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Food and Drink Report 2025

Buoyancy baked in: The rise of a resilient sector

The UK industry takes adversity in its stride

BDO

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The industry at a glance

FOOD AND DRINK IS THE **BIGGEST** MANUFACTURING INDUSTRY IN THE UK

THE INDUSTRY HAS A TURNOVER OF **£148BN**

THE INDUSTRY EMPLOYS **486,500** PEOPLE ACROSS EVERY REGION OF THE UNITED KINGDOM

TOTAL BUSINESS INVESTMENT **£3.8BN**

£24BN OF FOOD AND DRINK EXPORTS TO 220 COUNTRIES

Source: Food & Drink Federation[1]

Introduction

Recipes for resilience

They say that if you can't stand the heat, then you should get out of the kitchen. The UK Food and Drink sector has taken the heat for half a decade, enduring setbacks from Brexit, COVID, supply shortages and inflation – but it is still cooking.

Despite an economic outlook that remains as uncertain as ever, with government spending under pressure and tariff wars threatening manufacturing, 95% of Food and Drink manufacturers in this year's survey feel confident about the prospects for their business.

This is a major jump from the 70% we saw in our last report. It isn't just an optimistic feeling though – 62% of respondents have seen orders increasing in the last 12 months, and 52% also anticipate an uplift in the coming year.

Feeling good?

61% of respondents expect operating profits to rise in the next 12 months, something that 47% have already seen in the last year. A remarkable 89% of respondents have seen revenues staying the same or increasing in the past 12 months compared to the previous year.

The optimism in this research, carried out in March 2025, is in marked contrast to the findings of the UK Food & Drink Federation's state of the industry report for the fourth quarter of 2024. That report said business confidence had dropped by 41 percentage points following a downbeat Autumn Budget.[2]

Things do not seem to have got objectively better since then. Inflation, at 3.7% in February 2025, is way below its 2023 peak but remained above the 2% Bank of England target.[3] And although worker shortages fell in the fourth quarter of 2024, according to the Food & Drink Federation, labour costs have gone up.[4]

Survival skills

How come the sector is upbeat about the future, then? To work it out, let's consider recent history. UK Food and Drink manufacturers have had to overcome an unprecedented array of adversities, from global pandemics to the loss of major markets and supply routes.

These shocks have almost doubled the rate of Food and Drink company insolvencies in the last five years, compared to the half-decade previous.[5] In other words – companies that were not set up to endure hard times have fallen by the wayside.

Those that remain will have tightened their finances, toughened their supply chains and generally tweaked their business models to withstand further pressures. They will certainly face more challenges in the months to come – but having got this far, they could be allowed a modicum of confidence.

And they are still adapting now, with US tariff threats and other geopolitical risks likely changing industry sentiment even since the fieldwork for our survey was undertaken in March.

We would like to thank all the respondents to our survey, as well as the contributors whose views have informed our report. I hope you find it interesting and useful for your business.

Cindy Hrkalovic
Head of Food and Drink
BDO

Industry overview

It is worth putting this year's survey optimism into perspective. Back in 2016, before Brexit, COVID and other recent concerns, the BDO Food and Drink report survey said 79% of respondents were positive about the future.

In March this year, that level was up by 16 percentage points, to 95%. It is the highest point of any of our Food and Drink surveys in the last decade. This follows a 12-point rise in our last survey, suggesting growing confidence in the Food and Drink sector's ability to survive challenging conditions.

At the same time, there are indications that the sector is gearing up for growth. Across five key metrics, from EU expansion to divestments, expectations were heightened this year compared to in our last survey, in October 2023. In a world where everyday luxuries are increasingly sacrificed, food will never be one of them.

Europe is back on the agenda

The most-cited area of business growth in the 2025 survey (albeit by a narrow margin) was expansion into new EU markets.

Although the Labour government seems more pro-European than its predecessor, the focus on EU market opportunities likely has less to do with smoother trade, and more to do with increasingly protectionist measures in the US.

Accounting for 10% of exports, the US is the UK's third-largest Food and Drink export market after Ireland and France.[6] The prospect of tariffs on US exports will no doubt have led to a re-evaluation of EU opportunities, along with plans to expand into new UK markets.

Risks: yes, but nothing big

Businesses always face threats and 2025 is no different. Survey respondents named a familiar range of challenges, like changes in regulation and pricing pressures from customers. But what is perhaps most notable is the lack of any one overriding concern.

The most cited risk – availability of and access to finance – was only mentioned by 18% of respondents, and only two other threats – competition from cheap imports and the ongoing impact of Brexit – warranted a mention by at least three out of 20.

Still can't get the staff

One thing that hasn't changed since 2016 is the problem of finding people. Although there are now tools like automation and artificial intelligence (AI) that could solve this problem – there is a shortage of experts who understand the technologies.

This is clear from the fact that 56% of respondents say they plan to implement AI systems but do not have the resources yet. Only 3% of companies claim proficiency in AI.

Key findings

95% of respondents are **positive** about the prospects for their business

47% have **increased operating profitability** over the last 12 months

61% are expecting profitability to **increase** over the next 12 months

34% say **expansion into EU markets** will offer growth opportunities for their business

24% are **seeking additional finance** to counter inflation and rising costs

90% are focusing on new **product development, process improvement and research and development (R&D)**

50% say they are early adopters of **digital technologies**

56% plan to **implement AI systems**

75% are experiencing **difficulties in recruiting** the people they need

51% have an **environmental, social and governance (ESG)** strategy

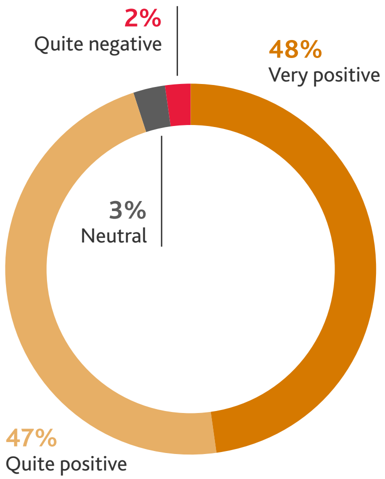
54% are **looking to make acquisitions** in the next year

52% are **seeking private equity (PE) investment** in the next year

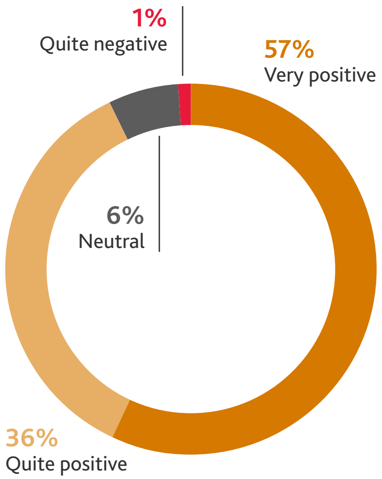
Growing strong

UK Food and Drink industry optimism is surging: 93% of those surveyed feel positive about the future for the sector, and 95% are confident in their own business' outlook, which is unsurprising since all those polled had maintained or improved their financial positions.

How positive or negative do you currently feel about the future prospects of your business?



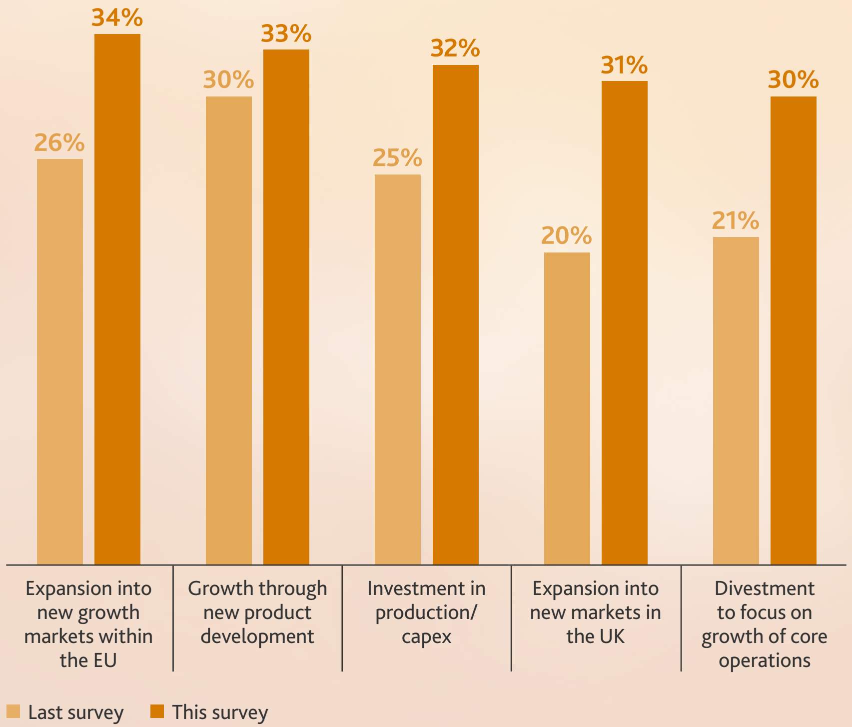
How positive or negative do you currently feel about the future prospects of the food and drink industry in the UK?



A remarkable 95% maintained or increased operating profitability, 94% equalled or improved year-on-year gross profit margins and 89% sustained or grew revenues. In the next year, 61% expect to increase profitability and 55% hope to grow profit margins and revenue.

New product development, the top route for growth in our last survey, remains popular this year, as does capital investment in production. But divestment is becoming more popular, and votes for expansion into new markets have increased notably since the last poll.

Key growth areas, by percentage of respondents



Growing strong *Continued*

In a sign of growing geopolitical tension, expansion plans in the last year have shifted markedly towards Europe and the Middle East, and the proportion of companies planning to grow in North America has halved.

Percentage of companies planning geographical expansion, by market

Industry insight

The importance of exports

The value of UK's Food and Drink exports rose by a desultory 0.3% in 2024 – and Brexit is likely an important factor.

Over the last five years, food export volumes have dropped more in the UK than in any other major European country, according to a 2024 trade snapshot from the Food & Drink Federation and the Food & Drink Export Association.[7]

Exports nevertheless remain key to the UK Food and Drinks industry, delivering revenues of £24.5bn last year. The top three markets were Ireland, France and the US – although it remains to be seen if that will remain the case as transatlantic tariffs fly in 2025.

Growing strong *Continued*

BDO Insight

Opportunities in international markets

When your food manufacturing business grows, expanding globally can offer tremendous opportunities. However, success in entering new international markets depends on thoughtful preparation and well-informed decisions. Here are key factors to consider:

Market research and local demand

Start by evaluating international markets. Research consumer trends, ageing demographic shifts and dietary habits in different regions. Determine which markets have a growing appetite for your products. Understand local tastes and whether your food offerings can be adjusted to local preferences without compromising your brand.

Regulatory environment

Each country enforces its own food safety, labelling and quality standards. Engage local regulatory experts early and ensure you understand these requirements. Failing to comply can lead to delays or financial penalties. Make sure that any product modifications needed for market entry are both feasible and cost-effective.

Supply chain and logistics

A reliable supply chain underpins successful global expansion. Assess local infrastructure, transport networks and storage facilities. Determine if you need local production or local partners to maintain product freshness and quality. Building strong relationships with local distributors and logistics experts can smooth the transition to new markets.

Financial considerations

Plan your finances carefully. Global expansion involves managing currency fluctuations and increased investment in market research, compliance and distribution. There may also be additional working capital requirements. Evaluate your cash flow projections and consider hedging against currency risks. Ensure you have the financial resilience to tackle unexpected challenges.

Brand positioning and marketing

Your brand is your promise. Adapt your marketing strategy to appeal to local consumers without losing your core identity. Focus on your product's unique benefits and safety credentials. Effective local branding, supported by a solid marketing campaign, is key to winning consumer trust.

Local partnerships and talent

Finally, consider forming local partnerships or employing local talent. Hiring people who understand regional markets can help you navigate cultural nuances and regulatory landscapes. By involving local experts, you are better positioned to tailor your strategy and sustain long-term growth.

BDO Global has member firms in 164 countries worldwide and is the leading global adviser to scale-up businesses. We are therefore uniquely placed to collaborate with manufacturing businesses to help them confidently enter global markets.

Mark Sykes
Partner, Head of Entrepreneurial Business Advisory
BDO

Case study

Global expertise drives innovation at Calbee

Taking its market-leading expertise and mission to "make a difference in the world by creating products that address the needs and challenges faced by customers and society", Calbee, Japan's no.1 snack brand, arrived in the UK in 2014. The group then purchased UK crisp brand Seabrook in 2018.

As the first European subsidiary of the group, Calbee UK has grown rapidly since then and now produces both crisps and snacks from its two manufacturing facilities in Bradford and Deeside, as well as importing authentic Asian snacks from across the wider Calbee group.

With a strong pipeline of innovation and access to exciting, unique technologies at a global level, and in its two UK manufacturing facilities, Calbee UK is an ambitious business, committed to continued expansion in Europe.

Research and development into new formats and flavours is a continuous, agile process. The most recent launches, Tasty Takeouts, Trebles and Waffle Bites, were developed in under 12 months from concept to shelf, a pace that's essential to success in such a fast-moving product category.

Calbee Group has decades of experience in creating innovative snacks too, giving the UK access to a wealth of proprietary technologies, flavours and textures to bring to the UK market. With Japanese cuisine and culture riding high in popularity in the UK at the moment, this makes for an exciting pipeline of new products to draw on.

