the F&D industry is a growing consumer concern with regards to environmental degradation, including the use of single-use packaging and production of CO₂ emissions. Regulators are following suit. While this may be perceived as a threat, innovative solutions to reduce or re-purpose food waste can offer an opportunity

for businesses to both minimise cost and enhance their environmental credentials. As our research shows, data and analytics are already being deployed to achieve more sustainable methods of delivery, and to make businesses more agile.

With so many different moving parts across the value chain, regular review and monitoring is crucial. F&D businesses need to put in place appropriate internal controls and mechanisms to highlight core areas of risk. Traditional risk registers and governance processes can help prepare for rapidly evolving risks only if they are reviewed, adjusted, and updated more frequently to reflect a changed risk exposure.

Some strategic risks, however, are inherently hard to spot, and cannot be tracked easily using traditional risk registers. There is a growing body of research that supports the idea that teams composed of individuals from diverse backgrounds and with varied experience make better decisions – and this is also true when it comes to strategic risk management.

I suggest that you keep the above in mind when reading this report. Case studies are included within, demonstrating that although there may be challenges, there are also solutions. For those across the sector, Lockton is on-hand to identify and address any risks that may threaten your balance sheet.

Debbie Day ACII
Partner

Contents

STATE OF THE INDUSTRY	
THE RISKS IMPACTING THE GLOBAL F&D SECTOR.....	8
UNDERSTANDING CONSUMER BEHAVIOUR AND CHANGING DEMANDS.....	34
THE UK OUTLOOK	
FURTHER EXPLORING IDENTIFIED KEY TOPICS WITHIN THE UK.....	64
KEY FOCUS & OPPORTUNITIES	80
CONCLUSION	84

Within the research
3 pillars directly
impacting the F&D
industry were identified

1

Challenges
& risks

2

Changing consumer
behaviour

3

Ongoing solutions
& innovations



The 3 R's & future-proofing the industry

EACH OF THESE PILLARS WILL DRIVE SPECIFIC NEEDS ACROSS THE SECTOR:

Resourceful

The need to become future-proof will require the industry to continuously invest in research & development, allowing for new solutions and innovations to be tried, tested and implemented.





Resilient

Sector needs to be future-proof by investing in the tools and solutions to deliver more and better whilst damaging less.

Responsive

As consumers' needs evolve, the F&D industry needs to listen and respond to stay relevant and continue to deliver added value to match demands.

State of the Industry

THE RISKS IMPACTING THE GLOBAL F&D SECTOR

Challenges & Risk Themes

Higher operating costs

- Increasing inflation
- Gas and energy costs
- Labour shortages
- Supply chain issues

Environmental impact

- Carbon emission targets
- Effects from global warming
- Changing regulations

Digitalisation

- Increasing digitalisation as a way to optimise production and services



Higher operating costs

THE ISSUES IMPACTING THE SECTOR'S BOTTOM LINE



THE F&D SECTOR
VULNERABILITY TO
EXTERNAL
FACTORS AND
DISRUPTIONS ISN'T
SOMETHING NEW.

RECENTLY, THE WAR
IN UKRAINE MADE
MATTERS WORSE.

In 2019 an outbreak of African swine fever in China sent global food price inflation well above 4%.

Then the spread of COVID-19 caused havoc with the world's supply chains, pushing the cost of producing and transporting food, increasing global food prices by 65%. Energy and fertiliser prices, two critical components to food production, have been rising steadily since December 2020.

Global food prices have surged by 12% in 2022 alone since the start of the Russian invasion of Ukraine, according to data from Food and Agricultural Organisation (FAO).

The war has particularly hurt supply chains and has caused energy prices to increase, driving fertiliser and shipping costs.

In addition to the above, harsh conditions such as dry weather has contributed to recent disruption for commodity food prices and related products.

Inflation enters the picture

AND COMPANIES ARE TRYING TO ADAPT

Rising levels of inflation has been a growing source of business unease in 2022 with companies adopting a wide range of strategies to deal with it.

RANGE OF STRATEGIES COMPANIES ARE ADOPTING TO DEAL WITH PRICE RISES



Several factors are impacting the surge in food prices:



NATURAL OCCURRING DISRUPTIONS

Droughts, heavy rains and hot weather across different countries reduced 2022 crop yields. Severe outbreaks of avian flu and the prolonged impact of African swine fever have also tightened global protein supplies.



PANDEMIC LINGERING EFFECTS

The shutting down of major ports during the pandemic has led to a significant amount of trade disruptions. Similarly, migrant labour flows in the agricultural sector have yet to return to pre-pandemic levels.



ENERGY PRICE INFLATION

Rising food prices are highly correlated with higher energy prices since the latter translate into higher costs of agricultural production such as transportation, machinery and fertilisers.



WAR'S IMPACT ON COMMODITY MARKETS

The invasion has dealt a major shock to commodity markets given the critical role that Russia and Ukraine play in the physical markets, particularly in energy, fertilisers, and grains. The impact resulting from the destruction of productive capacity as well as restrictions on trade financing and payments should also be considered.



INCREASED SPECULATION

The flow of speculative capital in the commodity futures market and hoarding have been increasing drastically over time, contributing to excess price surges relative to supply/demand fundamentals and unwanted volatility in food prices.

Increasing costs

FOOD PRICES ARE OUTPACING WIDER INFLATION ACROSS MOST OF THE WORLD

Fast growing inflation

The year on year increase in food prices has now reached the 21st century's fastest rate. Its gap with the general inflation has become the widest since 2000s with the harshest consequences being faced by poorest countries. As of August 2022, on average, annual food price inflation has risen by 10% across developed markets and by 14% across emerging markets.

Consumers are responding

As a result, consumers are changing their spending habits as prices continue to rise with many rethinking their essential spending and switching to cheaper alternatives, creating an even more challenging landscape for food manufacturers.

Companies are facing their own inflation challenges with higher input and operating costs and cutbacks in consumer spending are limiting the ability for some companies to pass these costs on to consumers, hitting profit margins as a result.

There may be hope

Although the surge in food prices isn't a temporary problem, there is reason to believe that food price inflation is nearing its peak. The prices paid by consumers largely follow those in commodity markets, which have been steadily falling, according to the latest figures from the FAO.

The issue is that it can take several months for commodity prices to filter through to consumers and the world will be watching nervously.

Inflation impacts food security

DIRECT IMPACT OF INFLATION ON FOOD SECURITY AND ACCESSIBILITY

Food insecurity is the lack of regular access to enough safe and nutritious food, either due to lack of resources, or simply the unavailability of food.

Food security was already at crisis levels due to factors such as conflicts and climate change, and rising inflation is worsening the situation.



193M

PEOPLE GLOBALLY
ARE FACING ACUTE
FOOD INSECURITY

Food inflation also brings other challenges, such as food fraud, dangerously impacting consumers' health & safety.

Most of the time, food fraud has safety implications and can present itself in a variety of ways, either through adulteration, illegal processing, misrepresentation and misleading labelling, waste diversion etc.

Foods most susceptible to fraud:



Tea



Coffee



Fish



Saffron



Fruit Juice



Honey



Olive Oil

The infographic is set against a background of various food items. In the top left, there's a plate of spaghetti with shrimp and lime wedges. In the top right, a white tray holds a spring roll, bean sprouts, and a lime slice. On the right side, there's a glass of red iced drink with a straw and a small bowl of dipping sauce. At the bottom, a plate of rice with green herbs and meat is visible. A person's arm with a black watch is seen on the right side.

14%

OF UK HOUSEHOLDS
EXPERIENCED FOOD
INSECURITY IN 2022

57%

IS THE RATE IN WHICH
FOOD INSECURITY
LEVELS HAVE
INCREASED IN THE UK
SINCE JANUARY 2022

20%

OF UK HOUSEHOLDS
WITH CHILDREN
EXPERIENCING
FOOD INSECURITY

Use of food banks in the UK has risen with the soaring cost of living. More working people are also turning to food banks, as they struggle to make ends meet.

With rising energy bills and fuel costs, increasing food prices is just another nail in the coffin for those who are already struggling.

