

*****EMBARGOED UNTIL 7 SEPTEMBER 2017 00:01*****

RISE IN FOOD AND DRINK FIRMS TARGETING INTERNATIONAL CUSTOMERS

- Firms are forecasting growth of 21 per cent of turnover in the next five years, significantly outstripping UK GDP growth forecasts
- Almost seven out of 10 (69 per cent) food and drink firms are pursuing new international customers
- But nearly half of firms (48 per cent) said that rising labour costs are the industry's biggest challenge over the next five years, along with regulatory issues and political uncertainty
- Firms say they will continue with their planned investment strategies and look at further product innovation and automation

More food and drink firms in England and Wales are targeting new international customers following the decision to leave the European Union (EU), according to a new report by Lloyds Bank Commercial Banking.

The Food and Drink Report 2017 found that the number of firms investing to secure new international customers has leapt to 69 per cent, from 55 per cent in 2016.

Europe remained the most common target, with two fifths (43 per cent) planning to enter new markets inside the EU, while 39 per cent of firms are targeting new markets outside of it.

Firms said their primary export targets were Western Europe, the Far East and Asia (both 43 per cent), Australia and New Zealand (41 per cent), followed by North America and the Middle East (both 36 per cent).

More than a quarter (28 per cent) of food and drink firms said they planned to export for the first time in the next five years.

But firms said there were challenges to exporting including regulatory issues, political uncertainty at market destination, international regulation and domestic regulation acting as barriers (all cited by 54 per cent of companies).

Going for growth

Food and drink firms hold more ambitious growth plans than they did last year, forecasting growth of 21 per cent of turnover over the next five years, up from 19 per cent this time last year and 16 per cent in 2015.

Investment plans remained fixed however, with almost half (49 per cent) of firms planning to invest the same or more than last year over the next 12-24 months and only 29 per cent saying they would invest less.

Popular routes to growth include developing new products (57 per cent), growing sales in the UK (51 per cent), creating jobs (48 per cent) and entering new EU markets (43 per cent).

Funding growth ambitions

Firms plan to fund growth by creating efficiencies through cost cutting (cited by 53 per cent of respondents).

The number of firms using cash flow/working capital finance has grown from 31 per cent in 2016 to 48 per cent in 2017. While producers are also planning on using cash reserves (up from 32 per cent in 2016 to 42 per cent in 2017), almost a third (30 per cent) of companies are considering joint ventures and 31 per cent are considering debt to fund business growth (up from 15 per cent this time last year).

Employment uncertainty

Firms said that rising labour costs were the industry's biggest challenge over the next five years, mentioned by 48 per cent of firms, up from 25 per cent last year.

Despite that, 44 per cent of all companies still planned to create jobs over the next five years, up from 24 per cent last year. If the job creation plans come to pass the sector will create more than 95,000 new jobs over the next five years.

Businesses are investing in skills too with 51 per cent investing in skills development, up from 34 per cent this time last year.

Elena Paitra, managing director, food, beverages and tobacco, Lloyds Bank Commercial Banking, said: “

“Uncertainty surrounding last year's EU Referendum vote had slowed down the UK food and drink industry's aspirations in the short term. But, this year's survey shows that while uncertainty remains, companies are moving on from Brexit and re-focusing efforts on achieving growth and increasing confidence.

“Buoyed by the depressed pound, many more firms are targeting growth overseas, with almost as many firms looking beyond the EU as within it.

“The cost of labour is by far the biggest challenge that the industry faces and firms are trying to mitigate these challenges by improving efficiency and productivity through cost cutting, upskilling of labour force and investing in R&D, innovation and automation.

“Last year was a record-breaking year for food and drink exports and firms seem optimistic that momentum will be maintained in 2017. The sector is gaining confidence and businesses are positive about job creation.

“But firms said they did need help. Producers told us that a major challenge for them is regulation (flagged by 37 per cent of firms – up from 19 per cent in 2016). This could also be a symptom of uncertainty and this is an area where government could step in and provide help to bridge the uncertainty gap. More than half (54 per cent) also said they would appreciate more advice on cash flow financing options and Lloyds Bank stands ready to support them.”

Ian Wright CBE, director general, Food and Drink Federation, said: “This excellent report underlines both the importance of the UK food and drink manufacturing industry and the challenges it faces as the ever-increasing uncertainty of Brexit looms.

“This research adds to the growing formal evidence that demonstrates that we must extract assurances from the Government about the key aspects of workforce, supply chain, and regulation for our industry to be able to plan with confidence for the future.”

Supply chain

Leaving the EU remains the biggest threat to supply security in the next five years cited by 41 per cent of firms.

Concerns about ingredient security have also increased with 36 per cent saying it is one of the biggest challenges for the industry, up from 26 per cent last year.

But despite challenges, 78 per cent of firms said they would pay a higher price to primary producers in the UK to guarantee supply security and maintain the provenance of their products.

ENDS

Notes to Editors

Food and Drink sector

- The food and drink sector is the largest manufacturing industry in the UK, employing more than 400,000 people.
- It adds more than £26bn in gross value added (GVA) to the economy. When including its supply chain in farming, manufacturing and retail, this increases to more than £100bn in GVA and four million employees.

Methodology

Field research for this report was undertaken in July 2017 by Coleman Parkes Research.

To gather representative data from this diverse industry, a broad cross-section of 100 food and drink manufacturers, producers and retailers in England and Wales were interviewed from companies ranging in size from less than £25m, £25-£750m and more than £750m annual turnover.

Business owners, managers, senior managers, directors and department heads took part in the survey.

Our survey questions focused on growth and export plans, job creation, capacity and investment, international markets and challenges.

Lloyds Bank Commercial Banking

- Lloyds Bank Commercial Banking provides comprehensive expert financial services to businesses of all sizes, from start-ups and small businesses to mid-sized businesses and multinational corporations.
- Maintaining a network of relationship teams across the UK, as well as internationally, Lloyds Bank Commercial Banking delivers the mix of local understanding and global expertise necessary to provide long-term support to its clients.
- Lloyds Bank Commercial Banking offers a broad range of finance beyond term lending and this spans import and export trade finance, structured and asset finance, securitisation facilities and capital market funding. Its product specialists provide

bespoke financial services and solutions, including tailored cash management, international trade, treasury and risk management services.

Support for SMEs

- Lloyds Banking Group is committed to helping businesses of all types and sizes, giving them the funding and support they need to grow at home and abroad. We have set out our pledges in our Helping Britain Prosper Plan.
- For our 2016 SME Charter we have pledged to support 5,000 first time exporters; grow lending to small businesses; help 100,000 start-up businesses; and support small firms for their next phase of growth.
- Since the start of 2011, we have grown our net lending to SMEs by 31 per cent whilst the market has contracted by 12 per cent.

To see the latest supporting businesses factsheet please visit:

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The Food and Drink Federation

The Food and Drink Federation (FDF) is the voice of the food and drink manufacturing industry – the UK's largest manufacturing sector. For more information about FDF and the industry we represent visit: www.fdf.org.uk