This allows Calbee UK to remain agile in a competitive market, introducing new and exciting snacks for UK consumers to try all year round.

Group Managing Director, Jon Wood, comments: "Having invested well over £15m in additional capacity, product capability and brand marketing in the past year, we now have even more opportunity to drive growth across the crisps and snacks category.

"This, in addition to the huge breadth of innovative product technologies and market-leading brands available to us through the wider Calbee group, makes this an exciting time for our business."

Risks in retreat?

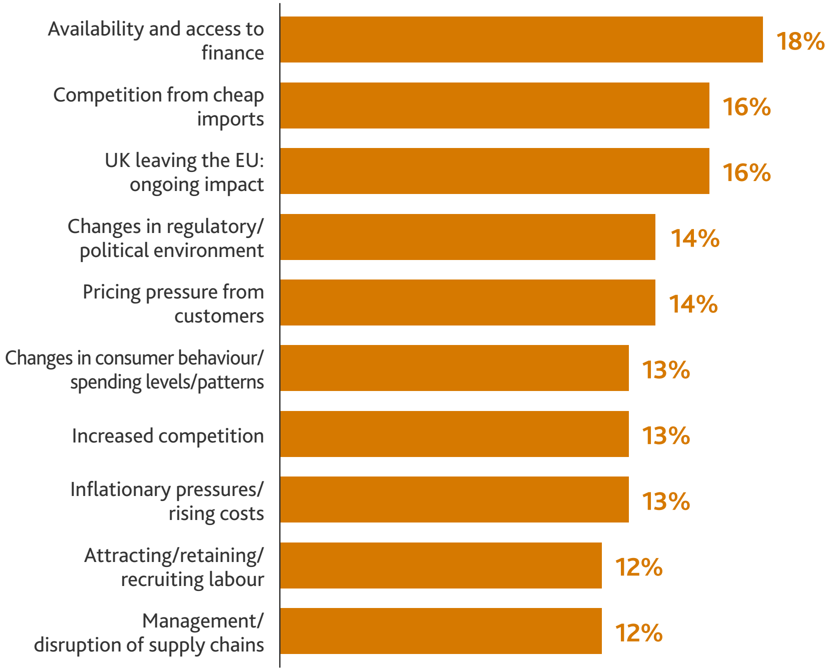
It is now five years since the UK experienced its first COVID lockdown. The pandemic had a drastic impact on the UK Food and Drink industry, with 33% of those polled in our survey facing challenges in rebuilding customer demand.

Three out of ten companies have since prioritised employee wellbeing, invested in productivity-related technologies, introduced new products and services or taken steps to embed sustainability into their operations.

Multiple challenges

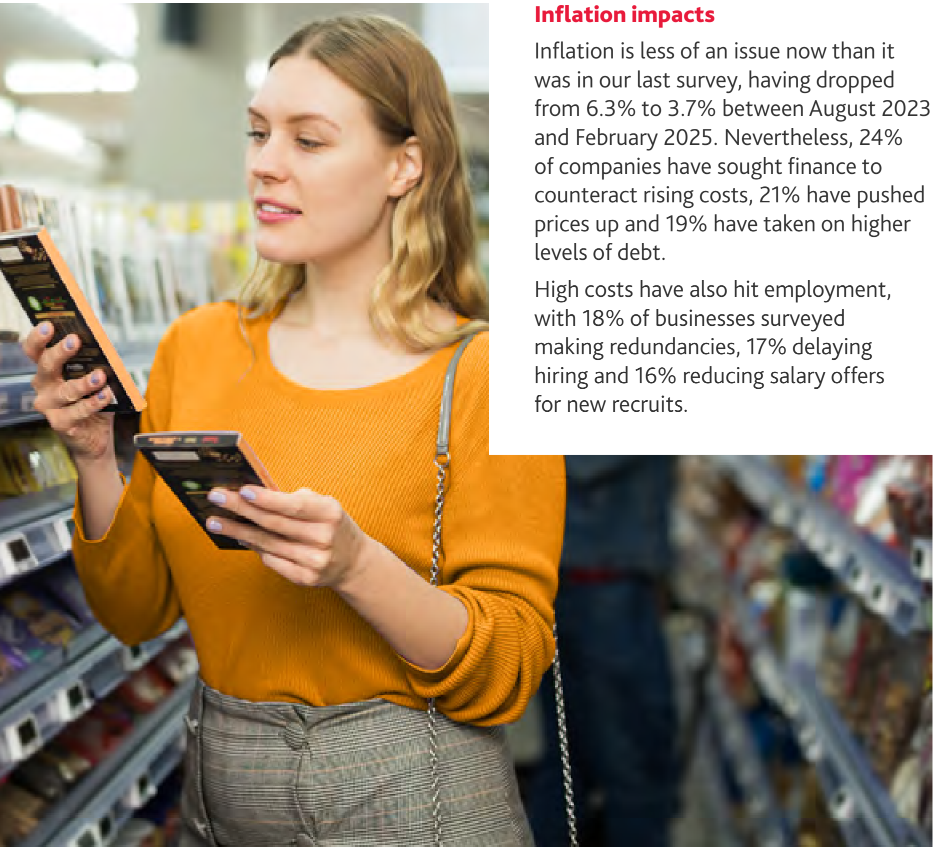
These experiences seem to have helped shape a more robust industry. As per the last survey, respondents to this year's survey identified a wide range of challenges ahead – but nothing that stands out significantly.

Top 10 challenges in 2025



The top threats businesses identified this year were availability of and access to finance (mentioned by 18%), competition from cheap imports (16%) and the ongoing impacts of Brexit (16%). Concerns over foreign exchange and VAT, preeminent in our last survey, have fallen down the priority list.

Risks in retreat? *Continued*



Inflation impacts

Inflation is less of an issue now than it was in our last survey, having dropped from 6.3% to 3.7% between August 2023 and February 2025. Nevertheless, 24% of companies have sought finance to counteract rising costs, 21% have pushed prices up and 19% have taken on higher levels of debt.

High costs have also hit employment, with 18% of businesses surveyed making redundancies, 17% delaying hiring and 16% reducing salary offers for new recruits.

What measures, if any, is your business taking or planning to take in order to counteract the impact of rising costs/inflation? Top five options selected.

Tax threats

9% of respondents cited potential new sugar and salt taxes as a threat – and they may have good reason to worry.

The government has said it will "keep all taxes under review" in response to a recommendation by the House of Lords Food, Diet and Obesity Committee that it should "announce an intention to introduce a salt and sugar reformulation tax and apply it as soon as possible, and within two years at most."[8]

Risks in retreat? *Continued*

BDO Insight

Risk areas to watch: What should UK Food and Drink manufacturers being doing to manage risks?

Employment: managing rising costs

Since April, manufacturers have been experiencing increased employment costs due to the increase in employers National Insurance contributions and National Wage Limit (NMW) rates.

NMW compliance is more than a rate of pay – ensuring your pay and working arrangements do not cause a breach is vital at a time when pay buffers will likely be eroded.

Steve Talbot
Partner, Global Employer Services
BDO

Regulation: financial reporting standard changes

From 1 January 2026, UK businesses reporting under FRS 102 will need to be applying several amendments aimed at greater alignment with IFRS.

Key impacts are likely to include revenue recognition, lease accounting and financial instruments, but businesses should prepare early and carry out risk assessments for effective implementation.

Graham Driver
Director, Audit
BDO

Building resilience through sustainability

The economic outlook may be uncertain, but the push for sustainability in the Food and Drink industry remains strong, with over half of respondents saying they have an ESG strategy with defined objectives. Manufacturers should focus on de-risking and decarbonising their value chains, while addressing nature-related challenges such as water scarcity. There is a growing emphasis on transparency and demonstrating progress with solid metrics that can withstand scrutiny. Prioritising sustainability is a good way to build resilience during turbulent times.

Howard Lungley
Director, Sustainability & ESG Consulting
BDO

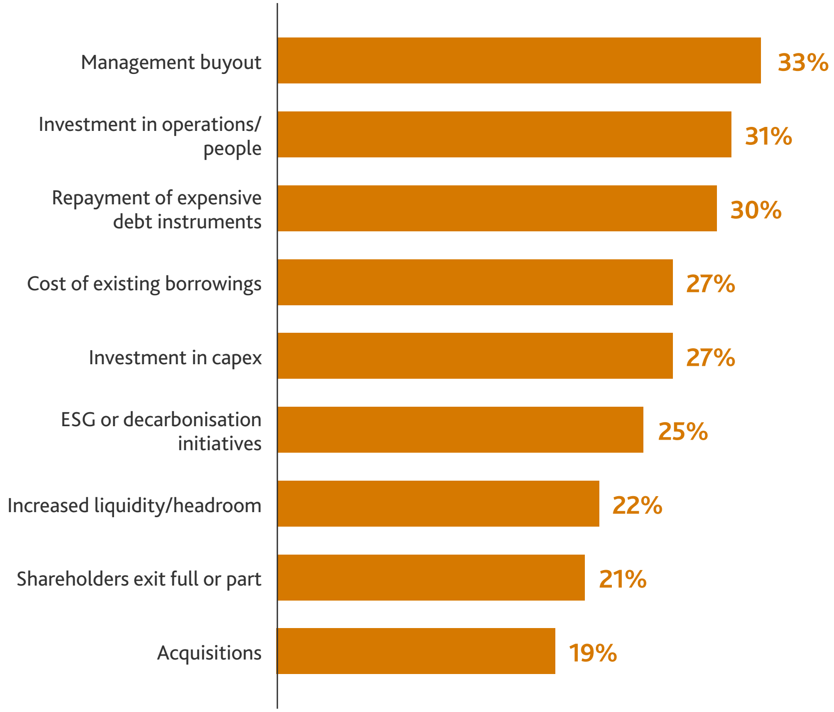
Funding growth

Tariffs, regulatory barriers, exchange rate risks: now as much as ever, international trade seems a fraught affair. But that is not how the UK Food and Drink industry sees it. Instead, 42% of those polled view global trade as a motor for growth.

For a further 26%, export operations remain steady despite global challenges. But these companies, like those growing in other ways, or indeed those struggling to stay afloat all need cash. With so much growth on the cards, demand for money is soaring.

Nine out of ten respondents to this year's survey said they expected to review their debt and working capital facilities within the next 12 months. The reasons for this are varied and often not mutually exclusive.

Why companies are reviewing debt and working capital needs



Reasons for review

33% of businesses are reviewing working capital arrangements as part of a management buyout, 21% doing so because of a shareholder exit and 19% due to an acquisition.

Capital investment is another obvious motivation, with 31% looking to invest in operations and people, 25% eyeing expenditure on sustainability and decarbonisation programmes and 27% aiming for other generic capex investments.

Businesses also appear to be taking advantage of recent reductions in lending rates to repay expensive debt instruments (30%) and cut the cost of existing borrowing (27%). Finally, 22% of companies are simply looking to improve liquidity.

Dealing with costs

Seeking outside finance remains a popular way of counteracting the impact of rising costs – 24% of respondents are planning to increase borrowing or seek funds through venture capital, PE or bank and private credit loans.

There are also many measures that businesses would like to see the government take to improve access to finance, ranging from making listing processes easier (cited by 20% of the sample) or providing support to reduce emissions (17%), to helping tackle skills shortages (17%).

Finally, 19% said it would help to tailor the proposed Private Intermittent Securities and Capital Exchange System to companies like those represented in the survey.

Funding growth *Continued*

BDO Insight

Asset-based lending: the key to growth

Whether you are under margin pressures or a growing business looking for acquisitions, access to debt and working capital is key.

Traditional debt like that provided by high street banks, remains a challenge for many businesses – credit appetite is softening, and lenders are polarised towards low-risk credits.

However, the UK asset-based lending (ABL) market still has a significant appetite to support traditional UK Food and Drink businesses.

Good alignment

ABL is perfect for Food and Drink businesses as it aligns well with high seasonality, fast-moving perishable goods, production facilities that are highly invested and a blue-chip customer base. Raising debt in the current market is achievable, but requires a robust process. Key factors to consider:

- **Planning:** assess all your funding options and understand which lenders to approach
- **Market:** understand the credit process and present the business in the best possible way
- **Meetings:** be prepared, know where to hold them and who should attend
- **Negotiation:** understand key requirements of a facility and of negotiating optimal terms
- **Project management:** reduce execution risk to underpin a smooth closing process.

A debt advisor can help you navigate a complicated and time-consuming process. They will have knowledge of the whole market, access to key decision makers and an awareness of the current credit landscape to ensure you can get the best deal at the right price.

And they will be capable of covering all of your business' needs – from funding for growth to working capital and refinancing.

Drew Johnson
Director, ABL Debt Advisory
BDO

BDO Insight

Working capital management: the cheapest source of cash

Food and Drink is one of the most sensitive sectors to macroeconomic and geopolitical volatility, especially when it comes to managing working capital. Seasonal swings and the need to regularly invest to adapt to challenges makes effective cash management critical.

External access to cash and finance remains a significant challenge for businesses within the sector.

However, our analysis shows that there is over £3.9bn of cash trapped within the internal working capital cycles of mid-market Food and Drink businesses, an average of over £5m per company.

With the right focus and actions, you could release this cash to fund efficiency improvements or help counteract the impact of rising costs.

