Food and Drink Report 2026

From pressure to performance: driving value in UK Food and Drink

IDEAS | PEOPLE | TRUST

BDO

Food and Drink Report 2026

From pressure to performance: driving value in UK Food and Drink

Contents

The industry at a glance

FOOD AND DRINK IS THE LARGEST MANUFACTURING SECTOR IN THE UK

THE INDUSTRY HAD A TURNOVER OF £152BN in 2025

THE INDUSTRY EMPLOYS 489,333 PEOPLE ACROSS EVERY REGION OF THE UNITED KINGDOM

THERE ARE 12,130 COMPANIES IN UK FOOD AND DRINK MANUFACTURING

UK FOOD AND DRINK COMPANIES EXPORT £25.6BN A YEAR

Source: Food & Drink Federation[1]

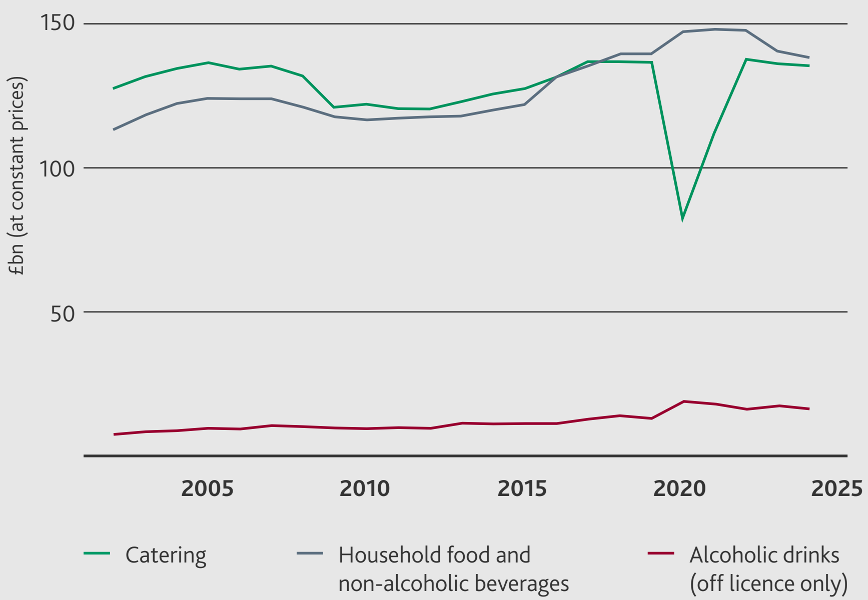
A sector under siege

The process of making food and drink is as old as humanity itself. It defines cultures yet is constantly changing. Climate change, regulation, supply chains and trends are now bringing challenges and opportunities faster than ever. In this environment, businesses need to keep up to stay alive. If they can get ahead of the curve, there are significant opportunities to be found. Social media virality, AI process innovation and even the widespread use of GLP-1s can provide growth prospects for flexible businesses.

The extent of this flexibility is being put to the test, however, UK Food and Drink manufacturers are facing a range of structural changes, from growing margin pressures and regulatory demands to investor scrutiny and changing consumer preferences. Some of these problems may not be obvious at first, but they are forming mounting strain on UK food manufacturers.

UK consumers are spending more on food than ever – so why are businesses suffering?

UK Consumer expenditure on food, drink and catering at constant prices, 2003 to 2024



Source: Department for Environment, Food & Rural Affairs.[4]

Total spend has risen almost continuously over the last two decades, and neared £128bn in 2023,[2] when the agri-food sector made a £153bn contribution to gross value added.[3] However, spending in real terms has been falling in recent years. The bump in spend on alcoholic drinks from off-licenses during the pandemic has turned into a plateau – just one indication that discretionary spend is dropping, and consumers may be cutting back on eating and drinking out in favour of cheaper at-home alternatives, and cutting back on more 'treat' items.

[2] https://www.statista.com/topics/7229/food-industry-in-the-uk/#topicOverview

[3] https://www.gov.uk/government/statistics/food-statistics-pocketbook/food-statistics-in-your-pocket

[4] https://www.gov.uk/government/statistics/food-statistics-pocketbook/food-statistics-in-your-pocket

A sector under siege *Continued*

The Food & Drink Federation warned in February 2026 that this year is likely to see weak consumer demand and ongoing cost pressures. Production costs rose 4.4% over the year to December 2025[5], and inflation still sits well above the Bank of England's 2% target.

Against this backdrop, 82% of Food and Drink manufacturers are still focused on growing UK sales[6], but 33% plan on reducing or restructuring their workforce and 26% are planning to pause or cancel capital investment projects. How they can do this without impacting progress will be the real challenge.

Achieving growth while cutting bottom line spend is not an easy line to tread. However, UK food manufacturers have achieved significant productivity gains over the last quarter of a century[7], and advances in AI and automation could push this even further. The potential in innovation extends to product development too, with increasing opportunities to build a niche and capitalise on trends. 39% of businesses said this year that they would focus on developing new products, and 13% want to develop healthier products.

Will this be enough, though? Historically, shifts in market dynamics may have created opportunities for the industry, but the pace and extent of change in 2026 and beyond raises questions over whether management teams are agile enough to respond.