SOURCE: [Food Standards Agency](#), [New Food Magazine](#), [St Pauls Chambers](#)

Sustainability needs to remain high on the industry's agenda



TRADITIONAL FARMING IS HARMING ECOSYSTEMS

Better understanding the connections between agriculture and nature as well as its impact in order to optimise land usage while preserving the soil and biodiversity.



HIGHER TEMPERATURES ARE CATCHING UP

As the world is quickly heading to temperature rises, we must drastically reduce the emissions of greenhouse gases in the atmosphere.



PRODUCING BETTER TO FEED MANY MORE

In the next 30 years we'll need to produce 60% more food to meet the dietary requirements of growing population while massively cutting carbon emissions.





Becoming Net Zero

WORKING TOWARDS AMBITIOUS GOALS

Like most countries, the UK is taking measures to become net zero by 2050 and in order to achieve this, it needs to meet its target of reducing emissions by 2035.

37%

FOOD PRODUCTION EMISSIONS
MAKE UP MORE THAN A THIRD
OF GLOBAL GHG EMISSIONS

69%

OF BUSINESSES ARE IDENTIFYING
SPECIFIC ENVIRONMENTAL,
SOCIAL AND GOVERNANCE RISKS
AND OPPORTUNITIES

Most food-related greenhouse gas emissions come from food production. With heightened public awareness, the F&D industry is under increasing pressure to better manage its resources to reduce its carbon emissions, which means stakeholders within those systems have a critical role to play in tackling climate change and ensuring a net zero future.

GHG emissions reductions that could come from different types of interventions, such as [eliminating deforestation from supply chains](#), [decarbonising energy and transport](#) and [preventing food waste](#). These actions will contribute towards existing national and global targets including the [Courtauld Commitment 2030](#) and the [NFU's target](#) of zero emissions for UK farming by 2040.

Key environmental impact issues caused by the F&D sector:



Pollution &
carbon emissions



Production,
loss & waste



Packaging &
plastic waste



Degradation
& scarcity

SOURCE: BDO, [Food Standards Agency](#), [Veolia](#), [Wrap](#)

The Sustainability Opportunity

RE-PURPOSING WASTE INTO PROFIT

According to a FAO report, 28% of the world's total agricultural area and the water volume of the Volga River are used annually to produce food that eventually ends up lost or wasted. In addition, for every £ spent on food, £2 worth of health, environmental, and economic waste is created. Half of these costs, totalling £5 trillion each year globally, are the result of the way food is produced, and food waste is handled. Ultimately, manufacturers are losing potential revenue with every tonne of waste that's produced.

£5
TRILLION

IS WASTED BY UNSUSTAINABLE FOOD PRODUCTION
WORLDWIDE EVERY YEAR

£1.2B

OF FOOD IS BINNED
EACH YEAR IN THE UK

Food loss refers to food lost in earlier stages of production such as harvest, lack of proper infrastructure, poor practices, and transportation.

Food waste refers to items that are fit for human consumption but are thrown away by consumers.

10%

OF THE WORLD'S
POPULATION GO HUNGRY

26%

OF F&D INDUSTRY'S
GLOBAL CARBON
EMISSIONS COME FROM
PRODUCTION LINES

70%

OF TOTAL FOOD WASTE
WERE PRODUCED
BY HOUSEHOLDS VS
16% FROM FOOD
MANUFACTURERS

In the UK, the typical cost of food waste is between 4% and 5% of company turnover but it can be as high as 10% in some cases.

Undeniably, there's a huge cost benefit to reducing your food loss or waste.

Innovative ways of disposing and transforming food waste:

THE FOOD WASTE BUSINESS MODEL

Many companies are incorporating better waste management practices into their business models. A food waste business model might include using existing waste to create something new, to solve a secondary business problem, or to source specific food waste to improve an existing product.

RE-PURPOSING FOOD WASTE

Sweden uses food waste to create biogas – a kind of fuel that powers everything from their buses, to heating resident homes. This initiative solves a massive problem while generating profit.

CREATE A FOOD WASTE RECYCLING PROGRAMME

Food waste recycling is a popular solution that helps your company reduce discarded organic food. Some internal programmes that collect organic waste and converts it into garden compost. Those can also be donated or sold to nearby farms.

INCREASE USAGE OF “UGLY” FRUITS AND VEGETABLES

Companies like [Oddbox](#) specialise in changing consumers' perception of 'ugly' veggies and are helping to tackle food waste. In 2021, [Tesco](#) founded their 'Perfectly Imperfect' range which has helped save 50 million packs of fruit and veg since its launch.



SOURCE: BDO, Columbus, Recycle Coach

Improving Circular Economy

CUTTING FOOD WASTE WITH NEW SYSTEMS AND TECHNOLOGIES

There are plenty of new businesses seeking to address the challenge: developing systems to prevent food waste in the first place, to distribute surplus food to people who need it, and creating circular processes to redeploy inedible waste streams as inputs for new products. Businesses recently attracting investment include [OLIO Exchange](#), a food sharing app, designed to connect neighbours with each other and with local businesses so surplus food can be shared, not thrown away. The business has achieved rapid growth in the UK with a user base of 5 million people, and the £31 million funding received will spearhead global expansion.

Another exciting business is [Fresho UK](#), which offers an online ordering system for chefs, which seeks to save time, improve cash flow and reduce waste. [Winnow](#), which has a similar business model found that on adopting its technology, a typical client could expect to reduce waste by 40 – 70%, with an average reduction of about 50% and huge improvements to the bottom line. Less than a decade after its launch, [Winnow](#) technology now serves more than 1,400 businesses across the world, saving the equivalent of 36 million meals each year from the bin, and £34 million in food cost savings for its clients.

Why this matters?

THE TIME IS RIPE FOR CIRCULAR ECONOMY INVESTMENTS IN FOOD

As the cost of living bites consumers and businesses alike, the time is ripe to accelerate circular business models that benefit both the purse and the planet. The amount of money flowing into the circular economy food sector has risen sharply, with over £200 million invested in the first half of 2022, compared to £267 million in the full year 2021.

Environmental, social and governance (ESG) issues continue to be a concern for F&D companies, with 53% of leaders saying ESG and sustainability are a key focus for their business in 2022. Furthermore, 36% of business leaders called for [more help in reducing carbon emissions and investing in the circular economy](#).

Agriculture Tech Based Innovation

Due to unpredictable climate events, a change in eating trends, and disturbances in the supply chain for worldwide populations, agriculture demands innovative solutions. [AgTech](#) companies are solving these challenges through new approaches in drone technology and other crop maintenance robotics, gene editing, and disruptive research to increase food production. Among their smart farming focuses are new sources of protein, eliminating pollution in food production, cutting edge technology infrastructure, and overall sustainability for future healthy crop planting.

HERE ARE A FEW LEADERS IN AGTECH INNOVATION, GROWING FOOD SECURITY FOR ALL:

[Farmwise Labs](#), a San Francisco start-up utilising AI and robotics to streamline farm operations through a commercial weeding machine.

[Groundwork BioAg](#) is aiding grain farmers in increasing their healthy yields while reducing phosphorus use to minimise local water pollution.

[Puris](#), a crop genetics innovator specialising in non GMO, organic commercialised North American pea farming, nurturing the pea protein market and designing new food products.

Why this matters?

Soil degradation has become a pressing global concern. Soil erosion is a natural phenomenon, however increased unsustainable human activity has accelerated erosion and degradation, which in turn can negatively impact agricultural productivity.

50% of the world's most fertile topsoil has been lost in the past 150 years – This is **10X faster** than it's being replenished.

33% of the world's soils are already degraded and **90%** could become degraded by 2050 at this rate.

Interest in soil health is on the rise in business media. The growing interest in soil health is linked to growing interest in how food is produced and its impact on the planet. Healthy soil produces good quality vegetables, so the interest in soil health has been increasing rapidly among consumers and businesses.



New Green Technology for Recycling

Recycling is not a new effort, but it is losing efficacy and studies show even the most mindful consumers recycle incorrectly. Increasing efforts are underway to bring new technology to an inconsistent, overwhelmed, and complex recycling industry.

[MacRebur](#) has a mission to re-purpose plastic waste, right underneath our feet and wheels, with innovative plastic roads. This company transforms recyclables through a process of shredding, melting, and then mixing into a new type of asphalt, creating a material for new road construction. This technology which originated in India is paving streets across the globe, keeping plastics out of landfills while also providing a solution for municipalities with an increasingly mobile population. The products enhance asphalt performance in durability and longevity compared to existing road building techniques, and 1 ton of MacRebur mix contains the equivalent of 80,000 plastic bottles.