Cheap finance

Working capital is by far the cheapest source of funding for a business, and it is no surprise that we often see a correlation between manufacturers with good working capital management and those with stronger growth. Key working capital focus areas include:

- **Culture and people:** a strong cash culture supported by centre-led targets and guidance helps align your operations and finance teams and breaks down silos. Invest in training to enable your teams to do what they do best, whether that is negotiating supplier payment terms, reviewing demand forecasts or collecting an overdue invoice.
- **Performance visibility and data:** understanding performance across end-to-end cycles, along with drivers and bottlenecks, is critical. You can't sustainably improve what you don't measure. Make this performance visible to all the teams and individuals who influence your working capital.
- **Process and technology:** harness data insights and technology to optimise your operational processes and to simplify and automate back-office functions. Utilise leading practices within the sector, and potentially from other sectors, to stay competitive. Tailor your approaches and management techniques to the behaviours of your customers and suppliers to get the best result.

Improving your working capital can be a complex process, involving reviewing your business' processes, strategies and supply chains. If you think your company could have trapped cash, get in touch with our specialist working capital team.

Richard Dammermann
Managing Director, Head of Cash & Working Capital Management
BDO

Seeking solid supply chains

There is no doubt that UK Food and Drink supply chains have been through a tough time in recent years – 54% of respondents are now using inventory buffering to mitigate risks, and 53% are seeking supplier diversification.

Around half the companies surveyed have seen production stopped or delayed due to availability issues in the last 12 months. In response, 61% have increased their inventory levels and 54% claim their supply chains are now highly resilient to disruptions.

49%
of respondents have experienced a delay or have had to stop production due to availability issues in the past 12 months

Other strategies to cut risks include using assessments (54%), stress tests (55%), long-term agreements (47%), risk-sharing contracts (43%) and investments in visibility and control technology (55%), and 57% of respondents plan to use AI in their supply chains in the future.

More than half of those polled are seeking to increase their supplier base in response to global political instability, with most aiming to perform financial, operational or ESG due diligence on their new suppliers.

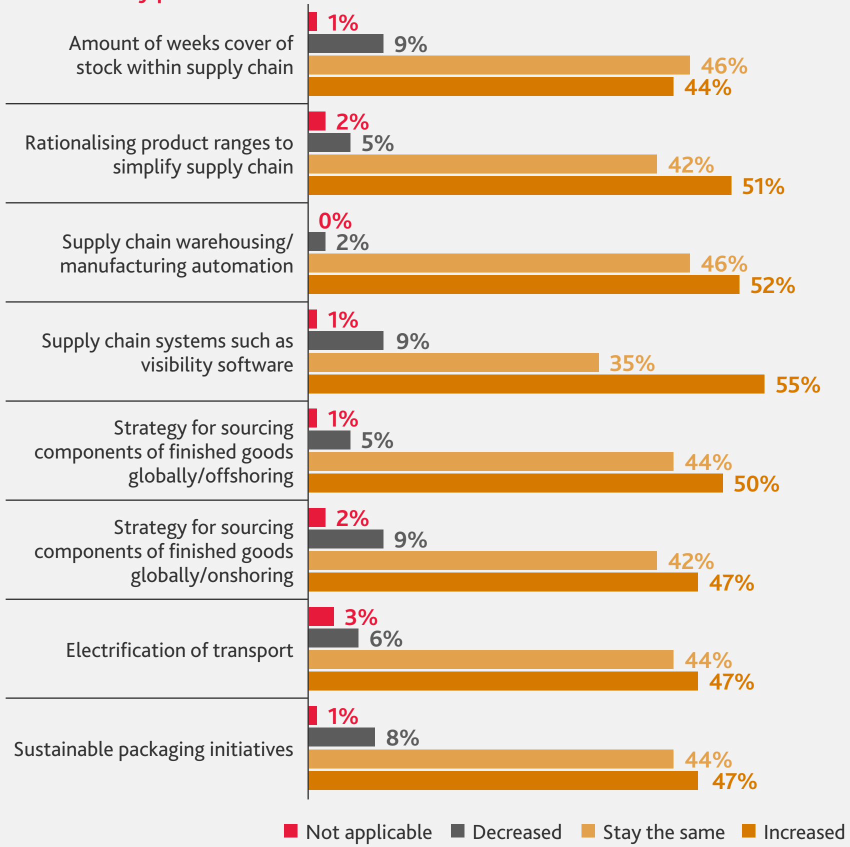
Around half (48%) said their diversification strategies had been triggered by geopolitical tensions. Exactly half are planning to update their supply chain systems in the coming year, and 55% are willing to pay more for local supplies.

55%
of Food and Drink manufacturers are willing to pay more for local supplies

Mitigating inflation

Inflation also has a role in supply chains and supplier relations. Increases in production costs such as raw materials, wages, energy, and transportation directly result in an increase in supply chain costs. As a result of inflationary pressures, this has led to 47% of respondents increasing sustainable packaging initiatives, 47% to boost transport electrification, 52% to up levels of warehousing and manufacturing automation, and 51% to do more product rationalisation.

Changes in strategic approaches to supply chain risk in the last year as a result of inflationary pressures



In this year's survey, 99% of respondents claimed to be monitoring supplier key performance indicators (KPIs) effectively – up from 63% in our last poll. The most popular business KPI in the survey, by a fair margin, was revenue growth, followed by profit margin.

But despite respondents' avowed attention to supplier performance, 41% said they had no oversight of freight forwarding customs declarations – a worrying increase from the 23% in the last survey.

Seeking solid supply chains *Continued*

BDO Insight

Five keys to resilience

Building supply chain resilience in Food and Drink is crucial to maintaining on-shelf availability, the holy grail for the sector.

We help clients succeed across all sectors, so we are well placed to help build business cases for the future and mitigate disruptions in these uncertain times. Here are five tips to help you strengthen your supply chain resilience:

- **Diversify your suppliers:** with 61% of companies already diversifying suppliers, it's clear that spreading risk across multiple sources is effective. This approach can help you avoid bottlenecks and ensure a steady flow of materials.
- **Invest in technology:** over half of the companies surveyed have invested in supply chain technology to enhance visibility and control. Warehouse and transport management systems can provide real-time insights, helping you anticipate and manage risks more effectively.
- **Use inventory buffering:** 54% of companies use inventory buffering to mitigate risks. By maintaining higher inventory levels, you can cushion against supply chain disruptions and keep operations running smoothly.
- **Consider dual sourcing:** nearly half of companies use dual sourcing to mitigate risks. Having alternative suppliers for critical components can reduce dependency on a single source – and enhance resilience.
- **Stress-test your plans:** regularly stress testing your business continuity plans is vital. It ensures your strategies are robust and can withstand unexpected challenges.

In summary, being proactive, horizon scanning, investing in a well-trained, skilled workforce, aided by a tech stack built on solid foundations can go a long way to delivering exceptional service and 100% availability.

Remember, resilience is not just about surviving disruptions – it's about thriving despite them.

Fraser Paget
Director, Supply Chain & Logistics Advisory Services
BDO

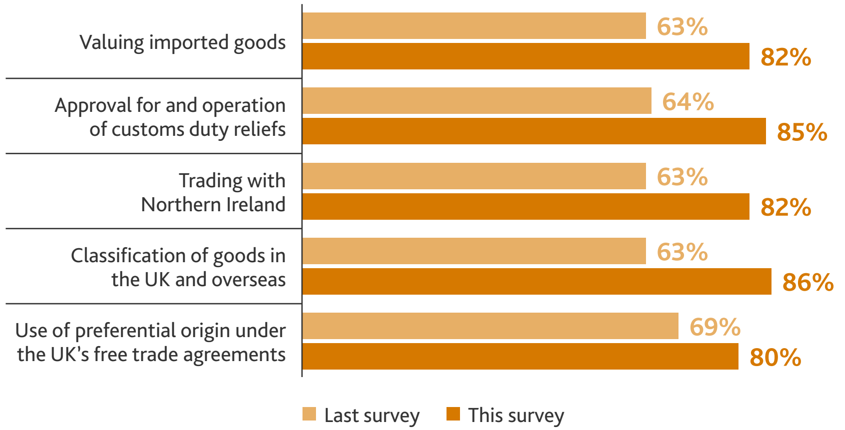
Trading blows

Part of the Brexit narrative was that it would not be hard to strike lucrative trade deals with countries outside the EU.[9] Yet our survey shows UK Food and Drink companies struggling more with international trade – and even trading with Northern Ireland – as time goes by.

Across five key trading areas in our survey, from valuing imported goods to getting approval for customs duty reliefs, the percentage of companies experiencing challenges has increased by an average of 16 percentage points since our last poll – and this is before factoring in the chaos caused by tariffs.

Given these worsening problems with global trade, it is perhaps unsurprising that companies are focusing most of their foreign growth efforts back on the EU… or are hoping to expand into new markets in the UK (see 'Growing strong').

Percentage of businesses having problems with trade processes



Forwarders in charge

It is also perhaps notable that there appears to have been a regression in the level of oversight that companies exercise over the customs declarations submitted to HMRC in their name by their freight forwarders.

The percentage of companies that leave matters entirely to their forwarders – and so do not have any oversight of the duty and import VAT incurred – has risen from 23% in our last survey to 41% this year.

Meanwhile, the percentage of businesses that receive copies of all customs declarations and check them to ensure the right amount of import tax is being paid has dropped from 18% to just 4%.

It is unclear what has caused this fall in oversight, beyond growing frustration with international trade processes in general. Clearly, however, there is a growing danger of tax error and overpayment, which can hardly improve the outlook for companies looking to grow business abroad.

Based on the survey results, Food and Drink manufacturers are increasingly relying on brokers to get their compliance right for them. The risk of missed declarations is the responsibility of the business, not the broker, and could result in penalties and HMRC assessments.

41%

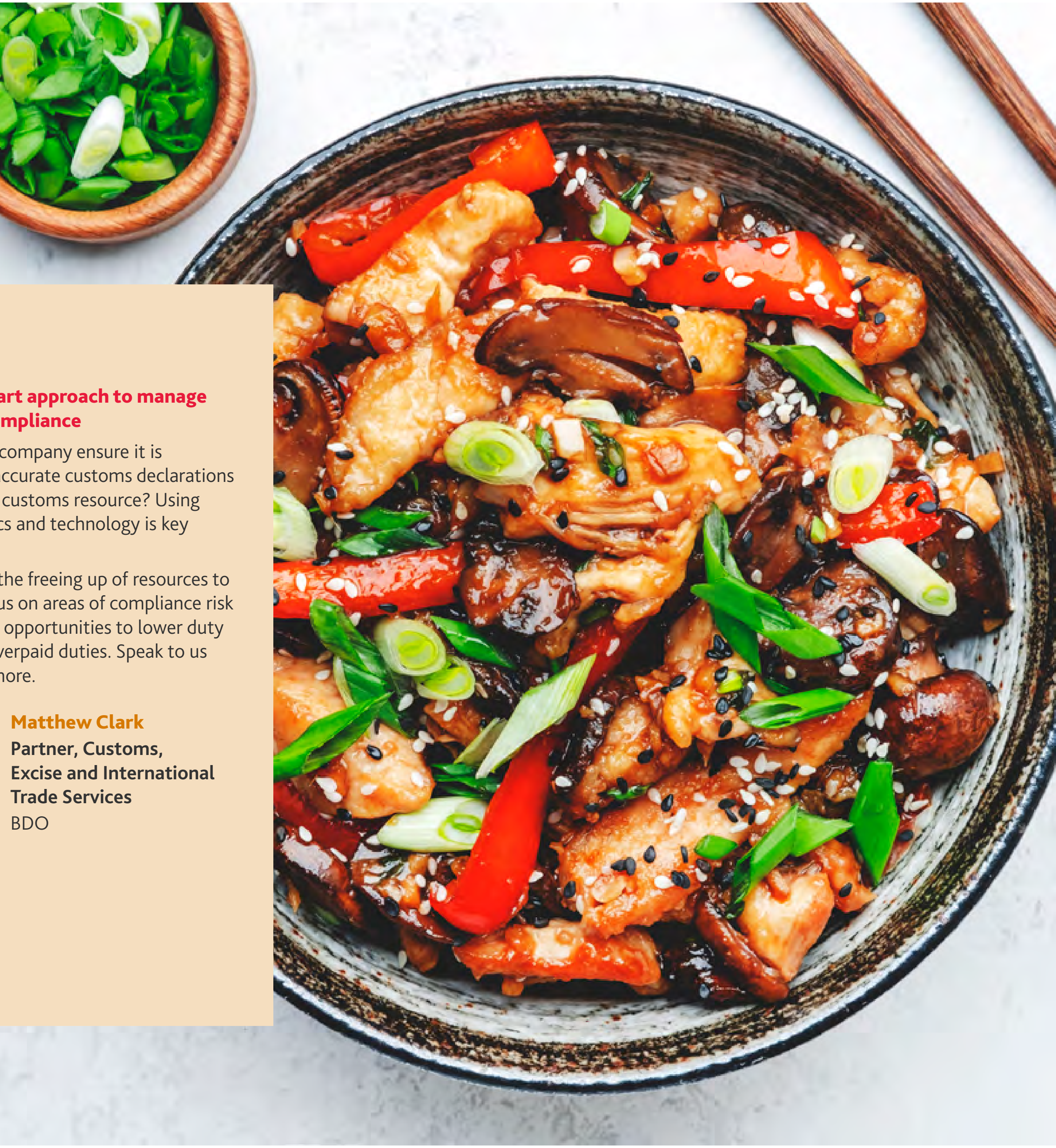
of respondents have no oversight of their customs declarations and the duty and import VAT incurred and leave all this to the freight forwarder

Trade asks

The survey contained a message for Whitehall. 16% of respondents would like to see the UK work with the EU to tackle barriers to business, for example with simpler customs rules or new free trade agreements (FTA).