Cindy Hrkalovic
Head of Food and Drink
BDO

[5] https://www.fdf.org.uk/fdf/resources/publications/state-of-industry-reports/state-of-industry-report-q4-2025/

[6] https://www.fdf.org.uk/fdf/resources/publications/state-of-industry-reports/state-of-industry-report-q1-2026/

[7] https://www.gov.uk/government/statistics/food-statistics-pocketbook/food-statistics-in-your-pocket

The forces defining industry performance

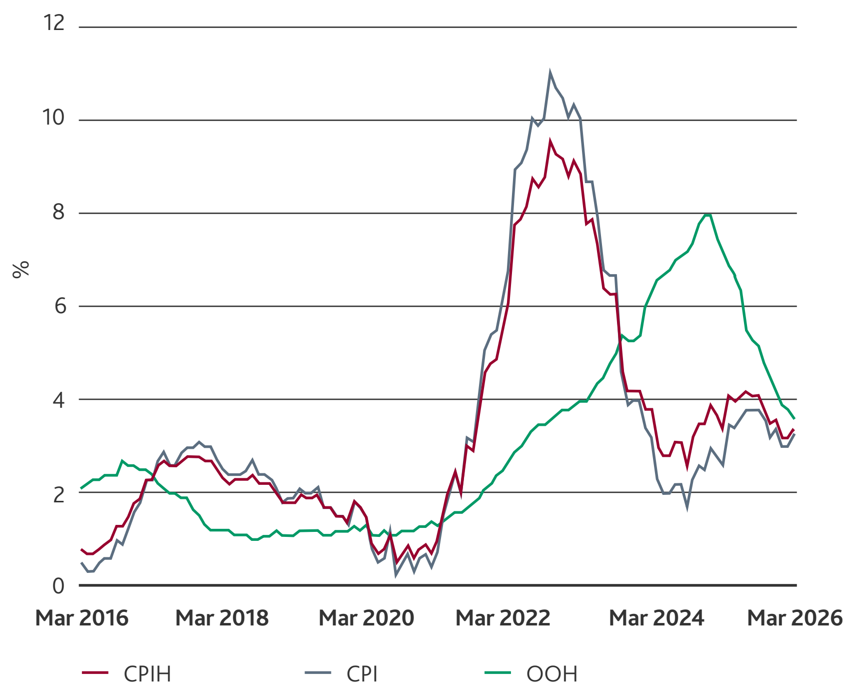
The Food & Drink Federation found business confidence languishing at –64% in the first quarter of 2026,[8] freefalling from –31% at the end of 2025. Although recent events have had wide-ranging effects, the Food and Drink industry is feeling some impacts more strongly. Soaring fertiliser costs and disruption to shipping routes will be top of mind for businesses over the next few months – but that is just part of the story.

Persistent inflation

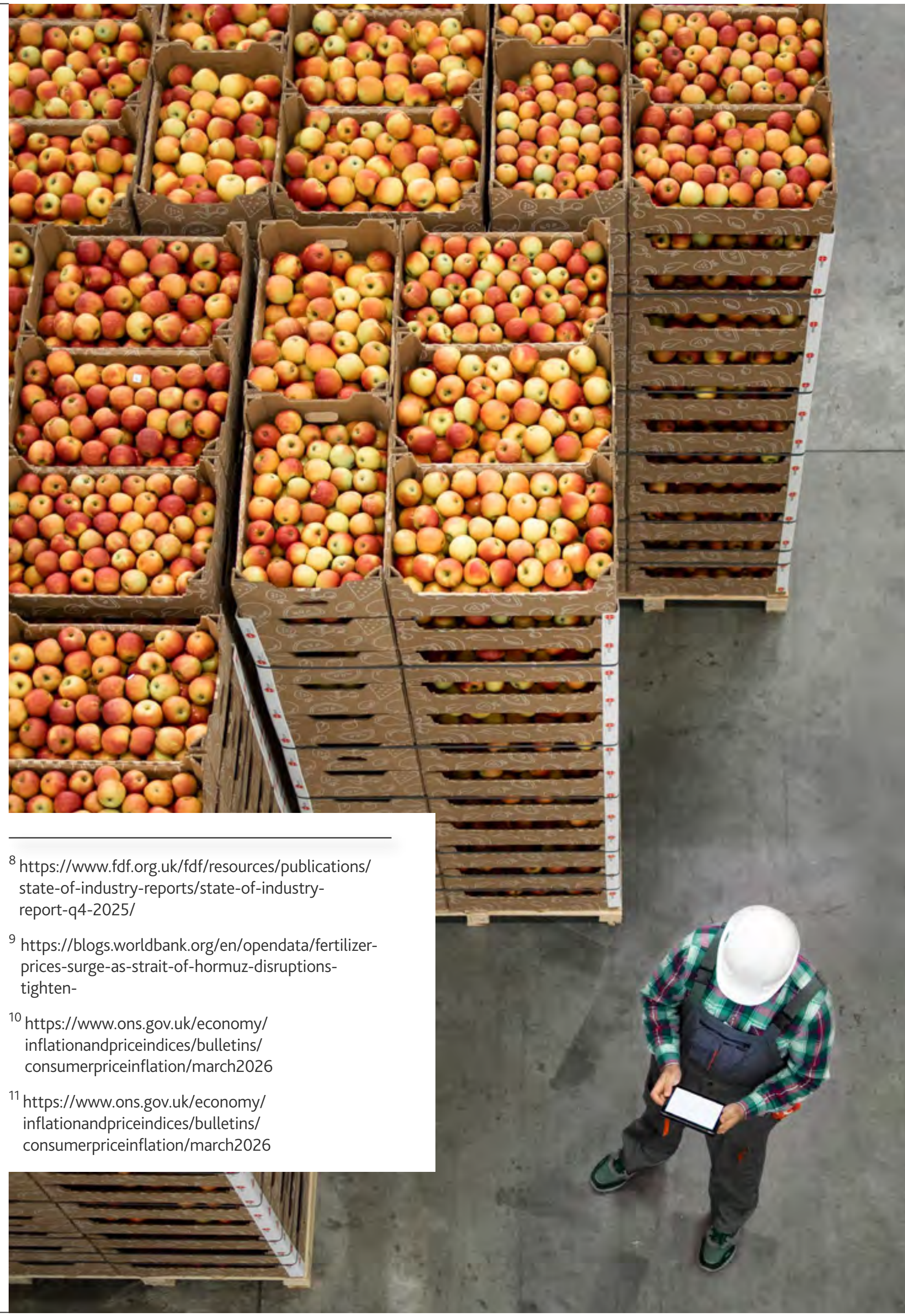
The prospect of ongoing cost increases as the conflict in the Middle East and uncertainty around the Strait of Hormuz drags on, and fuel and fertiliser costs will continue to rise for UK growers. The World Bank projects that the fertiliser price index will jump more than 30% in 2026[9], when farmers are looking to secure fertiliser for the 2027 growing season. This will have knock-on costs for manufacturers and consumers, with little respite from rising prices in sight.