[UBQ Materials](#), is a clean tech company solving unsustainable waste disposal aiming to create a circular economy. [UBQ](#) can take residual waste that is currently headed to landfills and polluting incineration methods and instead create durable end products for consumer and industrial use. It can substitute plastics, minerals, and wood in thousands of different applications, from [McDonald's](#) food trays to construction material.

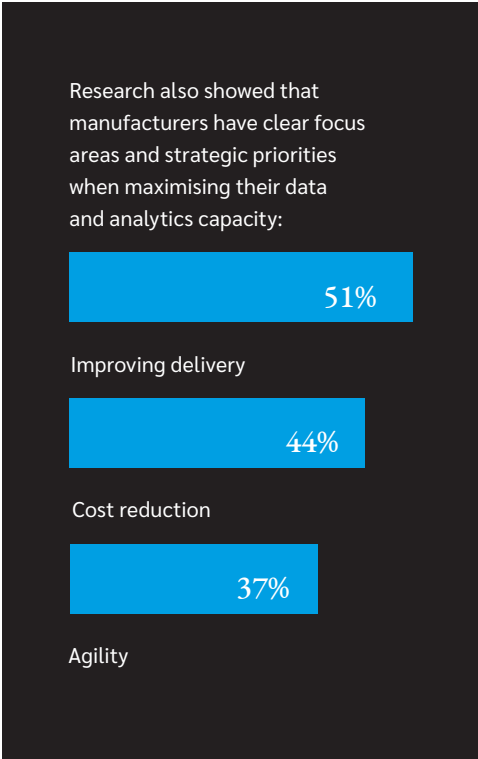
By 2030 there will be over 15 million tons of lithium ion batteries ready for recycling. [Nth Cycle](#), a start-up using “electro extraction” to harvest cobalt, nickel, and manganese for use in the lithium ion battery sector, aims to transform recycling of the batteries of popular portable electronics and electronic vehicles.

The need for Digitalisation

CURRENT CHALLENGES AND THE NEED FOR OPTIMISATION

The F&D industry has undergone a series of changes in the last decade, which was accelerated in the last few years, due to the rapidly changing consumer behaviour, socio-economic landscape of consumers, technological advancements, stricter regulations and environmental targets.

Digitalisation and the introduction of tech solutions to optimise processes while minimising waste and errors are the key driving force to ensure the sector's resilience.





THE KEY TO ACHIEVING STRATEGIC GOALS IS TO TAKE A HOLISTIC APPROACH TO DIGITALISATION:



TECH ADOPTION

Use of technologies such as AI, automation and analytics enables the food industry to reduce errors and therefore, cut down on waste, storage and transportation issues, improved service while increasing consumer satisfaction.



OPTIMISING SUPPLY CHAINS

F&D companies need to become more agile and resilient through optimising processes. This will enable faster deliveries, reducing costly inefficiencies, efficient operations and profitability.



SUSTAINABLE HABITS

Consumers are eager to know more about how and where their food is made. Companies and manufacturers must focus on offering consumers with transparency and sustainability solutions to maintain their competitive edge.



WASTE REDUCTION

Reducing food waste is not only an effective way to cut costs but also an important way to optimise its sustainability efforts in reducing their footprint.



FULL CONNECTIVITY

To keep track of consumers ever evolving needs and demands the industry will need to maintain open communication channels in order to continue to listen and respond to those needs.

The need for Digitalisation

A RESTAURANT INDUSTRY SOLUTION TO SURVIVE

Accelerated by the pandemic and consumers' increasing desire for convenience and speed, the restaurant industry utilised digitalisation as an efficient solution to stay relevant and ultimately, to survive.

A key feature of restaurant digitalisation that progressed during the pandemic was online ordering. The global online food delivery market size reached \$111.32 billion in 2020 and that continued to see growth.



\$130BN

CURRENT ONLINE
FOOD DELIVERY MARKET
SIZE WORLDWIDE

The development of online food ordering has also caused another segment of the restaurant market to grow – the ghost kitchen market. A ghost kitchen, otherwise known as a dark kitchen, cloud kitchen, or virtual restaurant, is a restaurant that does not provide dine-in or takeaway services to customers.

It is primarily virtual and is reliant on food delivery apps, such as [Grubhub](#) or [Deliveroo](#), website portal orders, and/or calls, to generate sales. The global ghost kitchen market size was estimated at \$43.1 billion dollars in 2019 and is forecast to reach \$71.4 billion dollars by 2027.



15%

SHARE OF FOOD SERVICE
TRANSACTIONS MADE
THROUGH AN ORDERING
APP IN THE US

In-house delivery is the
most likely way in which US
food service businesses will
change their business model
in the next 2 years.

SOURCE: [Statista](#)

57%

OF US FOOD SERVICE
COMPANIES THAT WANT
TO INTEGRATE PHYSICAL,
DIGITAL AND MOBILE
SHOPPING EXPERIENCES

71%

OF US FOOD SERVICE
COMPANIES BELIEVE DIGITAL
TRANSFORMATION IS THE
MOST IMPORTANT FACTOR
TOWARDS AGILITY

Case Study

ONE

Claims Advocacy

Our client, a food retailer on the high street suffered losses as a result of the COVID-19 pandemic and was forced to close location in line with the UK wide government restrictions.

Their property damage and business interruption policy was placed on a bespoke wording and as such did not fall under the remit of the FCA test case. Although it was unlikely that their insurer intended to pay a claim of this nature, the policy wording was ambiguous.

Our legally led claims advocacy support stepped in to negotiate with the insurer, using technical, policy language interpretation to demonstrate that a claim should be paid. Additionally we successfully argued that closure of the seating areas of the store was a 'prevention of use' even if the takeaway aspects could remain open.

Working closely with the loss adjusters we presented a submission that provided sufficient information for the claim to be quickly validated and paid. The client was delighted with the result of a significant claim payment.



Case Study

TWO

Proactive Broking Strategy

Our client is a FTSE 250 global food company with a portfolio of manufacturing sites across UK, USA, Europe & Asia. Their property programme has a complex structure due to the significant values at risk and the various business activities undertaken.

Following a number of international losses in the sector, Lockton took pre-emptive steps to restructure the programme mid-term, replacing potentially compromised capacity and securing agreed rating, ahead of an anticipated hardening market.

These proactive steps meant that full cover was maintained within budgeted costs and our client was insulated from the hardening market that came fast and furious, just 3 months later. The capacity which we predicted to be compromised, disappeared from the market altogether and markets willing to provide replacement capacity in the hard market were tripling their rates.

With our sector knowledge, an ear to the ground on a global basis, analysis and tracking of major losses, coupled with an understanding of insurer and re-insurer strategies, we were able to plan and deliver a client focused strategy ahead of the distressed market.

Our 365 days per year broking approach delivers significant value for our clients. This is what our clients describe as "our different approach to broking".



State of the Industry

UNDERSTANDING CONSUMER BEHAVIOUR
AND CHANGING DEMANDS

Importance of tracking changing consumer behaviour

Consumer demands are driving innovation in the F&D industry across the globe and appealing to consumer desires will inevitably help a company keep growing.

94%

OF F&D MANUFACTURERS
CURRENTLY INVESTING
IN INNOVATION

50%

OF F&D MANUFACTURERS ARE
INNOVATING BASED ON
CONSUMERS' REQUESTS



SOURCE: HBL

Changing consumer behaviour themes

Holistic approach to health

- Changing drinking habits

Sustainability awareness

- Reducing package and waste
- Increase of veganism and plant based alternatives

Value added experiences

- The impact of rising cost of living
- Conscious & high low consumerism



Holistic approach to health



STILL LIVING THROUGH THE IMPACTS OF THE PANDEMIC

Consumers' desire to stay healthy skyrocketed in the last year which trickled into their food choices. Research indicates that the pandemic increased people's interest in foods that improve their immunity. As a consequence, ingredients with immunity claims are amongst those likely to experience future growth.