Similarly, 14% of those polled called for improved support and fewer requirements and costs for exporting.

Trading blows *Continued*



BDO Insight

UK-India Free Trade Agreement

After more than three years and 14 rounds of negotiations, the UK and India have officially announced a landmark FTA. This is the largest trade deal the UK has signed with a single trading partner since leaving the EU and is projected to boost the UK economy by £4.8bn. More significantly, this deal gives UK businesses a first-mover advantage in a vast and rapidly growing market. As part of the FTA, India will be cutting tariffs on £400m worth of UK goods, upon the deal's implementation, and this includes reducing tariffs on whisky and gin from the current 150% to 75% upon entry into force and would be further brought down to 40% over a period of 10 years.

Arbinder Chatwal
Partner, Head of India Advisory Services
BDO

BDO Insight

Can companies comply and compete in the supply chain?

Customs duty remains high on everyone's agenda, brought into focus in 2025 by the new protectionist US trade policy. When coupled with retaliatory measures from other countries, this is leading to an ever-increasingly complex global trade market.

Meanwhile in the UK, increasing compliance visits by HMRC are forcing importers and exporters to ensure they mitigate the risk of non-compliance. Is it possible for business to navigate trade turmoil and remain competitive?

Yes – if Food and Drink companies can meet the following three criteria:

Understanding your supply chains and the customs profile of your goods

Customs declarations are tax returns. It is essential you get your customs data right when it comes to the cost of your goods, whether it involves valuations, what are your goods, what duty rate they are subject to, where they are made or grown, and so on.

Get these wrong and you'll pay the wrong tax and face repeated compliance challenges from any customs authority. What's more, if you are in control of this key data, you can accurately model the impact of any global trade war or tariff hike.

Understanding how you can legitimately lower your duty costs

Can you use a customs duty relief? For example, if your raw materials or finished goods don't stay in the country of import, there is usually a customs duty relief, such as inward processing or customs warehousing, to lower your duty cost.

Do you purchase from or sell to a country that the UK has a FTA with? Are you claiming a preferential rate of duty upon import? If not, why not? Often, we find businesses aren't using all the opportunities to lower their duty costs and be more efficient and more competitive.

Using a smart approach to manage customs compliance

How does a company ensure it is submitting accurate customs declarations with limited customs resource? Using data analytics and technology is key to success.

It can allow the freeing up of resources to not only focus on areas of compliance risk but also find opportunities to lower duty or reclaim overpaid duties. Speak to us to find out more.

Matthew Clark
Partner, Customs, Excise and International Trade Services
BDO

Eager to digitise

A quarter (26%) of respondents see investment in digital transformation, automation and new technologies as being the best route to growth in the coming year. Meanwhile, only 10% see digital transformation as a risk or challenge.

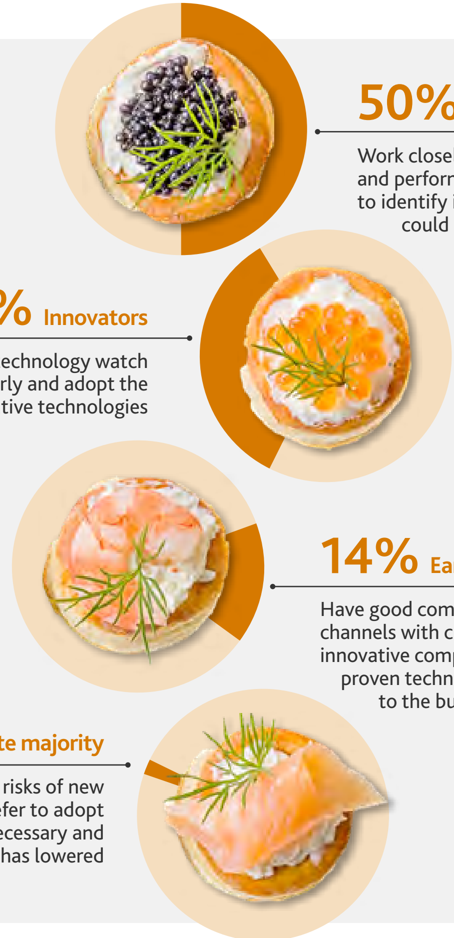
This makes sense, as technology can improve productivity and help overcome skill shortages. Perhaps because of this, and consistent with the findings of our last survey, this year's poll reveals a preponderance of digital early adopters – and no laggards – in the UK Food and Drink sector.

Half of those questioned consider their businesses to be early adopters, scanning the horizon for new concepts, and a further 34% classified their companies as innovators, adopting the newest technologies on the market. Beyond this, 14% said they were 'early majority'. Just 2% claimed to be 'late majority'.

While these figures may be an optimistic view of their corporate technology adoption, it is certainly true that the growing implementation of digital tools has allowed businesses to overcome a range of challenges, from supply chain issues to human resource shortages and rising labour costs.

The key drivers for digital transformation include gathering data points to use for future analysis (32%), reducing costs of manufacturing to improve margins and/or competitiveness (30%), provide relief of challenges or limitations with the current technology estate (26%) and establishing new manufacturing practices (26%).

How would you rate your businesses approach to digital transformation?



50% Early adopters
Work closely with customers and perform horizon scanning to identify innovations you could adopt

34% Innovators
Perform technology watch activities regularly and adopt the most innovative technologies

14% Early majority
Have good communication channels with customers and other innovative companies to identify proven technology that applies to the business

2% Late majority
Try to avoid the risks of new technologies and prefer to adopt them only when necessary and when their cost has lowered

Eager to digitise *Continued*

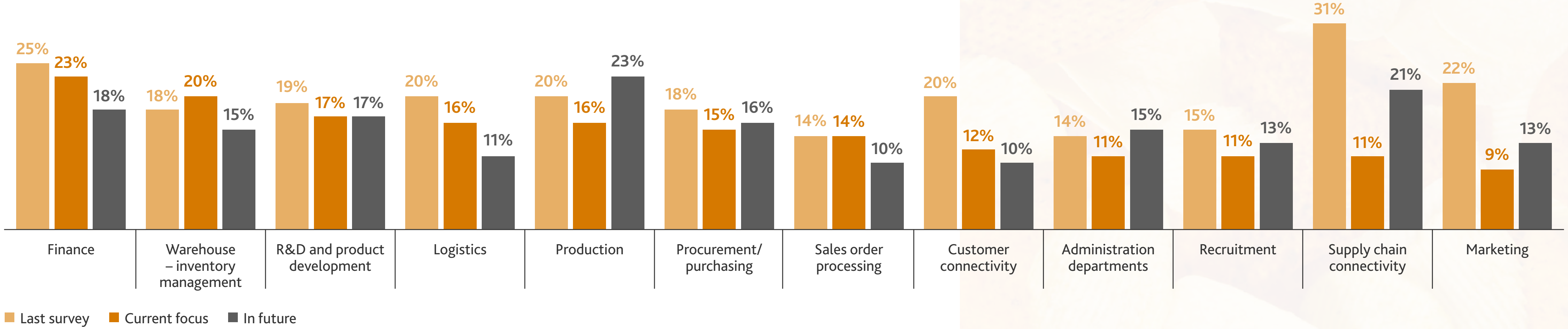
Changing priorities

Comparing current levels of focus with those from our last survey, and those planned by respondents' companies, it seems the importance of digitisation is waning in areas such as finance, logistics, order processing and customer connectivity.

More notably, there is only one area – production – where the level of interest in the future is higher than it was in the last survey.

Overall, looking at the results, they seem to indicate that companies are keen to innovate across all areas of the business, with the focus changing in response to market circumstances. Meanwhile, a growing emphasis on production is positive given the value this could add to manufacturing process efficiency.

Focus areas for digital transformation, by percentage of companies surveyed



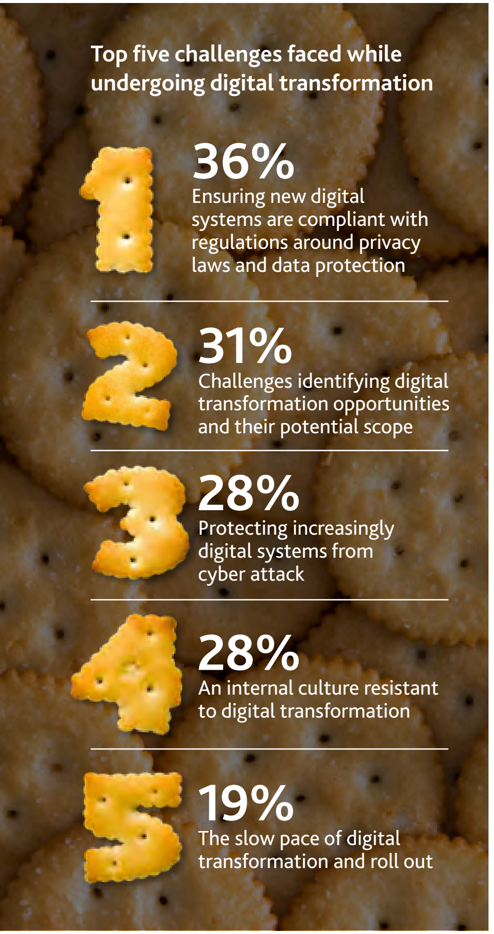
The case for investment

Early adopters or not, UK Food and Drink companies still face challenges in achieving digital transformation. More than a third (36%) of respondents say it is hard to ensure new systems comply with privacy and data protection rules, 31% report issues in identifying transformation opportunities and 28% felt the biggest challenge was increasingly protecting digital systems from cyber attacks.

Yet perseverance may be warranted, according to a November 2024 Future Factory report by Newton Consulting for the Food & Drink Federation.

For every pound invested over the last 20 years, says the report, £9 has been returned in Food and Drink manufacturing value, well above the £5 you would have obtained from investments in transport and engineering. Government, take note: 16% of our survey said funding would help drive growth.

Eager to digitise *Continued*



Top five challenges faced while undergoing digital transformation

1. **36%** Ensuring new digital systems are compliant with regulations around privacy laws and data protection
2. **31%** Challenges identifying digital transformation opportunities and their potential scope
3. **28%** Protecting increasingly digital systems from cyber attack
4. **28%** An internal culture resistant to digital transformation
5. **19%** The slow pace of digital transformation and roll out

BDO Insight
Digital journeys

While the trend of Food and Drink manufacturers beginning to embrace digital transformation has continued, recognition is still needed that this is a continuous process.

Most manufacturers feel they are falling behind in their digital transformation journey. With multiple activities and opportunities, they are struggling to make any significant moves forward.

For manufacturers on their transformation journey, key areas that must be considered include:

- Identifying and scoping digital transformation opportunities to provide a clear list of priorities
- Overcoming a change-resistant internal culture that prevents effective uptake of new technology
- Protecting increasingly digital organisations from cyberattack by proactively investing in right-sized cyber defences
- Ensuring compliance with privacy laws and data protection at the onset of scoping and designing systems, to avoid later pitfalls.

Creating a digital transformation strategy and roadmap will provide a clear path to follow. This should aim to realise value holistically across your organisation, moving away from individual problems or opportunities to consider your entire IT architecture.

Only though a structured approach to digital transformation will the maximum anticipated benefits be realised.

Andrew Souyave
Partner, Digital
BDO

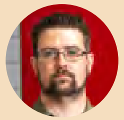
BDO Insight
Cyber security considerations

When heading down your digital transformation journey there are many risk factors to take into consideration, and it can often seem overwhelming and quite daunting. We recommend focusing on the three points below, which may seem obvious and are nothing new, but they are often forgotten about due to the speed of transformation.

Clear Roles and Responsibilities: with the increased adoption of cloud platforms, the lines of responsibility are often blurred and misinterpreted. Microsoft created a 'Shared Responsibility Model" that has been widely adopted and is a great first step into defining and understanding which areas need focus. We recommend reviewing this model. Ensure the responsibility for cloud security is clearly defined and that those responsible are aware of this and what it entails.

Visibility: much like any environment, you can't protect something you cannot see. We would recommend getting visibility across your estate as soon as possible. If you are experiencing hesitation from your colleagues as they are worried you will be slowing down progress, prioritise detection over hard blocks. Often the data collected from alerts is a great motivator to implement hard measures to reduce risky behaviour.

Trust but verify: one of the great things about cloud adoption is the ease of use and speed at which you can grow. It is impossible to head down this path without delegating some security responsibilities to your colleagues in other departments. Some of the most successful tech companies have found a way to embed responsibility, including security, across 'product teams'. While this practice is great to speed up delivery, it does come with its own risks. Never assume something is being done, know something is being done. Use your visibility and defined roles and responsibilities to build monitoring around key controls and risky behaviours.



Juan-Marc Scrimgeour
Senior Manager, Digital
BDO

Eager to digitise *Continued*

AI ambitions

AI is increasingly revolutionising the way businesses work, communicate, and interact with technology. Integrating AI can help enhance efficiency, reduce costs, and improve product quality, making the business more competitive in the market.