The Consumer Prices Index including owner occupiers' housing costs (CPIH) was on a downward trend coming into 2026, but it has been rising steadily since the start of the Hormuz crisis, and as of March 2026 was up 3.4% year on year, compared to a 3.2% rise in February.[10]

CPIH, owner occupiers' housing (OOH) costs component and CPI annual inflation rates, UK, March 2016 to March 2026



Source: Office for National Statistics. [11]



[8] https://www.fdf.org.uk/fdf/resources/publications/state-of-industry-reports/state-of-industry-report-q4-2025/

[9] https://blogs.worldbank.org/en/opendata/fertilizer-prices-surge-as-strait-of-hormuz-disruptions-tighten-

[10] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/march2026

[11] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/march2026

The forces defining industry performance *Continued*

Although still well below its 2022 peak, inflation remains a persistent problem for Food and Drink manufacturers. "Inflationary changes are continuing to impact on people's ability to afford the food they need each week," said The Food Foundation charity in February.[12] And every day the Iran conflict drags on, stability and certainty move further away for food manufacturers and consumers alike. Businesses will need strong financial models and flexible pricing strategies to navigate the pinch point of higher costs and lower demand.

Labour costs

Growth often means hiring, but Food and Drink manufacturers are understandably cautious about taking on more staff. Between the rises to National Living Wage and increasing costs across the board, manufacturers feel left with little choice but to protect margins and reduce staffing costs. In fact, increasing the NLW may have backfired on the labour landscape in the industry. The Food and Drink Federation found that 53% of businesses were planning to increase automation, and 25% were planning more redundancies in direct response to the increase[13].

The compliance picture has also become more challenging in 2026. The Employment Rights Act brings in a range of new worker protections and employer responsibilities on a phased basis, and the introduction of a new enforcement body, the Fair Work Agency, in April will see crackdowns on non-compliance.

Companies that are hiring staff on or near the minimum wage could fall foul of new rules even without wanting to, but there are costs and impacts associated with automation and redundancy – there is never a clean saving. Businesses thinking about restructuring their workforces or processes should seek professional tax guidance.

Access to capital

The complex landscape in 2026 could motivate ambitious Food and Drink leaders to invest in their resilience and adaptation measures, but access to capital could itself be a challenge. The rate of company sales so far this year indicates a lessening appetite for mergers and acquisitions, potentially limiting corporate finance possibilities. Rising costs will eat into margins and reserves, and borrowing looks set to become more expensive – although there is still plenty of appetite from lenders.

Availability of finance was the top concern for Food and Drink companies in our poll last year. This year it could continue to be a problem.

The cost of sustainability

Other pressures may have forced it down the agenda for some businesses, but sustainability continues to shape Food and Drink manufacturing strategies. The Plastic Packaging Tax rose to £228.82 per tonne in April[14], increasing the pressure for alternatives and the importance of using available government reliefs for innovation in the space.

Rising fuel prices linked to the Iran conflict should give leaders reason to speed up and extend electrification and clean energy programmes, but costs associated with this could be proving prohibitive – just 21% of manufacturers said they were prioritising becoming more energy efficient[15]. Finally, consumers continue to want evidence of corporate sustainability… although their ability to pay a premium for it may be in question.

