



UK FOOD AND DRINK

Maintaining Post-Covid-19 Capacity in
Hospitality and Food Service Supply Chain
Businesses

‘THE SQUEEZED MIDDLE’



The UK food and drink industry has welcomed the support of both UK and devolved authorities which has helped businesses respond to the current pandemic. We support the aim of ensuring businesses are in the best possible position to resume their commercial operations and contribution to the economy, as the current range of restrictions are eased and finally removed.

Much of the current support has been focused on the particularly hard-hit retail, hospitality and food service sectors. The organisations who are signatories to this document represent the food and drink businesses providing the manufacturing and supply of goods and services into the UK's hospitality and food service market, we call this group of businesses the **'Squeezed Middle'**. We are fully supportive of the approach taken with regard to the hospitality and food service market. But we feel that the position of this wider food and drink manufacturing industry, its 7,400 businesses¹ and the 430,000 people² it employs across every region and nation of the UK, as well as its supply chain have received far less attention. As a result, there are concerns that the restarting of the hospitality and food service market could be negatively affected by the inability of its supply chain to restart.

Supply chains have been thoroughly modernised in recent years with significant efficiency gains. To achieve this, manufacturers have become more specialised in terms of the supply chains into which they deliver. As a result, those manufacturers and suppliers focused on the hospitality and food service market have suffered a loss of business just as significant as their customers. Despite this, the level of assistance is, we believe, currently poorly focused and will not be able to deliver the recovery plan we believe Government is working towards.

SUMMARY

While the Government's swift action in support of the hospitality, retail and leisure sectors has proved invaluable in maintaining viable businesses, supporting staff retention and allowing these businesses to work towards plans for a post-Covid-19 recovery, there has been less focus on the **'Squeezed Middle'** – those manufacturing and supply businesses that sit behind the food and drink provision into these sectors, over 95 per cent of which fall into the small and medium-sized enterprise (SME) category. This paper sets out practical, additional steps that should be taken to ensure these businesses are able to play their role in a post-virus recovery.

The hospitality sector is valued at £91.5 billion³ and acts as a show case for the UK's food industry, with London being classed as a leader in the variety and quality of food offered. Food purchasing is estimated at £1 billion per month alone.

¹ Source: BEIS, Business Population Estimates

² Source: ONS, Annual Business Survey

³ Source: MCA Insight, (William Reed)

SUPPLY CHAIN

Businesses in the food and drink manufacturing and associated support sector fall into four broad categories:

- i) businesses focused primarily on the hospitality and food service sectors;
- ii) businesses focused on both hospitality, food service and retail with no or limited ability to repurpose between the two;
- iii) businesses focused on both hospitality, food service and retail with an ability to repurpose between the two;
- iv) businesses focused primarily on food retail, primarily through supermarkets.

Businesses falling into categories iii) and iv) are better able to cope, with some seeing increases in retail sales which have, to some extent, offset hospitality and food service losses. Nevertheless, many have had to carry higher costs, which will impact on their profitability, but for most companies their trade continues.

The same is not true of those businesses in categories i) and ii), many of which have seen up to 100 per cent of their customer demand disappear overnight as a result of the closure of the hospitality and food service market, creating a **'Squeezed Middle'** group of businesses. According to the ONS⁴, over 80 per cent of the accommodation and food service sector surveyed halted trading between 6-19 April. It is these businesses which require immediate assistance to ensure they can maintain their business viability through to the point where their markets return and their production or services can be restarted on a commercially viable basis.

In many instances, these manufacturers have created bespoke products for hotel and restaurant chains that cannot be used for any other purpose. They often source special ingredients and packaging to create a product that is tailored to one end user and even designed to cook in a specific type of appliance.

Distribution processes are again aligned to meet the needs of the final end user, with packaging formats being of a larger size than that for food retail. All of this results in a supply chain that is not only very efficient but also seamless. While many parts of the hospitality and food service market remain closed, many businesses classified under categories i) and ii) effectively have no market or customers, despite being long-established successful businesses.

Many of these companies also face the prospect of being unable to recover payment for stocks that were supplied prior to the lockdown. Our research has shown that many companies are faced with 50 per cent of their customer base either delaying payment or not paying outstanding invoices. On top of this, there are now situations where companies that factored invoices are now being asked for the money back as the factoring companies are unable to collect the money from the customer. This is placing more cashflow and liquidity problems on manufacturers and suppliers.

⁴ Source: ONS, Business Impact of Covid-19 Survey (BICS), May 2020

FURLOUGHING

Surveys undertaken by relevant associations have shown that the UK Government's Job Retention Scheme (furloughing) has been both popular and effective in allowing businesses to retain staff and their skills base (often very specific and specialised skills) ahead of a return to operations.

We recognise that the cost of the scheme has been substantial for the Government, and that measures to change the structure of the scheme announced on 29 May 2020 were required for the broader economy. We also welcome the greater flexibility around the use of part time furloughing allowing companies to bring in specific skills and workers back into the business when and as required.

The changes will however, only increase the pressure on the cash flow and liquidity of many companies in the **'Squeezed Middle'**. The cost of retaining their staff will increase – at the same time still seeing no income from their customers in the hospitality and food service market. We are also concerned that the scheme is planned to end in October 2020 when it is still far from clear if the recovery of the hospitality and food service market will have progressed to commercially viable levels, let alone pre-Covid-19 activity.