60%

OF CONSUMERS ARE
INCREASINGLY LOOKING
FOR PRODUCTS THAT
SUPPORT THEIR
IMMUNE HEALTH

58%

OF CONSUMERS OF CONSUMERS
ADMITTED TO BE EDUCATING
THEMSELVES ON HEALTH

Immunity is an opportunity broader than just vitamin C or zinc. The industry needs to think of ingredients that bring an “active” health benefit, as well as colour and flavour that tick the “natural” box, such as botanicals for example.

COMPANIES ARE JUMPING ON THE HEALTH AND IMMUNITY BANDWAGON

- [Chobani](#) recently announced a line of yogurt that spotlights probiotics
- [Brightseed](#), a five year old start-up that uses artificial intelligence to find molecules in plants that could have the biggest health and nutrition benefits in humans, is launching its first ingredient for the F&D industry. The dietary fibre, made from hemp hulls designed to support gut health, was discovered by its AI platform Forager.

SOURCE: [FMCG Gurus](#) , [FoodDive](#), [Chobani](#), [Brightseed](#)

Holistic approach to health

INCREASING HEALTH AWARENESS MEETS NEW REGULATIONS

PROMOTE AND SUPPORT GUT HEALTH

- Interest in gut health has been growing over the last few years and around 4% of recent F&D launches in retail carried a gut health claim.

HAVE ADDED VITAMINS AND NUTRIENTS

- Consumers are on the lookout for ingredients offering active health benefits while offering good flavour and natural colours.
- A growing range of “better for you” drinks are emerging, emphasising ingredients with excellent health benefits, including super foods, probiotics, prebiotics, antioxidants, vitamins, minerals, botanicals, adaptogens, and proteins. These beverage industry trends are having their impact across beverage categories, especially tea, kombucha, energy and sports drinks, and bottled water.

LESS OR NO SUGAR AND UNPROCESSED FOODS

- Conscious consumers are seeking moderated indulgence, with 55% admitting they are trying to cut down on unhealthy snacks.
- 42% of consumers are focusing on the ingredients in the products they are consuming.
- However, with 27% believing healthier snacks are less tasty, there's a big opportunity space to be explored.

REGULATIONS ARE SLOWLY PICKING UP

In 2021, the UK government passed regulations which place restrictions on the sale of certain F&D high in fat, sugar and salt (HFSS foods).

The law is targeted at making healthier options more attractive, improving people's diets and reducing children's sugar intake.

There are also wider rules around advertising HFSS foods.

Over the years government policy has focused on reducing the number of calories, salt and sugar we consume, but there has been little focus on increasing foods and nutrients we need more of.

Currently only 9% of adults in the UK meet the recommended amount of fibre. Industry related organisations, such as the F&D Federation, are actively working to support those changes, making dietary recommendations with an industry led initiative.

Holistic approach to health

FUNCTIONAL FOODS SUPPORT MENTAL HEALTH & WELL-BEING

Consumers are increasingly prioritising self-care, and will gravitate to restorative, convenient food that meets both their nutritional and holistic wellness needs.

These include healthful easy meals and on-the-go functional snacks that foster physical and mental health, built on natural ingredients and global traditional medicine practices such as Traditional Chinese Medicine or Ayurveda.

Tradition will meet technology to birth more health and mood-supporting products for the modern consumer.

Adaptogenic snacks such as herb-infused chocolate are rising in the innovator space, meeting consumer demand for indulgent self-care moments. Functional fungi varieties are also moving into snacks. Even food giant [Unilever](#) is investing in research to identify ingredients that positively impact mental well-being by targeting the gut-brain axis.

As interest in and familiarity with adaptogens grows, functional ingredients with roots in traditional medicine will make their way into more accessible everyday food and snacks, offering greater variety and more targeted functions with the bonus of convenience.

Fortified products are also a great way to maximise nutrient intake in a convenient and consumer-friendly way that aligns with their outlook and health values.

An evolving holistic approach aims to address multiple regions of health. This includes diet and exercise, as well as factors such as mental well-being, sleep management, and immune health.





THE CONTINUOUS SPREAD OF FUNCTIONAL INGREDIENTS



[The Functional Chocolate Company](#) combines functional ingredients to offer a range of solutions such as relaxation, loss of inhibition etc.



[Mycro](#) (US) offers medicinal mushrooms in cacao-infused honey that can be used as a spread or stirred into tea to improve cognition.



[Elavi](#) makes super food nut butters and collagen protein bars.

The global market for functional foods has been valued at £209.6 billion in 2021, with a projected annual growth rate of 9.5% from 2021-2028.

SOURCE: [DIT](#), [WGSN](#), [The Functional Chocolate Company](#), [Mycro](#), [Elavi](#)

Holistic approach to health

FUNCTIONAL FOODS SUPPORT MENTAL HEALTH & WELL-BEING



Alcoholic drink innovation will emerge to meet the need for mindful and moderate, yet high-end sips, socially inclusive offerings, drinks that evoke the terroir of a large range of different global regions, and drinks that blur the boundaries between physical and digital. The global non-alcoholic beverage market is expected to reach a record value of £1.3 billion by 2024. One of the driving forces behind this is the increasing demand from millennials and Gen Z consumers.

Recent researches are showing that Gen Zs are drinking less in comparison to other generations.

41%

OF GEN ZS ASSOCIATE ALCOHOL WITH "VULNERABILITY", "ANXIETY" AND EVEN "ABUSE"

49%

OF GEN ZS SAY THEIR ONLINE IMAGE IS ALWAYS AT THE BACK OF THEIR MIND WHEN THEY GO OUT SOCIALISING AND DRINKING

Gen Zs are growing up in a unique social landscape where, weighed down by financial and societal worries, they're more risk averse. They know how drinking impacts their health and consequently, a youth culture that has de-normalised drinking is flourishing.

A factor in this shift is that young people today know far more about health risks associated with these kinds of behaviours. It's also increasingly easier to learn more about the perils of drinking and to openly talk about it through communities such as [#SoberTok](#).

THE INDUSTRY IS TAKING NOTICE AND ADAPTING

The no and low-alcohol category has grown consistently, and it is predicted that, by 2024, the [total volume consumption will grow by over 31%](#) across Australia, Brazil, Canada, France, Germany, Japan, South Africa, Spain, the UK and the US.



Bartender [@cocktailsbyhawk](#) is one of the emerging innovators creating NFT cocktails with a range of digital and physical perks.



British brand [Illogical Drinks' Mary](#) is distilled with responsibly sourced botanicals – basil, thyme, sage, coriander seed, angelica root, juniper and pine needles – for a fresh, herbal alternative to gin.



[Ramona's](#) organic wine spritzes is made with Italian herbs and citrus peel or organic blood orange.



Industry examples: Improving gut health



[Floré](#) offers custom formulated probiotics for consumers based on a gut microflora test.



Kombucha Gut Shots by [Lo Bros](#) state that they restore gut microflora and maintain overall well-being of mind and body. The range is available in a variety of flavours.



[Probi](#) and [Oriflame](#), two Swedish companies of probiotic and cosmetics respectively, have partnered to launch a probiotic supplement for general gut health. The focus will be to innovate through using natural ingredients and high-quality products. The concept is based on Probi Digestis. The product, based on beverage research, includes a probiotic strain having proven health benefits and is a customer-specific formulation.

Industry examples: Innovative drinks



[Famous Soda Company](#) is an Australian brand developing 100% sugar-free sodas. Available across a range of flavours, the product has only 8 calories per soda with no added sugar, chemicals, additives, or preservatives. This makes it a great innovation.



[Good Sunday](#) is leading the charge for low-alcohol beverages. Their gin sodas come in two flavours, combining real fruit and fresh carbonated water. It contains only 1g of sugar and 3% alcohol. With more people turning to low and no-alcohol beverages, Good Sunday is set to breach new heights in this market.



Products like [PureCane](#), a zero-calorie sweetener made from sugar cane, or [True Made Foods](#)' condiments that use fruits and vegetable extracts in replacement of sugar are two sweet examples of food innovation.



Industry examples: Supporting mental well-being



[Pabst Blue Ribbon](#) has begun selling a line-up of non-alcoholic “High Seltzers.” Each 12-ounce can contains 10 milligrams of THC, which the company says “is the right amount to have a good time.” Its 4 flavours are sold online or at dispensaries in US states where medical or recreational marijuana use is allowed.