Only 3% of respondents in the survey said they are proficient in AI, however, over half (56%) plan to engage and implement AI, with 13% looking to grow their use of AI in the next six months. However, overwhelmingly, respondents shared they either don't have the resources yet to implement AI or did not know where to start.

BDO Insight

The age of AI

Many manufacturers that consider themselves comfortable with digital transformation are struggling to impactfully implement AI.

Around 85% of manufacturers have looked at implementing AI but haven't made progress, with key factors being uncertainty of where to start and a lack of appropriately skilled resources.

Our AI team works with organisations to overcome this hurdle, following a three-pronged approach focusing on:

- Business readiness: assessing if your business has the governance required to implement AI, including a strategy, steering committees and so on
- Technical readiness: ascertaining whether the technical prerequisites for a robust rollout of AI are in place, including data maturity and cloud infrastructure
- Use cases: understanding where AI can most effectively be utilised within your organisation.

AI presents myriad opportunities for manufacturers, from analysing telemetry data or identifying potential manufacturing efficiency gains to AI-driven supply chain optimisation.

To realise this value, manufacturers must adopt a "human-led, AI-powered" mindset and develop a clear strategy for bringing AI to their organisation.

Andrew Souyave
Partner, Digital
BDO

Case study

Raynors' AI eats into emissions

Implementing AI may be hard... but the results could be worth the effort, if the experience at Raynor Foods is anything to go by. Driven by a desire to improve the sustainability and efficiency of its operations, Britain's top sandwich maker has launched several AI projects.

Perhaps the most notable is S3 – for smart people, smart process and smart factory – which went live in January 2023 in collaboration with the Universities of Lincoln and Cambridge and Oxford-based digital system developer Software Imaging.

The consortium has built a data-based model or 'digital twin' of Raynors' Chelmsford, Essex manufacturing site that contains data on carbon emissions, and three AI models.

The first was used to see how workers could cut emissions in real time – and this information was passed onto the workforce in the form of a mobile game. In its first year, it was used to reduce electricity consumption by 20%, saving 39 tonnes of carbon emissions.

A second, still in operation, automatically detects slips, trips and falls – the AI was trained to detect these and automatically report them throughout the business, and the third, also still running, uses cameras to detect incorrect packaging and use-by dates, which account for 80% of product recalls and withdrawals in the UK.

These two models are now available commercially via Alyn, a joint venture between Raynors and Software Imaging. "We are also exploring how a supply chain could utilise this technology and gamification programme," says Innovation & Technical Director Tom Hollands.

Separately, Raynors has collaborated with 20 global partners, including the Universities of Exeter and Oxford, on a project to build an AI-enhanced supply chain blockchain platform to improve cashflow, boost food quality and reduce waste.

The so-called Digital Sandwich project earned employee-owned Raynors a £4m award in the 2020 Manufacturing Made Smarter challenge run by UK Research and Innovation's Industrial

Strategy Challenge Fund. It is seen as providing a model for industries such as pharma and aerospace.

Finally, Raynors also uses an AI-based voice system called LYDIA to give instructions to employees, allowing them to operate hands-free without having to consult a mobile device.

The system helps reduce the likelihood of errors while maximising employee efficiency. "It has halved the number of queries of reports of missing items, which in turn prevents complaints," says Operations Manager Karen Potten.

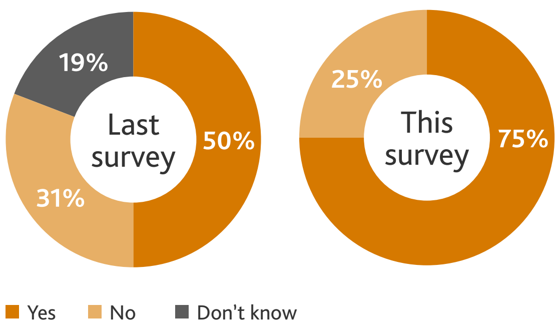
Worker worries

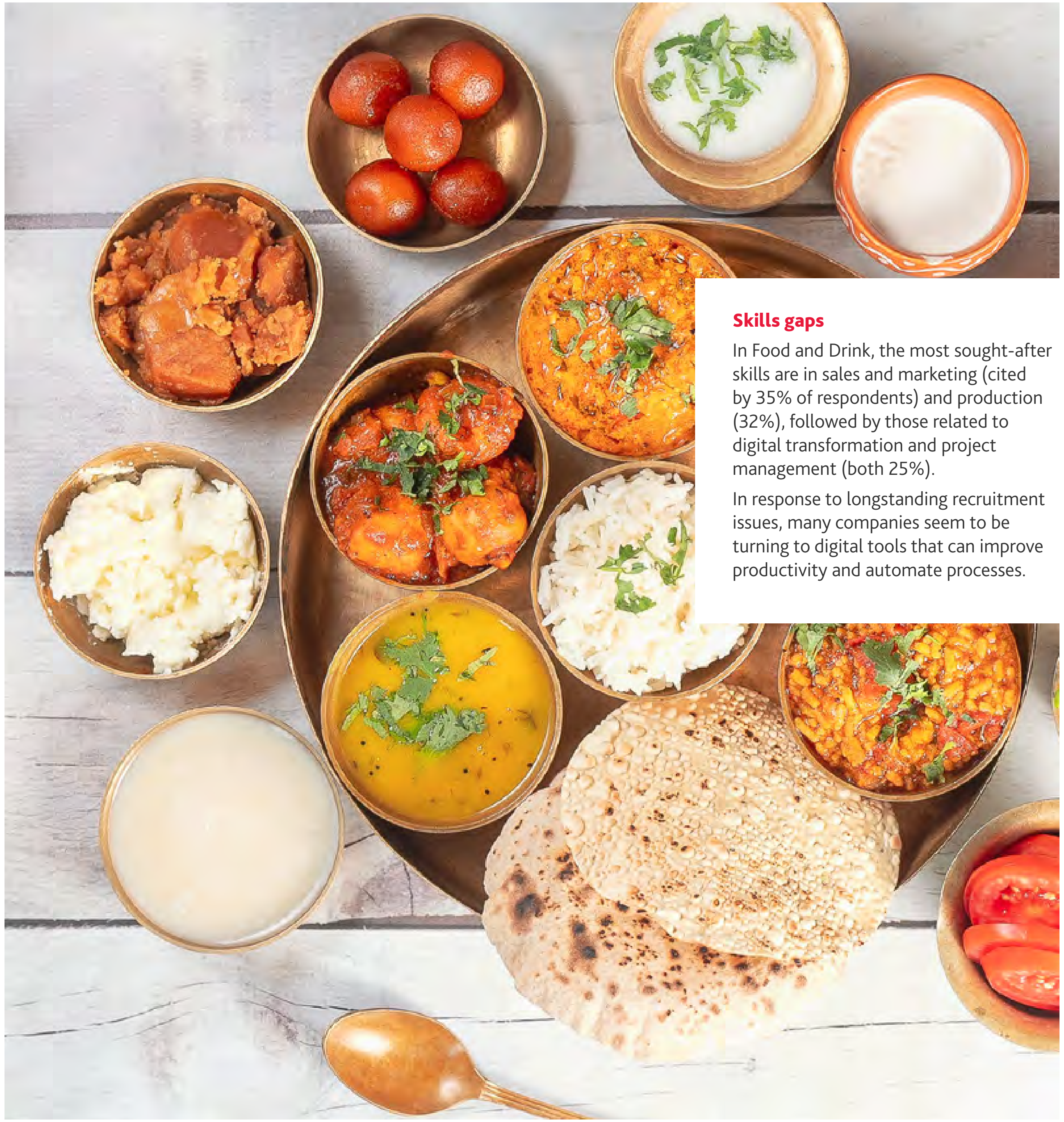
Trade conditions can ebb and flow, inflation can rise and fall, but one issue that looks set to stay for UK Food and Drink companies is a lack of people. Already a problem before Brexit slowed the arrival of EU workers, recruitment is now an issue for three quarters of businesses.

More EU citizens have been leaving the UK than arriving here since 2021, according to the University of Oxford's Migration Observatory. And while this shortfall is more than being compensated for by non-EU immigrants, it doesn't seem to be helping Food and Drink companies[11] or manufacturing generally.

As of January 2025, according to the Q1 2025 Make UK/BDO Manufacturing Outlook Report, 2.4% of manufacturing jobs are vacant, up from 2.3% in the previous quarter and well above the long-run average of 1.8%.[12]

Percentage of respondents reporting recruitment problems





Skills gaps

In Food and Drink, the most sought-after skills are in sales and marketing (cited by 35% of respondents) and production (32%), followed by those related to digital transformation and project management (both 25%).

In response to longstanding recruitment issues, many companies seem to be turning to digital tools that can improve productivity and automate processes.

Demand for digital

In this year's Food and Drink survey, 88% of respondents said their executive team recognises the importance of digital transformation, and in 26% of cases the driver for digitalisation was to improve levels of robotics and automation.

However, 84% of respondents also said there was a gap between digital transformation ambition and implementation in their organisations. This could in part be down to a lack of relevant skills, particularly in areas such as AI.

Indeed, 56% of those polled said their businesses were planning to engage with or implement AI systems but did not yet have the resources to do so. Only 3% claimed to be proficient in the use of AI.

Worker worries *Continued*

Government to the rescue?

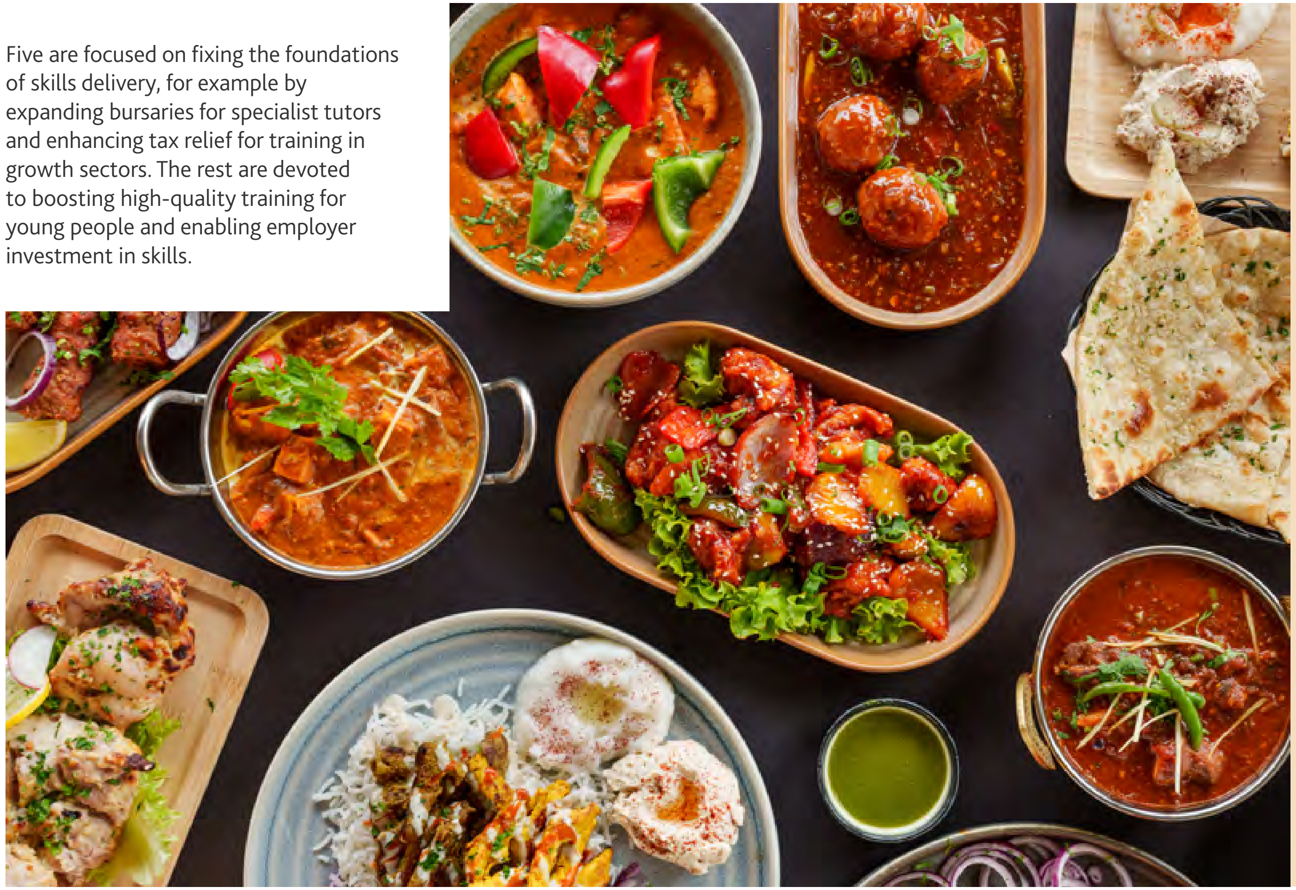
Given Food and Drink's status as the largest manufacturing sector in the UK, and the perennial problem it faces in finding people, it is perhaps surprising that only 17% of our sample called for more government support to tackle skills shortages.

There was not much demand for government help in other areas either – the most popular request, for easier listing processes, was only cited by 20% – so the skills support figure could reflect general pessimism towards government capabilities as much as anything else.

"The scale of the skills challenge facing industry is stark," said Make UK in April, noting that public and private investment in skills has fallen consistently over the last 25 years and employees in England get 19% fewer workplace training days now than they did in 2011.