[12] https://foodfoundation.org.uk/news/food-prices-tracker-february-2026

[13] https://www.fdf.org.uk/globalassets/resources/publications/reports/soi-q1-2026-report.pdf

[14] https://www.gov.uk/guidance/check-if-you-need-to-register-for-plastic-packaging-tax

[15] https://www.fdf.org.uk/globalassets/resources/publications/reports/soi-q1-2026-report.pdf

Turning challenges into opportunities

There is no question that the outlook for Food and Drink manufacturers is challenging. But for those willing to move quickly and adapt, there are opportunities to take bold steps and create value.

Today's complex risk landscape makes it imperative for Food and Drink businesses to pursue active value creation. Companies that do not capitalise on the fast-paced nature of the industry face being left behind as consumer tastes and trends shift endlessly and cost pressures grow.

Adaptation may require investment, but data-driven decision making can ensure that capital is deployed efficiently and effectively. Businesses that can capitalise on a market where their competitors may not want to take risks stand to create an advantage.

A boom in product innovation

Social media has created an increasingly demanding and aware consumer base. The nation that created the Sunday roast and fish and chips is starting to turn to vegan, vegetarian and gluten-free meals, protein-based foods and luxury ingredients as a new generation of consumers enters the mainstream.

Increasingly well-travelled consumers see trends coming from social media, especially from Japan, Korea and Dubai, and are looking for more luxurious, social-media-friendly ingredients – bubble tea, matcha, ube, pistachio and truffle. Manufacturers whose product development timelines can keep pace with demand for on trend products will have an undeniable advantage in certain segments.

In the US in particular, Glucagon-like peptide-1 medications are starting to reshape food, drink and consumer behaviour. With appetite shifts, portion control and nutrition density are redefining product design, formats and growth opportunities. This is starting to filter through to the UK, where chains like Pret a Manger have rolled out half-size baguettes, Little Moons have created bite-sized ice creams and Ocado even launched a category for GLP-1 friendly foods. All of this points to the fact that businesses with an eye on the horizon can take an early advantage.

Over the last few years, increasingly health-conscious and cash-poor young people have also been shunning pints for low and no-alcohol alternatives that have become a booming new category of their own. This generation's trend-driven obsessions with protein and fibre have seen new product releases from many big brands, and the success of food startups like Bold Bean Co.

Food and Drink manufacturers are innovating to cater for these new tastes. Plenish, Hungry Boar, THIS and Quaker have rolled out protein-focused food products, and Finsbury Food Group acquired healthy snacking brand Flower & White to strengthen its foothold in high-growth bakery categories.

The potential value of these growing categories was highlighted in March 2026 when Danone paid £864m for British nutritional supplement maker Huel.[16]

[16] https://www.bbc.com/news/articles/czre7pl600go

Turning challenges into opportunities

Continued

Process revolution

Just as developments in consumer taste and buying power are impacting on product and packaging design, so technology is transforming the way food products and packages are made.

Food and Drink manufacturers can continue to improve margins by investing in plant automation, and AI and data analytics tools are helping companies to stay on top of trends like the backlash against ultra-processed foods[17] or the rise of the eat-at-home economy.[18]

As with product innovation, new industrial processes can deliver value not just in terms of market opportunity and cost reduction, but also by providing a basis for research and development tax incentives. UK R&D tax credit schemes are complex but can be incredibly lucrative. The merged RDEC expenditure credit operates above the line, so it can boost EBITDA - a compounding bonus when seeking investment. There are pitfalls to the scheme though, so get professional help before claiming.

Building resilient supply chains

Traditionally the supply chain has been a target for cost reduction, but now the emphasis is on building resilience.

Food and Drink manufacturers should already be thinking about how to overcome product cost and availability challenges over the next 18 months, which look certain because of this year's global fertiliser restrictions.

Events in the Middle East are also pushing up fuel prices, which also will affect the cost of goods imported from overseas.

Some of these challenges may be mitigated by turning to UK-based suppliers, but it is important to note that national yields are increasingly unreliable due to climate change.

Ultimately, the key for UK manufacturers will be to diversify widely. A broader network of suppliers both at home and abroad can allow businesses to access new products and ingredients faster, increase speed to market compared to those with smaller, fixed supply chains, and increased resilience will boost the attractiveness of a business to investors and clients alike.

Buying and selling for growth

As industry pressures grow, 2026 looks set to be a buyer's market. Strategic M&A can be an important way to create value on a range of fronts, from consolidation plays, to enabling business diversification and vertical integration to building economies of scale and securing footholds in new markets.

There are several categories seeing high levels of M&A and others attracting private equity investment. Drinks M&A with a growing emphasis on low- and no-alcohol options has been a top performer for deals, while healthy eating trends are underpinning rationale for acquisitions in protein-based, fresh and unprocessed foods.

[17] https://dieteticallyspeaking.com/how-ultra-processed-food-fear-can-fuel-anxiety-and-disordered-eating/

[18] https://www.youtube.com/shorts/1FIP_EeC8PA

A bank's view of the lending landscape

UK Corporate Loan Market: Update and Outlook

There was strong momentum in the UK corporate loan market in 2025, with volumes materially up year-on-year. Lending activity in the first quarter of 2026 was buoyant, and HSBC remains supportive of UK corporates as they navigate macroeconomic uncertainty and look for growth.

The UK corporate loan market saw strong momentum through 2025, supported by a more stable cost of capital. Major lenders, including HSBC, have been looking to grow balance sheet lending, particularly to mid-market businesses.