[Wunder](#) is a US 25-calorie drink that has a combination of Delta 8, THC, and CBD. The Lemon Ginger and Blood Orange Bitters are on the lower dosage end with 2mg of THC, 2mg of Delta-8, and 4mg of CBD. There is also Watermelon Basil and Grapefruit Hibiscus that has 10mg THC instead of 5mg.



Women-owned [Mad Lilly](#) is bringing individual beverages to the US market with a line of THC-infused spritzers that include Passion Fruit Mango, Ginger Pear, and Raspberry Hibiscus. Drinks are all-natural, low-calorie, and have a proportional amount of THC and CBD in them.

Why this matters?

Cannabis Drinks Market value to grow by almost £6.7 billion by 2032.

Due to an increase in consumption of medicinal cannabis, the demand for cannabis drinks in the UK is expected to rise over the assessment period.

Various health benefits, such as improved sleep patterns, weight loss, depression and anxiety reduction, blood pressure regulation, and others, are predicted to fuel global cannabis drinks growth over the forecast period (2022-2032).

With more consumer acceptance and relaxation in the regulatory norms, this is established and here to stay. The increase in demand for recreational cannabis has grabbed the attention and investment of major F&D companies.

With growing popularity among consumers, different market segments are exploring the cannabis market and learning about the value it can have on their business. As a result, players are exploring every possible innovative format and technology that deliver the best possible outcome.



SOURCE: Future Market Insights, PR Newswire

Sustainability awareness

REDUCING PACKAGE AND WASTE

Overall, many UK consumers are trying different refill/reuse behaviours with 50% of those who haven't tried being receptive to it. [However, few have adopted refill as a permanent habit...](#)

73%

OF UK CONSUMERS THINK MORE NEEDS TO BE DONE TO MAKE IT EASIER TO CHOOSE REUSABLE ALTERNATIVES TO SINGLE-USE F&D PACKAGING

67%

OF UK CONSUMERS SAY PLASTIC WASTE IS AN IMPORTANT ISSUE TO THEM PERSONALLY BUT ACTING ON IT CAN BE CHALLENGING WHEN SHOPPING

In order to take circular economy forward to scalable levels, it is important to address certain adoption barriers such as [convenience, cost, education, technology and design](#).

32%

OF UK CONSUMERS WOULD BE MORE WILLING TO USE REUSE SYSTEMS IF THEY DID NOT HAVE TO GO OUT OF THEIR WAY TO DO SO

31%

OF UK CONSUMERS SAID HIGHER ASSOCIATED COST WAS A FACTOR THAT COULD PUT THEM OFF ENGAGING WITH REUSABLE PACKAGING SYSTEMS

MORE SOLUTIONS ARE BECOMING AVAILABLE



Aldi has launched a trial selling its first packaging-free products to help customers shop more sustainably with four household staples being available to buy loose in store.



Dizzie delivers refillable groceries to customers' door and reusable packaging is collected with next order.



Waitrose Unpacked is an alternative way of shopping that uses less packaging. Customers are encouraged to bring their own containers, bottles and bags to then weigh and fill with groceries such as dried pasta, cereal, coffee, frozen fruit, meat, fish, detergent and washing up liquid.

THE ROADMAP TO THE UK PLASTICS PACT TARGETS

- Eliminate problematic or unnecessary single-use packaging through redesign, innovation or alternative (reuse) delivery model.
- 100% of plastics packaging to be reusable, recyclable or compostable.
- 70% of plastics packaging effectively recycled or composted.
- 30% average recycled content across all plastic packaging.

Sustainability awareness

SHIFTING TO PLANT-BASED ALTERNATIVES

Sustainability awareness is shifting to plant-based alternatives and continues to expand into more categories. Alternatives to milk, meat, dairy, eggs, are all seeing significant innovation as companies race to launch products that appeal to consumers and other businesses alike. The reasons for the expansion of plant-based alternatives to animal products have been well documented: [perceived health benefits](#), [concerns over animal welfare](#), and [greater sustainability](#).

Demand for plant-based food production is expected to soar to more than £132 billion by 2030, up £23.7 billion in 2020. With a rising percentage of the population becoming plant-forward, lab-grown meat and other plant-based innovations present great potential for the UK to explore and lead.

Industry giants such as [Sainsbury](#), [Nestle](#), and [Aldi](#) are launching meat alternatives. The main checkpoints are taste, texture, and nutrition. However, the challenge has been the time frame. With evolving expectations and demand, consumers and retailers alike are looking for new options.

AFTER GERMANY, THE UK HAS THE LARGEST SHARE OF
PLANT-BASED EATERS IN EUROPE

9%

OF UK CONSUMERS
ARE EITHER VEGAN
OR VEGETARIAN

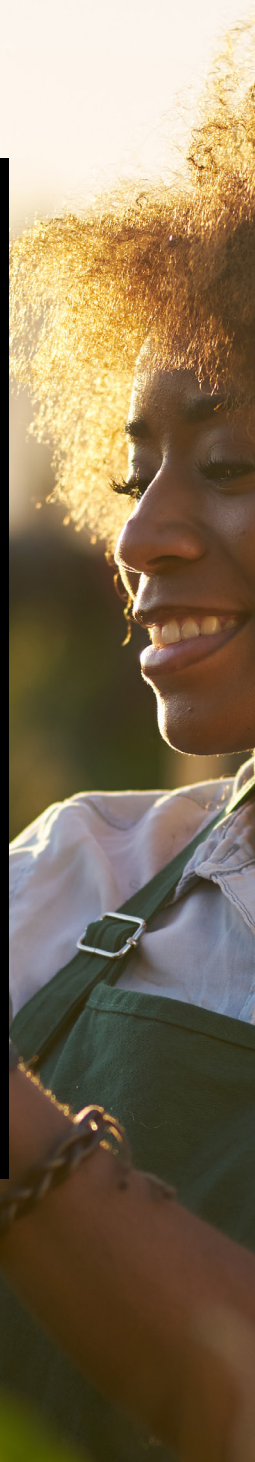
23%

OF UK CONSUMERS
IDENTIFY AS
FLEXITARIAN

The proportion of UK people reporting eating and drinking plant-based alternative foods nearly doubled between 2008-2011 and 2017-2019.

The largest increases were reported among Generation Z and Millennials. Women were also 46% more likely to report consumption of plant-based alternative foods than men.

SOURCE: [BDO](#), [FoodDive](#),
[ProVeg](#), [New Food](#)
[Magazine](#), [Spoonshot](#)



Sustainability awareness

THE RISE OF CLIMATARIAN AND REGENETARIAN DIETS

The rise of Climatarian and Regenatarian diets and ongoing challenges with the global supply chain have created increased need and opportunity for climate hero ingredients.

Climate hero ingredients, as defined by WGSN, are alternatives to traditional ingredients presenting a more sustainable and nutritious solution. They are also increasing in popularity for offering new development opportunities to tackle issues which brands and consumers are becoming more aware of such as monoculture and biodiversity loss.



49%

OF GLOBAL CONSUMERS CONSIDER
SUSTAINABILITY WHEN CHOOSING
F&D PRODUCTS, AND THREE IN FOUR
EXPECT COMPANIES
TO INVEST IN SUSTAINABILITY

As brands and consumers increasingly prioritise the climate crisis, there is a growing opportunity for climate hero and next-level regenerative ingredients.

While there are thousands of discovered edible plant species, only 150 to 200 are regularly consumed by humans and more than 40% of our daily calories come from three staples: rice, wheat and maize. This movement is helping underutilised or forgotten crops to become more popular as a way to offer flavour diversification as well as nutritional and environmental advantages.

BRANDS TO WATCH...



UK-based start-up [Tarwi](#) uses lupin beans to make its range of hummus-like dips called Lumus, which it says contain 50% less calories than chickpea hummus.



[Yoga Superfuel](#) (Singapore) Fig Amaranth Cookies contain 25% organic amaranth, alongside figs, nuts, seeds and honey.



[Alt Foods](#) (India) has created a plant milk made of amaranth, sprouted finger millets, sprouted sorghum and oats, with flavours in original or chocolate.