Nevertheless, an Industry Strategy Skills Commission report published in April contains 11 recommendations to fix the problem.

Five are focused on fixing the foundations of skills delivery, for example by expanding bursaries for specialist tutors and enhancing tax relief for training in growth sectors. The rest are devoted to boosting high-quality training for young people and enabling employer investment in skills.



BDO Insight

Attracting and retaining talent

With the increase in employer national insurance contributions, combined with an increase to the national minimum wage, all eyes are on how best to manage the rising cost to employ in the sector. It will be tempting for employers to shave spend from their annual pay review.

But this will store up issues for the future and need reversing at some stage.

Much better to focus on careful headcount management through reduced hiring of investment cases and/or non-replacement of leavers, and a sharper focus on performance management to offset the additional cost.

And if the pay review spend still looks unaffordable, focus pay investment on employees with the most critical skills and in the most critical roles.

David Ellis
Partner, Strategic Reward Advisory
BDO

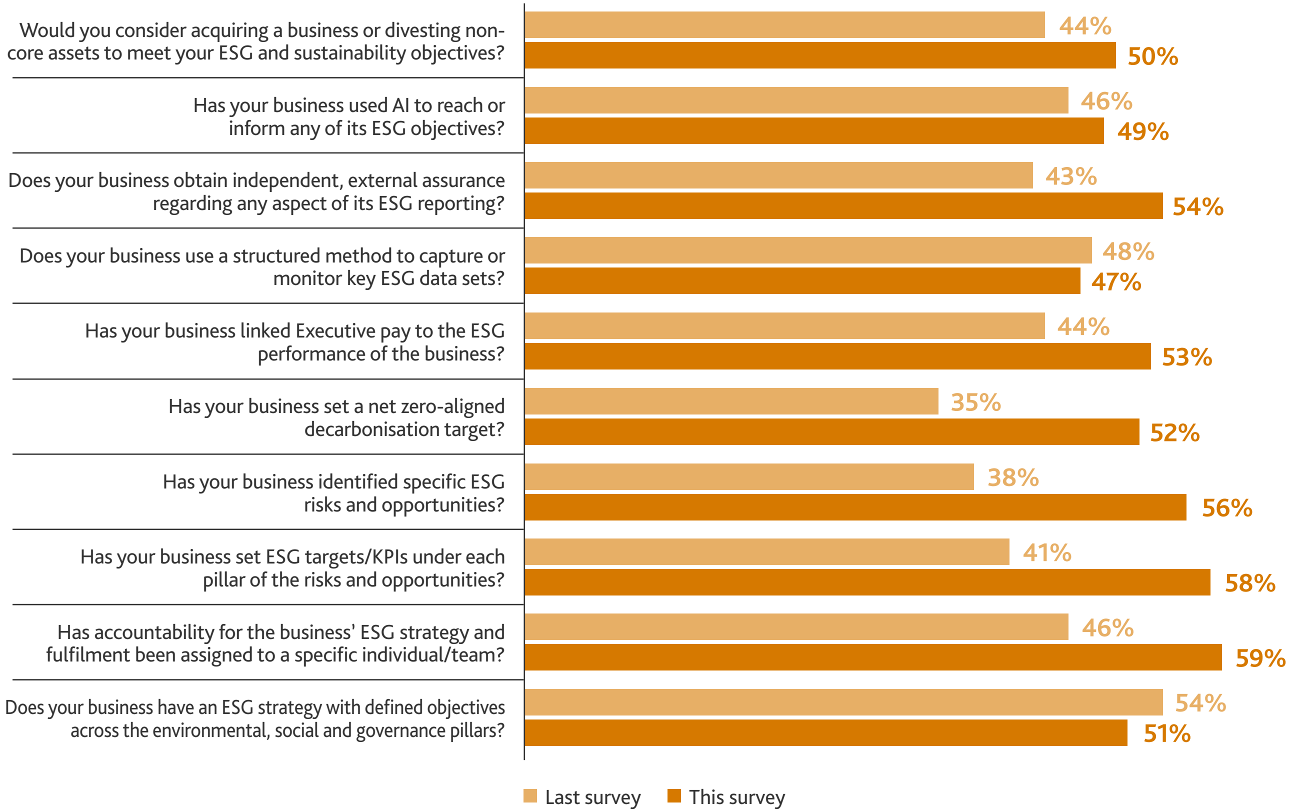
Embracing sustainability

In view of recent global media reports, it would be easy to assume progress on ESG matters has taken something of a back seat compared to more pressing issues. But the Food and Drink sector is moving to embrace sustainability regardless.

From obtaining external assurance for reporting to linking executive pay with targets, most of the metrics related to ESG advancement have improved since our last survey.

In some cases, such as assigning accountability for ESG to named individuals or teams and identifying ESG-related risks and opportunities, the change is significant.

Percentage answering 'yes', by ESG topic



A factor in M&A

While not beyond the margin of error, it is also perhaps notable that the proportion of respondents claiming their acquisitions or divestments might be driven by ESG considerations has risen from 44% to 50%.

More significantly, 59% said they use ESG considerations in supplier selection, up from 41% in our last survey and 60% collaborate with their suppliers on solutions to reduce emissions. Supply chain ESG performance visibility was also said by 59% to be a key focus for their businesses this year. And 61% asserted that ESG governance was now part of their corporate strategy.

A Growing Urgency

55% of companies in this year's Food and Drink survey said wider nature-related risks and opportunities were playing a role in their strategic, financial and operational decisions, and half claimed to have set nature- and biodiversity-related targets.

Furthermore, 54% said they were incorporating nature and biodiversity considerations into supply chain management and decision making.

While regulations play a role, progress towards wider sustainability goals is also being driven by growing awareness of ecosystem degradation. With 51% experiencing air pollution and 50% reporting limitations on the availability of wild flora and fauna, the need for action is clear.

Getting to zero

The impact of climate change is hard to ignore. In the Food and Drink survey, 55% of companies reported being affected by flooding and 54% had experienced extreme heat.

The industry is addressing the need for action accordingly, with 52% of businesses now having a net-zero-aligned decarbonisation target – up from 35% in our last survey. And nine out of ten companies with a target – so 47% of the total sample – also have a plan of how to achieve it.

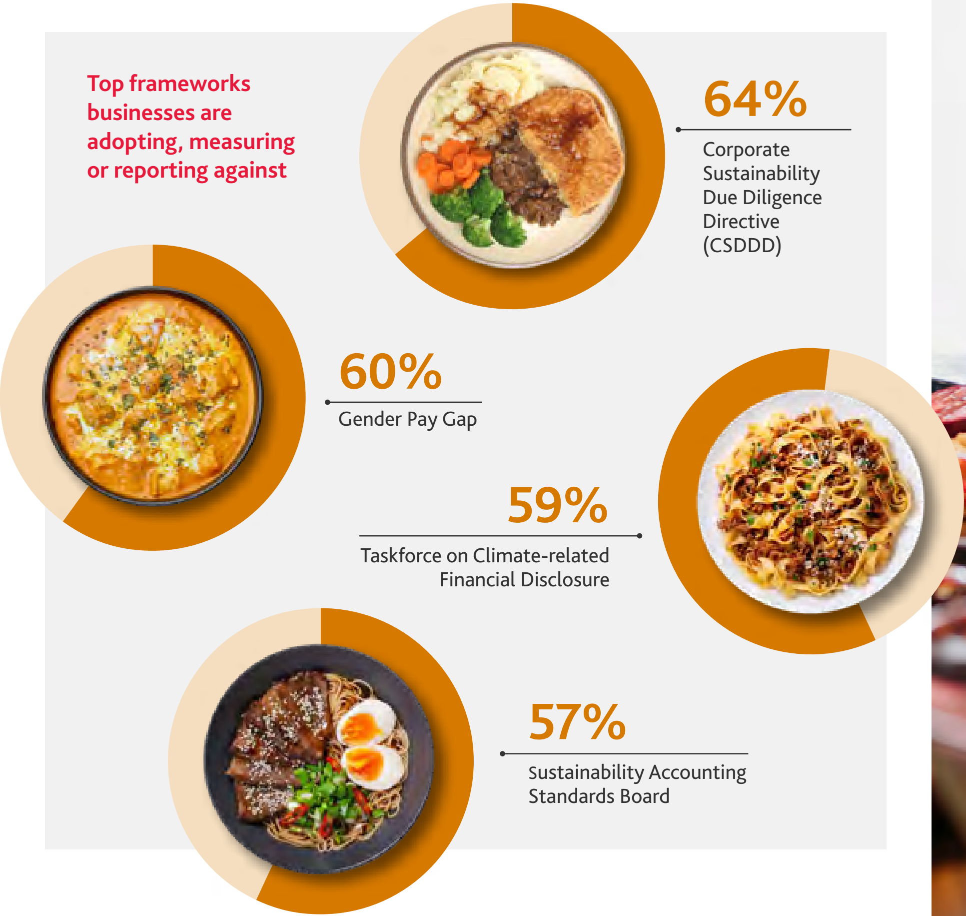
Just as importantly, eight out of ten companies with targets, or 42% of the full sample, have included Scope 3 emissions in their plans. These are the emissions that a business produces indirectly through its supply chain and the way its products are used by customers – so they are hard to control.

Meeting goals

Three-fifths of all companies surveyed are already collaborating with suppliers on emissions reduction. An equally encouraging four-fifths of companies with targets - 43% of the total sample - say they are on track to meet their goals. These figures are all significantly ahead of where the industry was at the time of the last survey.

Yet one complication for business leaders contemplating net zero and other targets is how to measure and report on progress.

This year's survey revealed widespread adherence to more than a dozen ESG standards, frameworks, laws and recommendations, from the EU's Corporate Sustainability Due Diligence Directive to the UK's biodiversity net gain policy. The rapidly evolving ESG regulatory landscape can be challenging to keep up with.



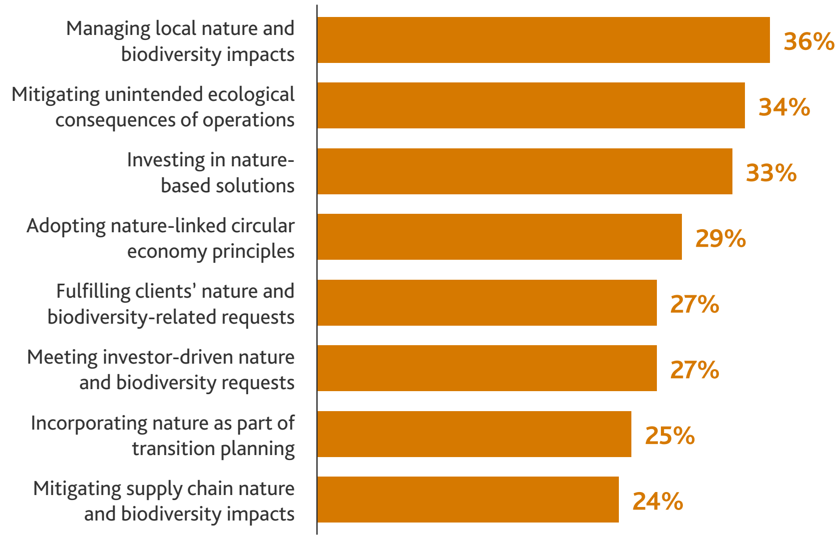
What comes naturally

There is no Food and Drink industry without agriculture. And given agriculture's dependence on healthy ecosystems – for pollination, soil fertility, water regulation and so on – it is hardly surprising that Food and Drink companies face mounting pressure to protect nature.

Amid growing evidence of multiple biodiversity and natural ecosystem crises,[14] 55% of respondents to our survey said nature-related risks and opportunities play a role in their strategic, financial and operational decision making, and half said they had set nature – and biodiversity-related targets.

Examples of the latter include 52% of companies following guidance from the Taskforce on Nature-related Financial Disclosures and a similar percentage complying with the EU's Deforestation Regulation.

Nature and biodiversity-related measures by Food and Drink companies



Addressing nature

A third or more of companies surveyed are managing local nature and biodiversity impacts, testing for and mitigating against ecological damage from operations or investing in so-called nature-based solutions – actions to address societal challenges through the protection and restoration of ecosystems.

Notably, 27% of respondents said they were aiming to meet investor-driven nature and biodiversity demands as part of debt or equity financing efforts, hinting at a widening of corporate portfolio sustainability requirements beyond net zero.

A further 24% of businesses are extending the mitigation of adverse nature and biodiversity impact along their supply chains. This activity is likely to grow as Food and Drink companies find themselves on the frontline of efforts to preserve natural ecosystems.

What comes naturally *Continued*

Why sustainability matters in the Food and Drink industry

BDO Insight

Amid global scrutiny of sustainability and ESG practices, the Food and Drink industry is moving beyond ideological debates to focus on pragmatic strategies that build resilience and deliver long-term value.

For manufacturers, investors, CFOs and supply chain leaders, sustainability is no longer just about risk and regulation. Rather, it is a pathway to value creation, brand trust, access to capital and competitive advantage.

The industry's dependence on natural ecosystems – fertile soils, pollinators, freshwater and stable climates – makes environmental stewardship a business imperative. UNESCO says agriculture accounts for nearly 70% of global freshwater withdrawals, underscoring its profound impact on water security. Declining pollinator populations are reducing yields and the availability of nutritious food, with direct consequences for human health.