Recommendations:

- 1. Businesses supplying into the hospitality and food service market should continue to receive furlough support through the UK Government at a rate of 80 per cent of salary contribution until those markets return to commercially viable levels.**
- 2. The UK Government should formalise the deferment of PAYE and NI payments until end September 2020 for businesses supplying into the hospitality and food service market, basing the final removal of that deferment on those businesses returning to a commercially viable level of operation.**
- 3. Until the end of September 2020, HMRC should ensure that all VAT repayments are made to businesses supplying into the hospitality and food service market as they fall due, rather than being used to offset against PAYE & NI payments.**

LOCAL AUTHORITY BUSINESS RATES

For many SMEs operating in the **'Squeezed Middle'**, the biggest issue they currently face is managing their cashflow and ensuring liquidity in the business. Minimising the outflow of cash from businesses whose income has been dramatically reduced or halted altogether is a priority.

Recommendation:

- 4. Government should extend the 12-month Local Authority Business Rates exemption to businesses supplying into the hospitality and food service market, using the existing legislative exemption for hardship.**

TRADE CREDIT INSURANCE

While trade credit insurance is not used by all businesses, it plays a significant role in businesses ability to trade. The removal of trade credit insurance, the reduction in the level of cover and significant increases in premiums has threatened the industry's ability to continue operations at a reduced level. We, therefore, warmly welcome the announcement the UK Government has made in this area but the delay in presenting detailed plans has hampered businesses in their ability to trade with their existing supply and customer bases. It is, therefore, imperative that the trade credit insurance industry gives its full support to the action taken by government.

Many businesses continue to report concerns that trade credit insurers are not adjusting their criteria to take into account the pandemic and are making unrealistic demands on businesses and their debt management which cannot be delivered where customer income has been halted because of business shutdown.

An example given to us was the complete withdrawal of existing trade credit insurance in respect of a company supplying a food retail customer. The cover related to 0.05 per cent of the businesses' combined turnover. No reasons were given for the loss in cover – confidential information being cited – despite both businesses confirming that confidentiality was not an issue. Such actions unnecessarily threaten the continued operations of businesses. This will become even more acute as lockdown measures are reduced and the wider hospitality and food service market begins to respond to increasing consumer demand.

A second example has been reports by businesses of insurers seeking increases in premiums of up to 200 per cent for the continued provision of business interruption insurance.

Recommendations:

- 5. The UK Government should expand on how its guarantee will operate, specifically what the 1 April date relates to (e.g. order date, invoice date, payment due date) and how it will continue to work with the trade credit insurance industry to ensure cover continues to be provided by all.**
- 6. The UK Government should place a requirement on the trade credit insurance industry to develop best practice rules of operation which include greater transparency and formal notification of the reason(s) for refusal or withdrawal of cover.**
- 7. Insurers should be required to reinstate reduced or withdrawn cover back dated to 1 March 2020, except where there are clear and identifiable reasons as to why this would no longer be appropriate.**
- 8. Government should now focus on ensuring all trade credit insurers have adjusted the basis on which they provide cover to reflect the particular challenges the pandemic is placing on the 'Squeezed Middle' – particularly their willingness to pay vs their short-term ability to pay as a result of Government-imposed operational restrictions.**

FINANCIAL SUPPORT

Recent survey results indicate that fewer than half of food and drink manufacturers have applied for Coronavirus Business Interruption Loan Scheme (CBILS) or Bounce Back Loan Scheme (BBLs) support. Of those that did apply, fewer than 50 per cent received funds. Further investigation found the main reason for unwillingness to apply is to avoid incurring further debt and additional interest payments beyond year one. With the primary concern being to maintain business liquidity, the focus has to be on reducing cash outflow.

For those businesses who are predominantly supplying into the wider hospitality and food service market there is a need to ensure they are supported using similar mechanisms to those in place for the hospitality and food service market.

Recommendations:

- 9. Government should provide more targeted support for businesses that does not incur additional business debt e.g. a relaxation of current rules for Apprenticeship Levy funds to allow businesses to maintain existing employment.**
- 10. Government should put in place ongoing capital and tax break allowances to maintain the workforce. These could be pro-rated depending on how many staff a company is able to keep employed.**
- 11. A moratorium should be provided to allow monies due to local or central government to remain in businesses to aid cash flow, until the hospitality industry fully reopens.**
- 12. Government should create schemes for small, medium and micro businesses that provide initial cashflow injections to businesses requiring support to secure orders for materials and/or build stock in readiness for the recovery of customer demand.**

ENDORSED BY

Food and Drink Federation (FDF)
British Frozen Food Federation (BFFF)
British Coffee Association (BCA)
British Sandwich Association (BSA)
British Food Importers and Distributors Association (BFIDA)
Café Life Association (CLA)
Cold Chain Federation (CCF)
Federation of Bakers (FoB)
Federation of Wholesale Distributors (FWD)
Food & Drink Exporters Association (FDEA)
Foodservice Packaging Association (FPA)
Fresh Produce Consortium (FPC)
Health Food Manufacturers' Association (HFMA)
International Meat Trade Association (IMTA)
National Edible Oil Distributors' Association (NEODA)
National Association of British and Irish Millers (Nabim)
Northern Ireland Food & Drink Association (NIFDA)
Packaging Federation (PF)
Provision Trade Federation (PTF)
Scottish Wholesale Association (SWA)
Seasoning & Spice Association (SSA)
The Pizza, Pasta & Italian Food Association (PPIFA)
UK Tea & Infusions Association (UKTIA)
Wine and Spirit Trade Association (WSTA)