Sustainability awareness

MINDFUL CONVENIENCE

Quick and easy doesn't necessarily mean unhealthy and unsustainable. A growing range of foods and drinks is emerging which focus on helping consumers to eat healthy yet conveniently while making environmentally friendly choices.

Convenient meal and treats will continue to evolve in order to address dietary requirements without neglecting consumers' needs and expectations.

Carbon neutral products will increasingly become the expected norm and companies will need to adapt to meet the changing demand.

Climate friendly ingredient and packaging alternatives will eventually become the mainstream.

Increased offers of convenient, sustainable and healthy F&Ds will help more consumers to make better choices. The mindful convenience trend will also impact supply chains and its run to achieve carbon neutrality.



BRANDS TO WATCH...



NZ-based [Vince's](#) dehydrated plant-based mince, eliminates the need for chilled supply chains and reduces carton weight, CO₂ emissions and shipping costs.



US-based [Hummii's](#) ready-to-eat, grain-free, plant-based mini muffins have no added sugar, are flavoured with Outcast Foods' up-cycled fruit powders, and switch wheat flour for chickpea flour that's made using a waterless process, saving 20 gallons of water per kg.



US-based [Scratch Kitchen's](#) "regenerative meal delivery" offers chef-standard takeaway or delivery meals that are cooked in dark kitchens and prepared from locally sourced, organic ingredients. Three quarters of the brand's packaging is compostable, and the company offsets all its carbon emissions.



SOURCE: WGSN, [Vince's](#), [Hummii's](#), [Scratch Kitchen](#)

Sustainability awareness

TECH-ENABLED TRANSPARENCY

With growing ethical concerns, consumers want to engage with brands that are transparent and accountable. Brands that have too many international and/or disjointed supply chains need to be extra careful to tackle the inevitable traceability gaps that can be caused by it.

Transparency is a broad topic and ranges from product sourcing and origin, type of farm, workers conditions, food processing, packaging and more.

60%

OF CONSUMERS ARE
INTERESTED IN
KNOWING MORE ABOUT
THEIR FOODS' ORIGIN

As consumers adopt new habits, transparency throughout the supply chain will remain a key trend with transparency being crucial in helping consumers understand and accept new products.

TECHNOLOGY IS INCREASINGLY BEING DEVELOPED
TO ANSWER TO INCREASING CONSUMERS' AND
FOOD SECURITY DEMANDS



IBM is collaborating with leaders from the food industry, such as McCormick, Nestle, Unilever and Walmart, to identify new areas in the supply chain that could benefit from its new IBM block chain technology.



Nestlé is expanding its use of block chain technology to its Zoégas coffee brand to allow customers to trace each bag of coffee back to its sourcing origin. The data includes information about the farmers, time of harvest, transaction certificate for the specific shipments and roasting period.



Technology firm Innoscentia is partnering with Ynvisible Interactive to produce expiration date labels that offer real-time monitoring of food quality to help reduce waste and alert consumers to spoiled food.



Sustainability awareness

CLEAN LABELS AND CERTIFIED PURCHASES

LONG LISTS OF INGREDIENTS CAN PUT OFF CONSUMERS

As the plant-based sector grows, so will the scrutiny towards it, especially in terms of its health and environmental claims.

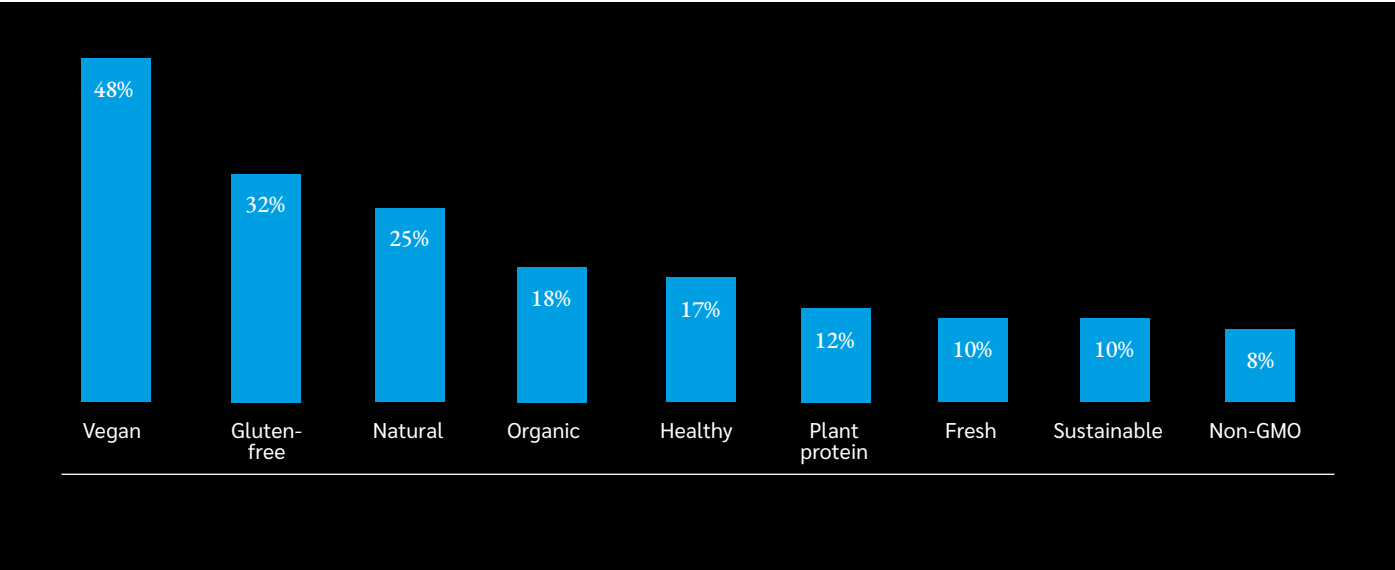
Those products are increasingly being called out for the use of too many highly processed ingredients, including preservatives, stabilisers, and various other additives.

In fact, newer plant-based launches have started to address this issue and are calling out their clean label credentials.

The clean label aspect of plant-based food is a feature expected to significantly grow and it will become a major requirement for alternatives as the sector expands.

WHAT CONSUMERS WANT FROM CLEAN LABEL PLANT-BASED FOODS

Most talked about features regarding clean label plant-based foods:



SALES GROWTH OF PLANT-BASED CLEAN LABEL PRODUCTS:

(Dollar %, FY 2021)



+28%



+27%



+15%



+14%



Australia-based [Fable Food Co](#) makes a range of meat alternative products and ready meals that feature shiitake mushroom as the main ingredient used in place of meat. The range tries to recreate the experience of slow-cooked meat. Fable highlights its clean label credentials with products that are made with only recognisable ingredients and are free from preservatives, artificial ingredients, and GMOs.



[Plantcraft](#) (UK) positions itself as the world's first clean-label, plant-based deli meat company. Its products include pâtés and pepperoni, made with green banana, pea protein, golden linseed, sunflower seed, grapeseed oil, nutritional yeast, and herbs and spices. These plant-based alternatives are clean-label and free from all top 8 allergens and artificial ingredients. The leading primary ingredients within vegan deli meats is wheat or soy, and Plantcraft's departure from them is very telling of how plant-based meats may evolve in the coming years.

Value added experiences

BALANCED SPEND WILL STILL ALLOW INDULGING MOMENTS

The rising cost of living has increased consumers financial uncertainty about the near future, making them less confident about their usual shopping habits. This impact in consumer confidence is mainly due to the economy's current unpredictable state which is driving consumers to become more rational about their spending habits and product choices.

82%

OF GLOBAL CONSUMERS
IN 2021 ADMITTED TO
MAKING CHANGES TO
THEIR SHOPPING HABITS
ALONGSIDE THE STEADY
RISING COSTS (UP 12%
VS 2019)

MORE VALUE FOR MONEY

Offering value and affordability is crucial in order to meet the needs of the current everyday consumer.

However, it is important not to associate a “bargain” with the cheapest price, but instead by offering consumers security in the fact they’re getting good value for money.

HIGH-LOW CONSUMERISM

Consumers’ choices will be governed by value as much as the affordability of a product. They are likely to engage in a form of high-low consumerism, looking to save money on certain products in order to compensate for spending more elsewhere.

72%

OF GLOBAL CONSUMERS LOOK
FOR GROCERIES THAT OFFER
BETTER VALUE FOR MONEY
WHEN PRICES RISE

BRANDS TO WATCH...