The World Economic Forum's Global Risks Report 2025 ranks extreme weather as the top risk over the next decade, followed closely by biodiversity loss and ecosystem collapse.

This is the seventh time since 2015 that extreme weather has ranked as the top risk, making it the most frequently cited top risk by the WEF. Against this backdrop, the industry has a critical role to play in building climate-resilient supply chains and reversing nature loss and degradation.

Nature-related opportunities

Encouragingly, over half of respondents to this year's Food and Drink survey indicated that they are factoring nature-related risks and opportunities into their strategic, financial and operational decision-making processes.

The Ellen MacArthur Foundation's 2021 Biodiversity and the Circular Economy report highlights that over 90% of global biodiversity loss stems from extracting and processing natural resources, which includes clearing land for agriculture.

With increased stakeholder pressure to disclose relevant dependencies and impacts, 29% of survey respondents plan to adopt nature-linked circular economy principles to foster innovation. Food and Drink companies embracing these principles aim to reduce waste, minimise water use and adopt regenerative agriculture to improve soil vitality.

Transitioning to a circular economy is estimated to cut single-use materials by 30% and reduce global greenhouse gas emissions by 40% by 2050, according to BDO UK.[15] These efforts will contribute to easing ecosystem pressures and promoting biodiversity conservation.

Technology is emerging as a key enabler, with 59% of survey respondents citing supply chain ESG performance visibility as a business priority for 2025. Digital traceability, AI-powered risk mapping and blockchain tools offer transparency and accountability to help businesses verify ethical sourcing and mitigate modern slavery risks. The survey also reveals 83% of companies recognise the importance of digital transformation to remain competitive.

Social responsibility

Social impact is an equally important consideration for many businesses. According to the International Labour Organization in 2024, forced labour generates $236bn in illegal profits annually, with agriculture identified as one of the highest-risk sectors – an increase of a third since 2014.

Further, 56% of survey respondents reported that their wider operational impact on local communities' cultures and rights is another key concern for their business strategies.

As attention intensifies on labour practices, businesses are under pressure to address exploitative conditions such as forced labour, gender inequality and unsafe working environments, to ensure that fair wages and decent work become standard across global supply chains.

This reduces litigation exposure, unlocks productivity gains and strengthens reputation in increasingly sustainability-conscious consumer and investor markets.

Creating value: From compliance to competitive edge

This is not merely about "doing ESG" – it's about safeguarding supply continuity, strengthening margins, protecting the licence to operate and securing long-term sustainable growth.

As regulation tightens and investor expectations increase, businesses that embed environmental and social sustainability into core strategy will be better positioned to lead in a more resilient, growth-orientated Food and Drink industry.

Hemantha Perera Trevelyan
Associate Director, Sustainability and ESG Consulting
BDO

Novel flavours – a growing focus on R&D

New product development is one of the most popular options for growth in the UK Food and Drink sector, cited by 33% of those surveyed.

It is unsurprising, then, that 90% of companies see new product development, process improvement and R&D as a key focus. This is a massive jump from the last survey, where only 53% of respondents prioritised it – but the direction of R&D is less obvious.

Beyond convenience products, which seem to show a year-on-year progression in importance for R&D, the focus of innovation has varied widely over time.

Is New Product Development, Process Improvement, R&D and innovation a key focus for your business?

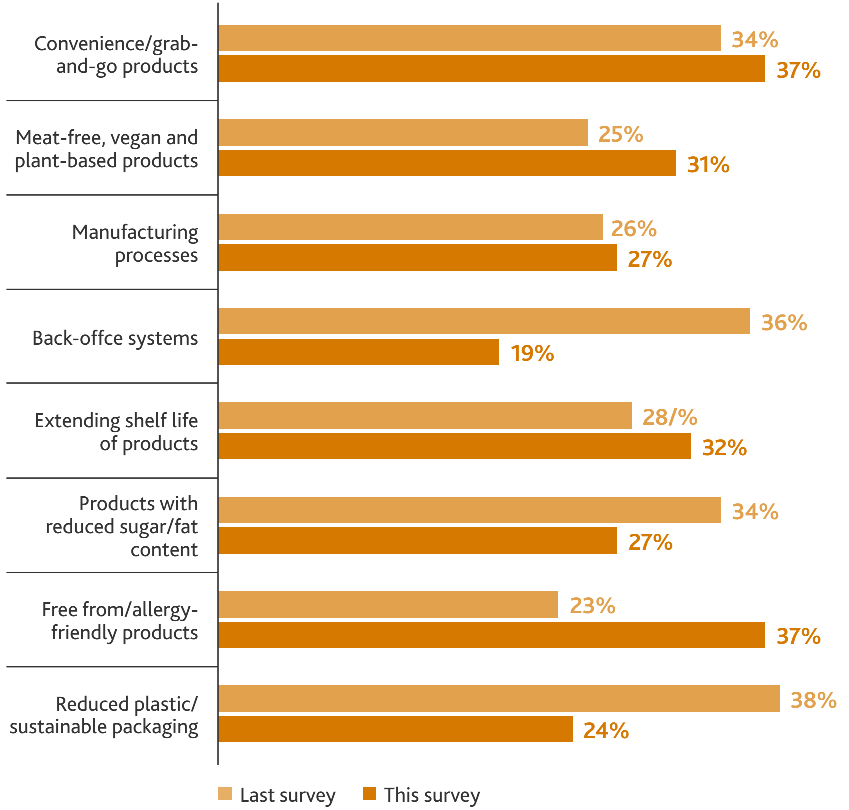
Focus areas

Take back-office systems and sustainable packaging, for example: these were the highest-scoring R&D areas in our last survey, but among the least important this year.

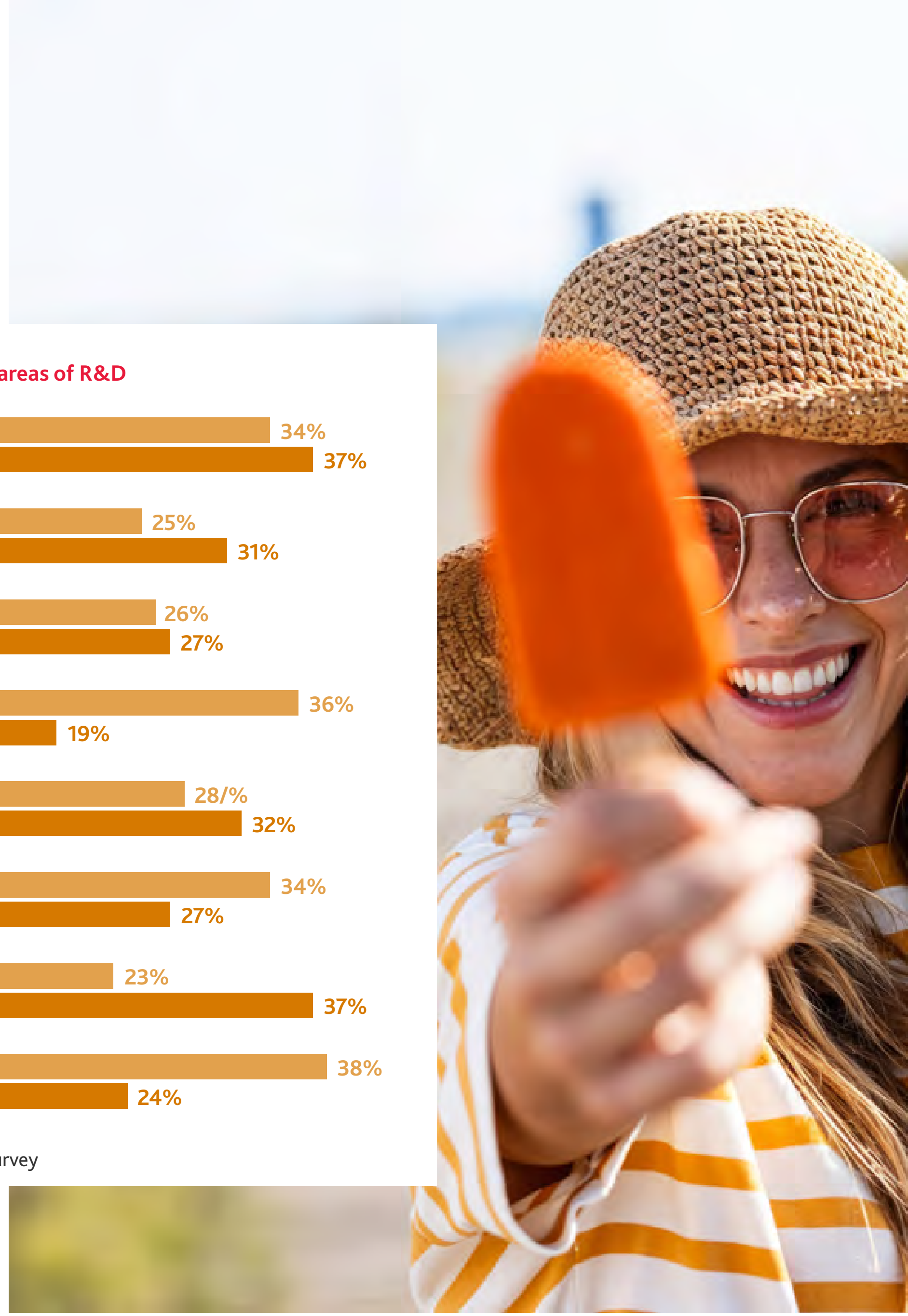
Securing tax incentives for this rapidly changing mix is not easy, although 99% of respondents said they were clear on the R&D incentive changes introduced in 2023 – and 70% viewed them positively, even though 99% were confident they did not need to notify future claims.

Similarly, 98% of respondents said they were clear about the draft legislation for a merged R&D tax regime that was introduced in 2023. And again, 70% thought this would have a positive impact on their R&D claims.

Percentage of businesses focused on given areas of R&D



	Last survey	This survey
Convenience/grab-and-go products	34%	37%
Meat-free, vegan and plant-based products	25%	31%
Manufacturing processes	26%	27%
Back-offce systems	36%	19%
Extending shelf life of products	28/%	32%
Products with reduced sugar/fat content	34%	27%
Free from/allergy-friendly products	23%	37%
Reduced plastic/ sustainable packaging	38%	24%



Novel flavours – a growing focus on R&D *Continued*

BDO Insight

R&D key considerations

Food and Drink manufacturers are riding a wave of confidence, with a strong focus on innovation and growth.

However, as we look ahead, there are several key areas where manufacturers should direct their attention to stay competitive and meet evolving consumer demands.

Investment in emerging trends

The emphasis on new product development and R&D is crucial and with businesses planning to increase their focus in these areas, it's clear that innovation is a priority. Manufacturers should consider investing in R&D to explore emerging trends such as allergy-friendly, convenience and plant-based products.

These categories are gaining traction and could offer significant growth opportunities.

Digital efficiencies

Digital transformation is another area where manufacturers are increasingly making strides. With businesses focusing their digital efforts on R&D and product development, leveraging technology to streamline processes and enhance product offerings is essential.

We're seeing that this involves adopting advanced analytics or automation to improve efficiency and innovation, and at the same time combat staff shortages.

The R&D skills gap

Recruiting skilled R&D professionals remains a challenge in the sector and what is clear is that there needs to be a change in how recruiting is approached.

By partnering with educational institutions or investing in training programs to build a robust talent pipeline, Food and Drink manufacturers could help bridge the gap.

Navigating and maximising R&D claims

More than ever, R&D incentives can be a valuable cash injection to help fund some of these activities. With recent changes to R&D incentives and the introduction of a merged R&D tax regime, companies need to make sure they are getting it right.

Manufacturers are aware of these changes, but understanding their impact can be tricky. Companies should seek guidance to navigate these changes effectively and maximise their R&D claims.

The new requirement for claim notifications is also impacting companies more that they realise, so staying informed and prepared is vital to ensure companies retain their ability to claim.

Navigating the evolving R&D landscape will require strategic planning and possibly external support to ensure companies can fully leverage available incentives. By doing so, manufacturers can position themselves for success in a dynamic market.

Ece Akser
Director, R&D Incentives
BDO

Busy times for M&A

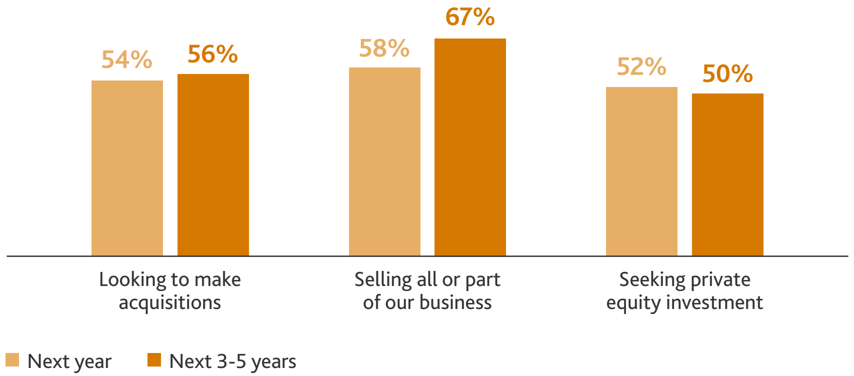
Forecasting the appetite for corporate finance and mergers and acquisitions (M&A) activity is hard at the best of times. In the current climate, probably the best one can say is that many companies would like the breathing space to get on with deals.