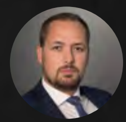
That momentum carried into the first quarter of 2026. The Bank of England's latest Credit Conditions Survey indicates that UK credit conditions remained broadly stable in Q1 2026, and lenders are continuing to report the availability of credit for corporates.

Credit availability remains healthy, but the market is operating against a more complex geopolitical and macroeconomic backdrop. We expect the most direct implications for UK corporate borrowing to include:

- **Higher working capital requirements:** Some UK corporates, particularly in import-reliant and energy-intensive sectors like transport, manufacturing and packaging, may increase short-term drawings, but this has not yet been evident at scale.
- **Delays to capex, M&A and discretionary investment:** Discussions with corporates and advisers suggest some businesses expect to moderate capital expenditure, discretionary spend and hiring over the next 12 months. In some cases, sale processes have been paused.
- **Potential for higher interest rates:** This could further dampen demand for incremental borrowing, particularly if inflationary pressures persist.

To date, we have not seen a material change in banks' appetite to lend, and competition remains strong for high-quality corporates. We do, however, expect increased demand for backstop and liquidity facilities as businesses manage near-term maturities amid uncertainty around funding windows.

HSBC continues to support key growth sectors across the UK economy, including Food & Beverage, and was named Best Bank for Corporates in the UK by Euromoney for the second consecutive year in 2025.



Richard Lewis
Head of Debt Finance Origination
HSBC UK

HSBC UK

M&A focuses on liquid assets

BDO has completed 250+ deals in Food and Drink in the last 5 years

Dealmakers are thirsty for drinks deals. Drinks companies have been the biggest category for recent industry mergers and acquisitions, making up 19% of deals in 2025, increasing to 31% in the first four months of 2026.

Drinks company M&A is increasingly focusing on booming new low- and no-alcohol categories amid rising levels of abstinence in younger consumers. Notable deals include Cawston Press buying two alcohol-free beer businesses and AG Barr plc acquiring Fentimans for £38m in February and Frobishers Juices for £13m in March.

Growing interest in low- and no-alcohol options reflects a trend towards healthier eating and drinking, which has also triggered deals including Danone's acquisition of nutrition manufacturer Huel and Unilever's purchase of US greens supplement leader Grüns.

Elsewhere, private equity firm Mid Europa Partners undertook a secondary buyout of Polish isotonic and vitamin drinks manufacturer Oshee, taking over the business from Innova Capital with a view to expanding across Western European markets including the UK.[19]

Californian supplements brand Metagenics, backed by middle-market investment firm Gryphon Investors, bought UK water-based probiotics company Symprove from London-based private equity house bd-capital.[20]

However, not all is rosy. Recent transactions have included two companies that were saved from administration. One of these was BrewDog, formerly a poster child for craft beers with a £1bn valuation, which was rescued by American cannabis-to-wellness business Tilray Brands for £33m in March.[21]

The other distressed sale also had a craft beer flavour as the Great British Drinks Company, a specially created entity linked to the family owners of Paramount Retail Group, paid £4.5m to buy Yorkshire-based Black Sheep Brewery, saving 145 jobs.[22]

The deals come after a healthy 9% year-on-year growth in transactions last year, making 2025 the best 12 months for dealmaking in the last eight years.

[19] https://innovacap.com/press/innova-capital-sells-its-stake-in-oshee

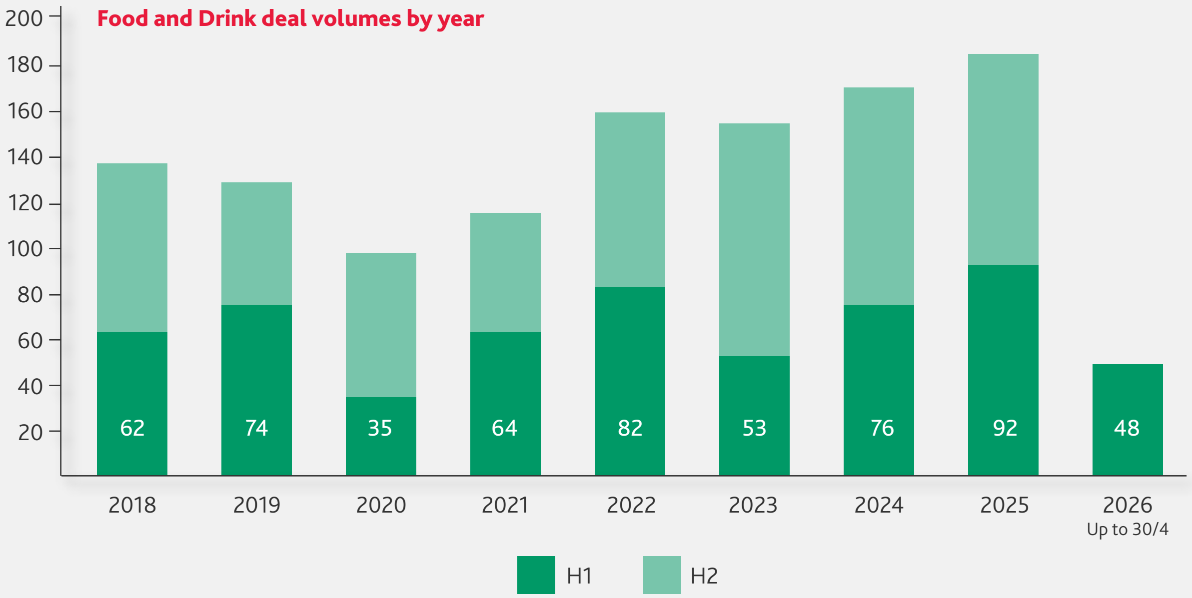
[20] https://www.gryphon-inv.com/news/gryphon-investors-backed-metagenics-acquires-probiotic-brand-symprove/