Faced with increasing competition from the craft beer, spirits and cocktails categories, wineries are reacting to consumer changes and will gear their offerings towards younger consumers with [affordability](#), [accessibility](#) and [attainability](#) in mind, setting the stage for a democratisation of wine in 2024.



Unconventional wine bar concepts like Singapore's [FOOL](#) are making wine exploration fun and approachable.



The [Vivino](#) app allows access to user-generated ratings and descriptions without the wine snobbery.



[Laylo](#) (UK) offers premium wines in fully recyclable boxes. Equivalent to three bottles, the boxed wines stay fresh for six weeks from opening, catering to a younger generation that is drinking less and more mindfully.



Case Study

THREE

Risk Register

Lockton created and led a risk steering committee for a major food manufacture. The initial scope included the creation of a group wide risk register.

Through a series of workshops, we provided training on business risk management, enabling the committee to assess and evaluate the key threats to the business. Utilising analytical tools and processes, the committee were able to rank the key risk exposures using tailored metrics.

Lockton worked with the committee to design internal controls and mechanisms, enabling them to capture areas for regular review and monitoring.

In addition to the strategic risk assessment, Lockton continued their work with this organisation in the area of business continuity management. Through a business impact analysis exercise, we assisted with the creation of a business continuity plan. Working at an operational level, buy-in was achieved and by adopting a bottom-up approach, each operation had real confidence in their resilience to withstand an interruption.

This was proved by a series of war room events, where the plans were tested against a mock loss scenario.



The UK Outlook

FURTHER EXPLORING IDENTIFIED
KEY TOPICS WITHIN THE UK

Higher operating costs

- Increasing inflation
- Gas and energy costs
- Labour shortages
- Supply chain issues
- Squeezed margins
- Ongoing Brexit impact

Inconsistent growth

- Impacted ability to grow
- Different impact on cross-sector growth

Continuous uncertainty

- Reduced investment to automate and grow
- Sterling depreciation vs dollar
- Sinking confidence



Labour shortages troubles industry

A PERSISTING CONCERN

Unfilled vacancies remain a significant issue for UK F&D manufacturers. The reported vacancy rate has increased to 9% in Q3 (up 3% from Q2) with 76% of businesses reporting vacancy rates up to 10%.

SHORTAGES WERE REPORTED ACROSS A WIDE RANGE OF ROLES AND SKILLS, INCLUDING:

HIGH-SKILLED WORKERS

- Engineers (IT/ maintenance/ engineering manager/ chemical engineers), R&D scientists, area supervisors & sales administrator

TECHNICAL SPECIALISTS

- Food technologist, packaging technologist

PRODUCTION OPERATIVES

- Production and warehouse operators, machine operators, drivers, packers, seasonal workers

60%

OF UK F&D BUSINESSES REPORTED A LOW NUMBER OF APPLICATIONS FOR THE ROLES ON OFFER, EVEN THOUGH 30% REPORTED PAYING HIGHER WAGES TO NEW EMPLOYEES

Why this matters?

Persistent labour shortages are a major brake on the sector's ability to grow and increase productivity, especially for SMEs that are typically less able to respond to staffing shortages by increasing salaries.

Vicious cycle...

Theoretically, labour shortages should encourage the adoption of automation in the longer-term, where the issue of unfilled vacancies could be solved by investments in new machinery and more efficient production processes.

However, the current pressures on margins and cash flow, the cost of borrowing, and uncertain business environment mean that many companies have neither the confidence nor the ability to access finances required to invest in such automation.



Continuous rising costs

RISING COSTS CONTINUE TO SQUEEZE MANUFACTURERS

Manufacturers have seen their production costs increasing by an average of 21% over Q4 2021 and Q3 2022. In 2023, businesses expect to see their costs increase even further, maintaining the 21% average previously seen. These cost pressures will continue to squeeze margins while consumer food inflation will likely remain high through this year.

Furthermore, the sterling depreciation of 13% against the dollar has aggravated many manufacturers' challenges, further pushing the cost of essential imported ingredients, as a large share of global trade is in dollars.



57%

OF UK BUSINESSES STATED THE DEPRECIATION OF STERLING HAD IMPACTED THEM A GREAT DEAL OR A LOT OF UK BUSINESSES REPORT THAT THEY WOULD NEED SALES PRICES TO RISE OVER 10-14% OVER THE NEXT YEAR

With cost pressures impacting all factors of production, manufacturers are forced to seek cost price increases from their customers in retail and hospitality.

With producer margins being steadily eroded, UK F&D manufacturers will need to recuperate costs to stay in business.

MANUFACTURERS ARE TAKING A RANGE OF STEPS TO TRY TO
MINIMISE THE SCALE OF ESSENTIAL PRICE INCREASES

60%

OF UK BUSINESSES ARE
PRIORITISING SAVINGS
THROUGH GREATER ENERGY
EFFICIENCY IN FACTORIES

50%

OF UK BUSINESSES ARE
CHANGING PROCUREMENT
PROCESSES

49%

OF UK BUSINESSES HAVE
PAUSED OR CANCELLED
CAPITAL INVESTMENT
PROJECTS

In addition, 20% stated they are reducing training and staff development budgets, which can jeopardise staff retention aggravating labour shortages.

SOURCE: EDE

Continuous rising costs

ENERGY PRICES SHOCK UK F&D

The energy crisis has intensified challenges for all businesses, particularly major energy users such as the UK's bakers and millers. On average, energy represented 12% of operating costs in Q3 2021, with most businesses reporting energy taking up less than 20% of their operating costs.

In contrast, energy's share of operating costs **shot to 22% in Q3 2022**, a 10%-point increase on the year with biggest impact felt by large business.

73%

OF UK BUSINESSES ACROSS ALL SIZES ARE FEELING VERY CONCERNED BY FUTURE ENERGY PRICE NEGOTIATIONS

FOOD BUSINESS IS THE MOST IMPACTED SECTOR BY RISING ENERGY PRICES

60%

OF UK FOOD BUSINESSES REPORTED HIGHER ENERGY PRICES HAD ALREADY IMPACTED PRODUCTION AND/OR SUPPLY BACK IN MARCH 2022, **COMPARED TO 38% OF ALL UK BUSINESSES**

Sinking confidence

MANUFACTURERS CONFIDENCE SINKS TO RECORD LOW IN Q3

Industry's confidence at its lowest level since 2018. The outlook for next quarter remains pessimistic, with [54% of respondents believing business conditions will continue to deteriorate](#).

Some of the drivers for a continuous negative outlook are:

- With no end in sight for the situation in Ukraine, uncertainty continues. Gas prices is the main concern being the biggest and most volatile cost pressure amongst manufacturers.
- The UK Government's Energy Bill Relief Scheme has a very short six-month window which does not give enough time to plan future production.
- Consumer spend is [showing signs of a slowdown](#) as inflation rises and incomes deteriorate.
- While F&D are a necessity, it is expected for [some manufacturers to see a drop in demand and their margins squeezed further, especially those serving the hospitality sector, as households cut back on discretionary spending](#).

A DREARY OUTLOOK...

A recent Guardian article highlighted the fact that UK restaurants are going bankrupt at faster rates than during the pandemic. Closures have risen by 60% in the past year with 453 having happened in the same quarter.

Various industry lobby groups also pointed out that the current outlook is not showing signs of improving and some predict that a third of hospitality business could close by early 2023.



SOURCE: FDE, [The Guardian](#)

Long-term solutions

PRIORITISING BUSINESS INVESTMENT

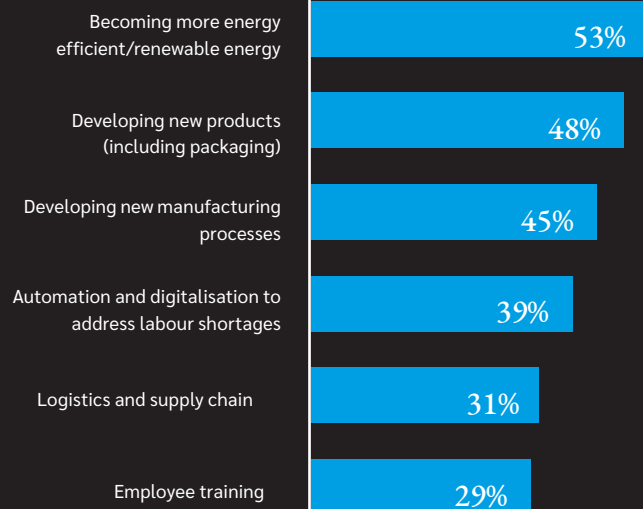
Despite all the current afflictions, the UK F&D manufacturers understand the need and are committed to longterm investment. Their share of investment has already been growing in the past five years, reinforcing the industry's resilience over these years.