Although M&A was seen as only eighth in importance in terms of driving sales growth over the next 12 months, 30% of Food and Drink leaders surveyed claimed they would consider divestments to focus more on their core business.

Meanwhile, only 14% said they would put M&A activity on hold to counteract rising costs – a sentiment that more recent tariff threats could put to the test.

Nevertheless, businesses in the survey – 52% of which already have experience of M&A and/or PE investment – have good reasons to look out for transactions.

Percentage of companies planning M&A activity, by time horizon



Sustainable investments

54% of those surveyed said they would consider acquisitions or divestments in the next 12 months. A key driver was to meet ESG and sustainability goals, with 44% looking to buy assets that could enhance their ESG propositions.

For 43% of those surveyed, acquisitions were seen as a way of accessing new customers, and 40% said M&A could help bring in new products, particularly in the reduced fat and sugar and convenience/grab-and-go categories.

In addition, 34% were looking to scale up operations and 33% hoped to expand their geographical coverage. These priorities remain unchanged from our previous survey, albeit the proportion of respondents confirming these priorities have increased somewhat.

Key drivers for making acquisitions

A desire for deals

This potentially indicates growing demand for M&A after many years of muted activity because of adverse conditions. The conditions now have hardly improved, but for some companies there may be an overriding need to get on with transactions.

PE investors, for example, may be getting impatient about cashing in on investments made at the start of the decade.

In this respect it is perhaps significant that there are more companies looking to sell businesses than buy them in the coming year… and the difference looks set to grow further in the next three to five years.

Busy times for M&A *Continued*

BDO Insight

Resilience and growth

Deals in Food and Drink increased by 9% in 2024 – a record-breaking year for M&A. Economic factors were behind many acquisitions as businesses sought to improve their performance and position in a challenging market.

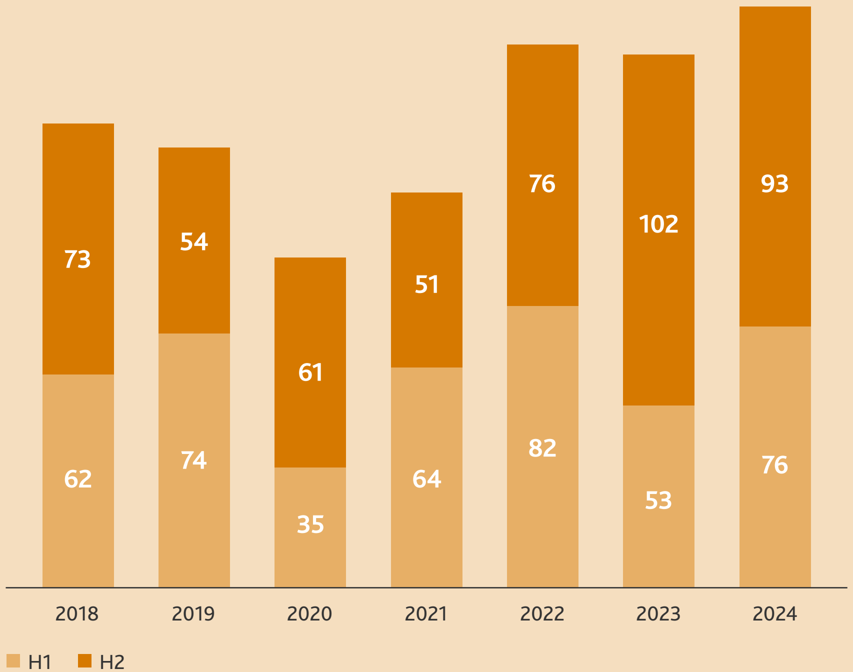
Autumn 2024 saw an acceleration of deal activity as teams rushed to get transactions completed ahead of the Budget.

Cost pressures are rife, affecting every area of the supply chain and every aspect of business. During 2024, inflation hampered growth and unexpected cost increases (including hikes to employer's National Insurance) confronted business attempts to control overheads.

Geopolitical and economic uncertainty continues to challenge growth prospects, but instead of hunkering down defensively, many businesses are making serious investment decisions to protect margins and drive growth.

The first is to automate. Streamlining operations through automation helps cut waste, drive efficiencies and build cushions against ongoing market volatility. Skills shortages and the increasing cost of labour are further reasons automation makes sense.

Food and Drink deal volumes: number of transactions per year



Building scale

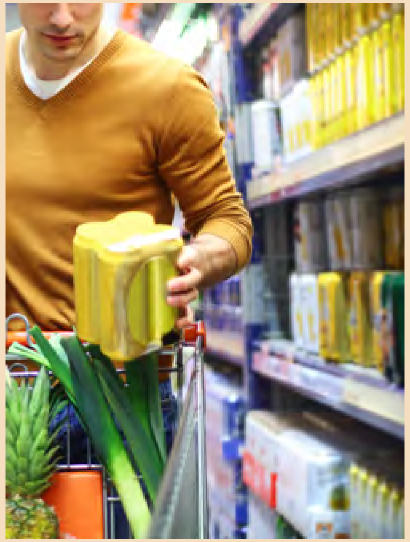
Consolidating through M&A can bring economies of scale and can make all the difference in a competitive market and difficult trading environment.

There are also plentiful opportunities as evolving consumer preferences provide avenues for growth. In 2024, we saw health-centric foods such as proteins and low-alcohol brands fuelling high activity levels, while pet foods continue to be a hot bed for deals.

The bakery category is also seeing consolidation and PE interest in unique propositions.

We expect the pressures and opportunities in the Food and Drink industry to underpin another busy year of M&A.

Roger Buckley
Partner, Deals Advisory
BDO



Busy times for M&A *Continued*

BDO Insight

Key M&A deals by subsector

Who's buying what? Here is our rundown of notable transactions from the last year.

Bakery

The bakery segment is seeing regular deals, with strong interest from strategic investors. Corporates are willing acquirers, adding brands that can be rolled out through established distribution channels. Key deals include:

- The acquisition of premium private label baked goods provider Village Bakery by France's Groupe Menissez from Limerston Capital, for an estimated £160m
- The acquisition of Finsbury Foods by DBAY Advisors, a UK-based specialty manufacturer of cake, bread and morning goods, for £143m.

Healthy living

No longer the preserve of the athletic few, healthy living and healthy eating trends are gaining popularity across the wider UK population.

Strong messaging about the dangers of ultra-processed food and the benefits of a protein-rich diet are driving consumer behaviour, with many looking to natural sources of protein such as beans, legumes and tofu. PE and the capital markets have backed high profile businesses in deals including:

- A £37m investor buyout of The Tofoo Company by Comtis Capital
- The $350m buyout of plant-based Primary Products Investments from Tate & Lyle by KPS Capital
- A £350m main market listing of Applied Nutrition, which was vastly oversubscribed.

Low and no alcohol

Also aligned to wellness trends, no- and low-alcohol products are seeing a boost, with notable deals including:

- Marston's selling its stake in its joint venture Carlsberg Marston's to Carlsberg for £206m
- Carlsberg acquiring Britvic for £3.3bn, strengthening its non-alcoholic offering
- BDO advising Moët Hennessy on a strategic investment in French Bloom, a market leader in prestige alcohol-free sparkling wines.

Pet food

Pet brands have continued to consolidate positions in a fast-growing market segment, with deals including:

- The acquisition of Thrive Pet Foods by Swedish consortium Petbuddy Group
- Inflexion in August selling Lintbells, a UK-based pets supplements business, to Vetnique Labs, backed by Gryphon Investors
- Butcher's Pet Care, a UK-based premium dog food manufacturer, being acquired in August by Inspired Pet Nutrition, backed by CapVest.

John Gethen
Director, Deals Advisory
BDO

BDO Insight

Is private equity right for your business?

Our survey shows over half of Food and Drink manufacturers are seeking PE investment in the next year, and exactly half are considering funding in the next three to five years. When contemplating PE funding, businesses should focus on three key areas.

Financial health

Assess your company's financial position. PE investors look for businesses that can demonstrate historic growth and with strong potential for future growth and profitability. They want to see clear and robust accounts, preferably with high recurring revenues and no high customer concentration.

Be prepared to demonstrate your financial stability and prospects.

Operational impact

Consider how PE funding will affect your operations, management, business processes and company culture. It is crucial to maximise the benefits of the investment by understanding and preparing for the necessary changes to how you operate.

Strategic alignment

Ensure that the PE firm's goals align with your business objectives. You need to find a partner that shares your vision and can support your growth strategy effectively up until exit.

By prioritising these three areas, you will be laying the groundwork for a successful partnership with a PE firm. PE investment helps drive business growth and delivers substantial financial rewards.

Jason Whitworth
Partner, Deal Advisory
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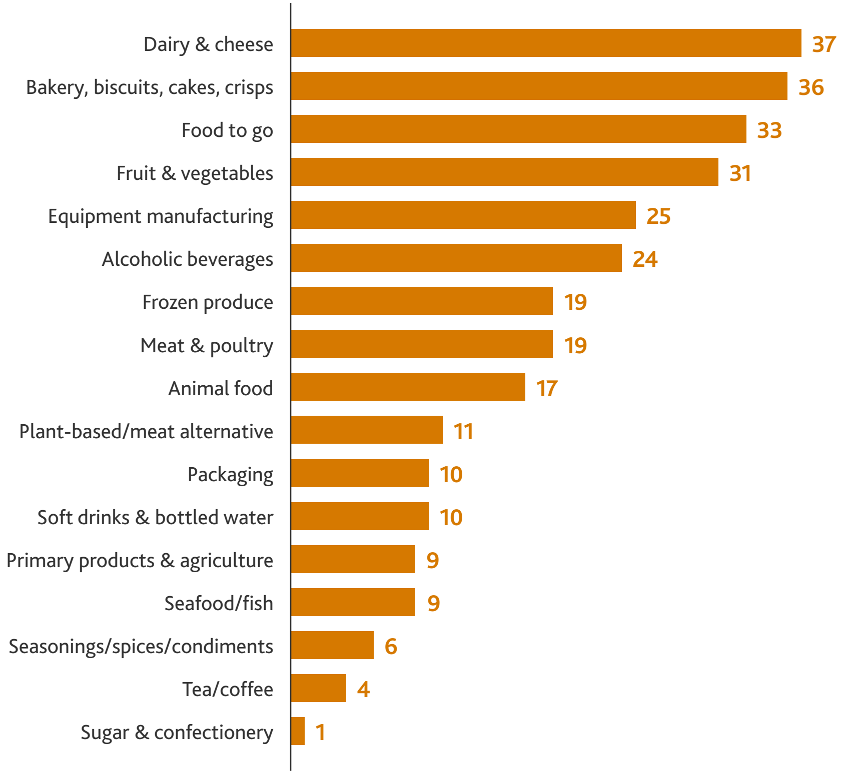
The BDO survey

This report is based on a survey of 100 directors of UK Food and Drink manufacturing companies with a turnover of between £10m and £300m. The research was carried out by market analysis company Censuswide on behalf of BDO in March 2025.

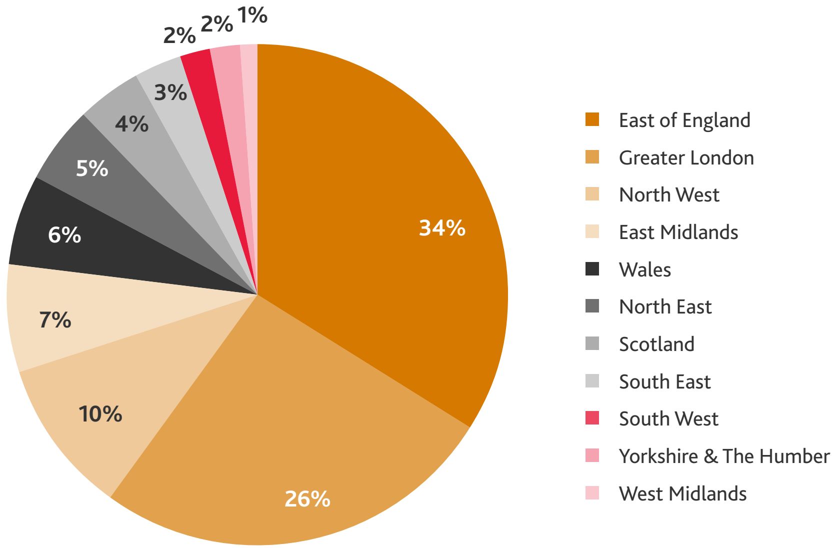
The companies surveyed covered a wide range of industry subsectors, from frozen produce to equipment manufacturing, with some businesses operating in more than one market niche.

The most highly represented subsector was dairy and cheese, followed by bread, bakery, biscuits, cakes and crisps. Other subsectors with high representation – more than 30 companies apiece in the survey – were food to go and fruit and vegetables.

Food and Drink subsectors covered by sample (NB: companies can operate in multiple sectors)



Percentage of companies in sample, by region



About a third (34%) of companies surveyed were from the East of England and a further 26% from Greater London. Other significant regions in terms of respondents included the North West (10%), the East Midlands (7%) and Wales (6%).

All the companies surveyed had turnovers of between £10m and £300m, with just 5% at the lower end (up to £20m) and 16% near the upper level (from £200m upwards).

BDO would like to thank all the directors who took part in this survey, along with the other professionals who have contributed to this report.

Who to turn to for expert advice on UK Food and Drink

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