[21] https://ir.tilray.com/news-releases/news-release-details/tilray-brands-acquires-brewdog-leading-global-craft-brand

[22] https://www.hilldickinson.com/our-view/deals/rescue-deal-for-black-sheep-brewery/

M&A focuses on liquid assets

Continued



A June 2026 global M&A dealmakers sentiment survey by SS&C Intralinks found deals and overall financing activity were expected to fall by 2% in the UK over the next 12 months, and worldwide consumer and leisure sector dealmaking was forecast to shrink by 3%.

Big corporates could look to add growth brands to their portfolios and gain efficiencies by marketing through established distribution channels. The takeover of bread maker Hovis by Associated British Foods is a consolidation play that could be repeated as traditional bread manufacturers are hit by healthy eating and anti-ultra processed food (UPF) trends.[23]

Private equity, too, could be on the lookout for opportunities to professionalise smaller players with high growth potential. Dealmakers will be closely watching consumer trends like the growing aversion to UPFs.

A September 2025 report from Innova Market Insights found half of UK consumers are buying more foods that are fresh and unprocessed,[24] putting pressure on UPF manufacturers to pivot, diversify or face diminishing returns.

UPF concerns are also having an impact on retailer strategies. Marks & Spencer has prominently published stripped-back ingredient lists on its products after facing criticism over ingredients from the Real Bread Campaign.[25]

Increasing demand for protein-based foods will favour low-cost, high-protein sources like chicken and high-value supplement makers like Huel, which achieved a tech-style unicorn valuation when it was picked up by Danone.[26]

Few companies will have the capacity to spend this much to get ahead of consumer trends, but those that do not invest risk being left behind as input costs rise and buying habits change.

More than ever, it will be important for Food and Drink companies to get professional advice when weighing up M&A against internal capital investment as a way of acquiring the capabilities they need to overcome an uncertain future.

[23] https://www.bbc.com/news/articles/cz0223559gzo

[24] https://www.innovamarketinsights.com/trends/ultra-processed-food-trends-in-the-uk/

[25] https://packagingeurope.com/news/mands-takes-on-ultra-processed-foods-with-reduced-ingredients-on-front-labels/13803.article

[26] https://www.thetimes.com/business/companies-markets/article/british-meal-shake-brand-huel-sold-to-danone-1-billion-deal-00k98m65h

Are you ahead of regulation?

An upcoming sanitary and phytosanitary strategic partnership agreement between the UK and the European Union is great news for Food & Drink manufacturers. It will tear down post-Brexit export barriers and make trading with Europe cheaper and easier - but there's a catch for some companies.

Since leaving the Union's regulatory umbrella, the UK Food Standards Agency has encouraged inward investment by supporting the research and development of novel foods like those including cannabinoids and hemp-derived ingredients, insect-based foods, botanical extracts and plant-based ingredients. This agreement puts those investments in jeopardy.

Under the proposals, UK regulation would once more be aligned with Europe's more conservative rules, meaning products currently seeking FSA approval may fail to be signed off. Failure to gain FSA approval is always a hazard in food and drink innovation, but more areas could be affected once the agreement is in place.

What Food and Drink companies need to do will depend on the nature of their new products and the extent to which they have already committed resources to research and development. The impact of the agreement will not be uniform across the sector: businesses operating in areas where UK and EU rules have remained broadly aligned may see little practical change, while those pursuing novel food approvals in categories where the FSA has taken a more permissive approach than its European counterparts may face significant regulatory uncertainty.

For some rules there has been scant divergence with the EU. Even for new formulations pending FSA approval, some commentators have suggested that the UK government may seek a carve-out in the agreement, but at present there is no way of knowing if this will be the case.

Companies that have already invested significant sums in novel foods should seek expert advice as to whether the products are likely to be affected by the agreement. Those that may be thinking of investing but have not done so yet might want to wait until the agreement takes effect, possibly in 2027.

In any case, it is important to engage with advisers over the potential impact of the changes. If alignment will require a pivot in your research and development efforts, then you need to know as soon as possible.

Rachel Lyne
Regulatory Partner
Browne Jacobson

Browne Jacobson

Walking the climate tightrope

Food and drink businesses are toeing a difficult line. Supply chains across the sector are inherently complex and increasingly fragile. Climate change is driving more frequent and severe disruptions and financial impacts are being felt across entire value chains.

In our conversations with clients and industry peers, the reality is clear. As one executive put it: "We've lost hundreds of thousands of pounds in sales. It doesn't take much for the supply chain to fail before the whole system trips."