The need to absorb a large share of recent, and unprecedented, higher costs meant that manufacturers could no longer spend in other areas. According to research, 73% confirmed this has in fact limited their capital investment. Therefore, companies are investing and targeting areas where there is a higher chance to alleviate sources of cost pressures.

Over the next five years, manufacturers would welcome, and expect, a wider range of government initiatives to help grow their business and alleviate some of the pressures being faced. Regulatory reform to reduce the high costs of ineffective regulation is also expected to happen.



**BUSINESSES ARE IDENTIFYING A VARIETY
OF PRIORITIES FOR INVESTMENT**



SOURCE: FDE

Case Study

FOUR

Global Insurance Audit

Lockton were appointed as property broker for a global food manufacturing company.

The organisation was using multiple brokers both in London and across the globe, leading to confusion with placement strategies and no visibility of local or global compliance.

Lockton were appointed to undertake a global review of insurances which included an extensive data gathering and analysis exercise across 40 countries.

A gap analysis was produced highlighting a number of significant concerns.

As a result of this work, Lockton was appointed as sole broker across the globe to execute the improvements and ensure global compliance was achieved.



What Now?



To Recap

A CONTINUOUS LOOK OF THE 3 R'S ACROSS THE IDENTIFIED THEMES WILL BE KEY TO ENSURE A FULL SCOPE APPROACH FOR PRIORITISING, DECISION-MAKING AND FUTURE-PROOFING STRATEGIES.

Resourceful

The need to become future-proof will require the industry to continuously invest in research & development, allowing for new solutions and innovations to be tried, tested and implemented.





Resilient

Sector needs to be future-proof by investing in the tools and solutions to deliver more and better whilst damaging less.

Responsive

As consumers' needs evolve, the F&D industry needs to listen and respond to stay relevant and continue to deliver added value to match demands.

Key focus & Opportunities

+Resilient

The need for digitalisation

Although the present is bleak there are indications that things may start to improve. This is an opportunity to adapt and to identify the ways to become more reliant, even though it may take some time for those to be truly noticed.

The current scenario requires optimised processes and efficiency. Opportunities of digitalisation and supporting companies to achieve these goals.

Sustainability focus

An increased focus on sustainability is also key not only to address related issues but guarantees the industry's survival. In addition, there are several financial and environmental benefits to working towards achieving zero emissions.

From relying more on renewable energy to improving emissions across the supply chain by reducing loss and waste there is also the opportunity to create authentic purpose and to add more value to consumers.

+Responsive



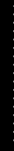
Listen & respond

It's clear that the increasing cost of living is impacting consumer behaviour.

However, the research shows that consumers are looking for benefit & value vs the cheapest option, especially with the increasing awareness of health boosting foods. Therefore, it's more important than ever to stay tuned with those evolving changes to stay relevant and differentiate from the crowd.

It's about delivering added value by offering the products, information and solutions that truly matters.

+Resourceful



Industry collaboration

Uncertain times don't usually encourage investments into new, long-term solutions. However, this will be key to address most issues currently facing the industry.

To address the lack of available resources, the industry can join forces and collaborate to increase research & development, so that costs and outcomes can be shared. In addition, organisations such as FDF and Wrap work alongside businesses to support the generation of new ideas and their implementation.

Case Study

FIVE

Claims Support

Our client, a large food manufacturer initiated a product recall from several major supermarkets due to a trace contaminate being found in specific products.

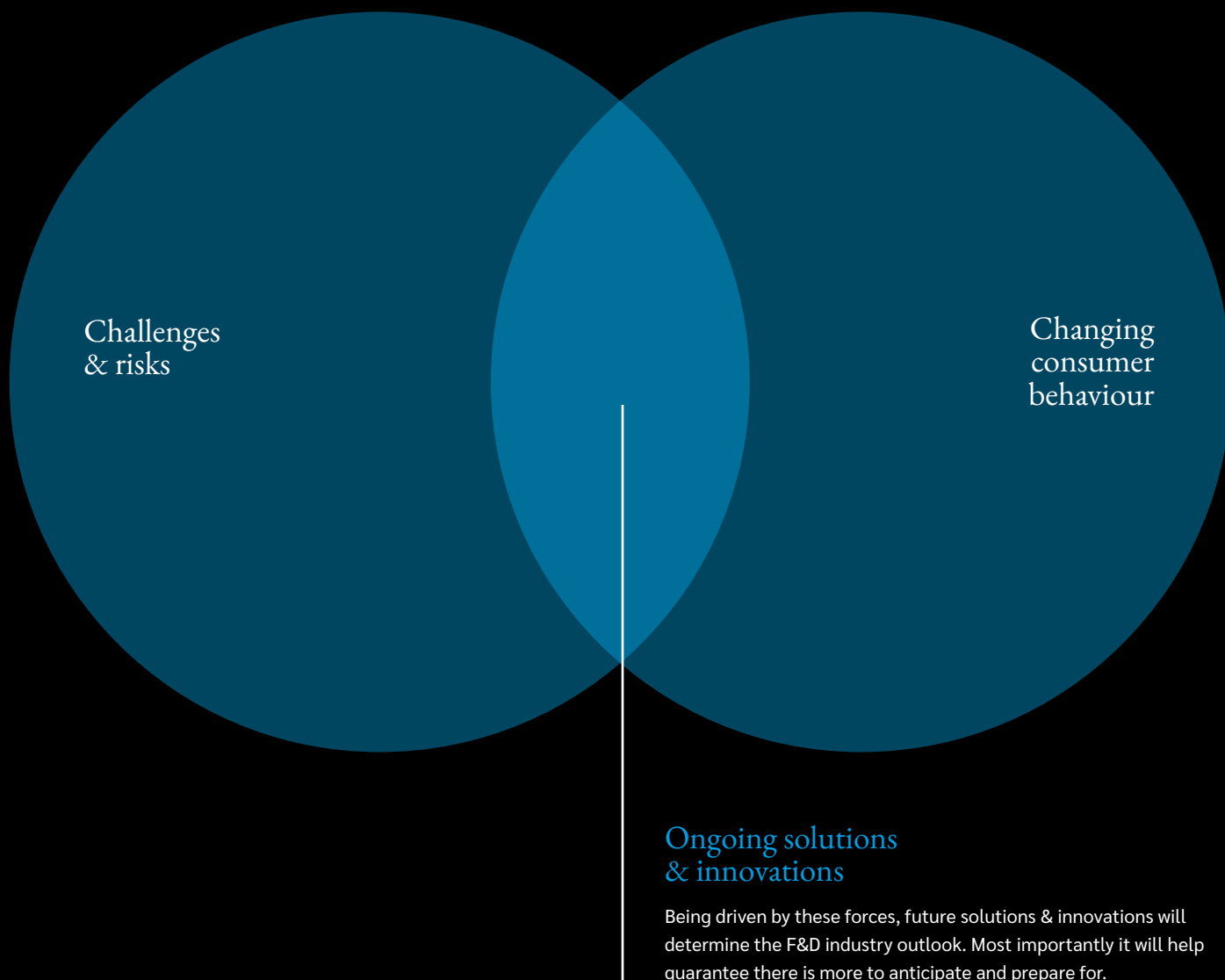
We acted immediately; appointing Lockton's large loss consultant to support the client throughout the claims process.

Through engagement with various members of our client's operational and finance teams we enabled the client to focus on gathering together the necessary information to support their claim under the various heads of cover. By presenting the relevant data with supporting commentary, we were able to negotiate the widest interpretation of the insurance cover and secure interim payments from insurers.

Our expertise and proactive approach meant the claim was settled at c.£1M to our client's satisfaction, in a short time-scale of five months.



Conclusion



Thank you