Despite this, many organisations do not yet have a clear view of their financial exposure to climate risk across their supply chains, nor a structured approach to managing it. Even fewer are systematically embedding climate resilience into their sourcing decisions, procurement processes or policy frameworks.

Efforts to strengthen supply chain resilience are rarely coordinated across the value chain. Instead, responsibility is often devolved to individual suppliers, which can result in fragmented and reactive approaches.

Procurement functions are often proactively advancing supplier and supply chain decarbonisation through a wide range of initiatives, including awareness campaigns, training programmes, logistics transformation and commercial incentives. Yet climate adaptation and resilience remains largely absent from these efforts. This is a missed opportunity.

Across industries, we find that supply chain disruption consistently ranks among the top climate-related risks for businesses, yet it is often poorly understood by procurement teams and strategic supply chain leaders. At an operational level, however, the risks are frequently well recognised. Day-to-day operational interventions and workarounds can prevent more severe disruption, but at a cost.

Reactive measures can erode efficiency, strain supplier relationships and even inadvertently reintroduce wider sustainability risks that organisations may otherwise have under control. For example, the need to rapidly introduce a new supplier with limited time to gather evidence that the supplier has high labour standards or decarbonisation goals aligned with the companies' own values.

A strategic challenge—and opportunity

This creates a clear challenge, but also a significant opportunity. Practical, targeted actions on a larger scale can materially improve supply chain resilience and reduce financial exposure.

There are three priority actions that we see consistently delivering the greatest impact for our clients:

1. Build an integrated view of risk

Avoid assessing climate risk in isolation. Instead, embed it within existing procurement and supply chain risk management processes. Leverage readily available data and insights like:

- Supplier engagement programmes (including Scope 3 decarbonisation efforts)
- Social and labour standards monitoring
- Category and country risk profiling
- Traceability data.

This integrated approach provides a more complete and actionable understanding of the total value at risk from climate change.

2. Prioritise based on risk and value

Attempting to address every area of climate risk simultaneously is a Herculean task. Focus first on:

- Financial performance
- Operational efficiency
- Brand integrity and customer loyalty
- Key stakeholder interests.

Identify concentrations of risk and critical points of failure like rare or in-demand ingredients, large or geographically risky logistics hubs or production facilities. In parallel, assess your internal procurement strategies and policies to make sure they keep pace with change – otherwise they may be amplifying your exposure.

3. Embed targeted scenario analysis

Focused climate scenario analysis or stress testing for critical suppliers can be embedded within your existing supplier risk reviews or conducted as a standalone exercise.

Advanced tools and datasets are available, but the cost is typically only justifiable for organisations with significant dependencies or large-scale, structured supplier risk programmes. In many cases, a focused approach using freely available data will deliver sufficient insight to identify the areas of priority.

From insight to strategic advantage

For organisations with more mature approaches, initial climate risk assessments often evolve into fully-integrated procurement and supply chain strategies. Leaders in this space are implementing practices to support climate resilience, including:

- Aligning decarbonisation and resilience strategies. By supporting supplier transitions to renewable energy and lower-carbon processes, businesses can reduce their exposure to energy price volatility
- Embedding climate risk considerations into broader transformation programmes, including shifting away from just-in-time models towards flexible, adaptive networks
- Diversifying sourcing across geographies to reduce exposure to localised climate events like floods, droughts and wildfires
- Deploying real-time monitoring tools, using AI and control towers to improve response times
- Maintaining strategic stockpiles of critical inputs or building surplus capacity to absorb shocks
- Nearshoring or regionalising production to limit reliance on vulnerable global routes
- Developing sophisticated end-to-end supply chain visibility down to Scope 3 to uncover and mitigate risks in lower-tier suppliers.

A moral and commercial imperative

In a market where customer loyalty is increasingly fragile and standards grow ever higher, few consumers appreciate the vulnerability of the supply chains behind their products. When faced with price increases or shortages, " the weather" is rarely seen as a compelling explanation.

More often, it is simply a trigger to switch brands. For food and drink companies, strengthening climate resilience is therefore not only a sustainability issue, but a commercial imperative.

Ian Tarplee
Associate Director, Carbon Advisory, Sustainability Consulting,
BDO

Restructuring for growth

The UK Food and Drink manufacturing sector is no stranger to disruption, but the current cycle represents something more structural.

What began as inflationary shock has evolved into a prolonged operating reset, exposing existing fragilities in cost bases, capital structures and operating models that were previously masked by low interest rates and stable volumes.

Advisers, lenders and boards should no longer be asking whether stress exists, but how proactively it is being addressed.

Proactive restructuring

Businesses are increasingly turning to restructuring as a method of value preservation and repositioning, rather than as a last-ditch insolvency response.

Comprehensive scenario planning can assess the limits of resilience of your business and reveal areas where restructuring processes could add value and mitigate risk. Flags to watch out for include:

- Capital structures that are misaligned with post-inflation cash flows
- Shareholder reluctance to fund prolonged uncertainty
- Liquidity pressure from working capital absorption
- Loss-making products or under-utilised sites
- Covenant breaches driven by margin dilution.

Early, value-led intervention

These danger signs are not necessarily fatal. Distress is often financial or structural rather than holistic, and the strongest businesses use it as an opportunity for early, value-led intervention. Businesses that engage early with advisers, lenders and stakeholders can keep their options open. Those that delay often find their choices narrowing rapidly.

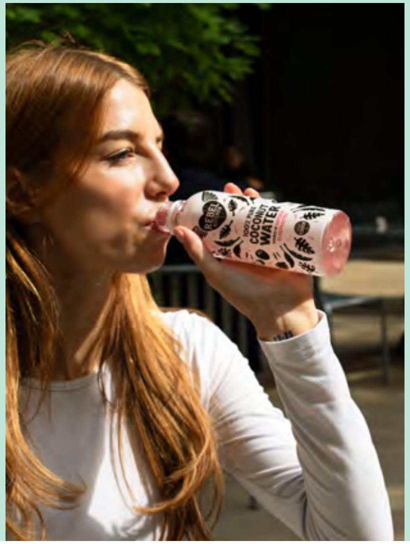
Timely engagements with specialist advisers begin with short-term cash protection, including accelerated working capital management, cost deferral, covenant resets and funding runway extension. This allows more stable liquidity and creates time to address any deeper structural issues, because financial fixes alone are rarely sufficient. Many Food and Drink manufacturers are now reshaping their operations as a core element of value-led restructuring, by:

- Consolidating or closing underperforming sites
- Resizing overhead and central functions
- Investing in innovation and automation
- Exiting loss-making product lines
- Simplifying product portfolios.

Businesses that act early, supported by experienced restructuring advisers, retain control and can create genuine recovery pathways. Using a financial restructure to release working capital and create operational efficiency allows ambitious and agile firms to pivot and continue to stay ahead of the market. Those that delay risk having fewer options and are more likely to see stress harden into insolvency.

Embedding AI at Nurture Brands

At Nurture Brands, AI is less about replacing judgment and more about accelerating the time-consuming work that underpins it.



A core use case has been in transactional At Nurture Brands, AI is less about replacing judgment and more about accelerating the time-consuming work that underpins it.

A core use case for us has been in transactional and legal documentation. Rather than starting from a blank page or manually cross-referencing edits, AI provides a structured first draft and highlights inconsistencies or areas of risk, allowing me to focus on commercial and legal nuance rather than formatting or repetition.

For example, I've used AI to draft a heads of terms, updated asset sale agreement and board resolutions for a recent transaction, as well as to sense check changes and amendments as we have worked through the terms of the deal.

In a similar vein, it has been a useful guide and sense check through complex UK employment processes like redundancies and transfer of undertakings regulations.

It's not a substitute for decision making, but it helps frame the steps, risks and documentation required, making the process more efficient and better informed.

AI has also played a role in maintaining our compliance. Updating employment contracts in line with evolving UK legislation can be laborious, but AI streamlines this by identifying relevant changes and suggesting updated clauses.

Likewise, for technical queries, particularly around food legislation, trading standards and advertising standards, it serves as a quick reference point, enabling faster initial assessments before deeper analysis is needed.

Then, ultimately, we will make the decision based on our interpretation and the level of risk involved.

Beyond legal and compliance functions, AI is also used for internal content generation. It excels at producing first drafts of long, structured documents like updates to company policies, various internal communications and basic monthly reporting.

These drafts are rarely ready to go, but they provide a strong starting point that can be refined and tailored.

In marketing and consumer insight, AI has proven useful by analysing large volumes of product reviews and social media commentary and extracting common themes around customer satisfaction and pain points.

This helps us identify patterns that might not be immediately obvious and informs our new product development and brand messaging. It is also used for copywriting across websites and social media, as well as for generating creative concepts for social media platforms based on current online trends.

AI tools can quickly scan what is gaining traction and propose campaign ideas, giving us a range of ideas to springboard from insight to execution.

Conversely, we deliberately avoid using AI directly with our customer communications as there is no substitute for a good commercial manager and maintaining a direct and authentic relationship.

Instead, AI operates behind the scenes, enhancing internal efficiency rather than replacing customer-facing interactions and decision making.

There are also areas where adoption is still evolving. We have not yet integrated AI into supply chain planning or forecasting, which has many variables at play, though this remains a future opportunity.

However, we have begun using AI to develop an online, cloud-based version of our internal demand modelling tool. Overall, AI at work is best described as a force multiplier. It accelerates long, repetitive and technical groundwork, freeing up time for higher-value thinking, decision-making and creativity.

The irony is that while AI can generate much of the structure, its real value lies in how it enables better human decisions.

Adam Draper
Managing Director
Nurture Brands

Action areas for leadership teams

Staying still is not an option in 2026. But what should Food and Drink leaders do to survive and thrive in the current climate?

1 Rely on data-led decisions

As data collection methods and analytics advance, businesses should understand the areas that investment in data will add the most value. For some, this will be increasing agility in product development, for others it will be minimising cost and disruption.

Investing in sophisticated forecasting could enable agile businesses to spot trends early and pivot product development or optimise NPD processes. Adding a machine learning layer over manufacturing processes can identify bottlenecks before they appear, predict equipment failures or reduce overfilling and waste. Intelligent supply chain modelling can anticipate price spikes, allowing for contingencies to be put in place. With margins and reserves under threat, it is important to minimise the likelihood of strategic mistakes and wasted investments.

2 Seek early intervention

Today's complex risk landscape demands careful and constant evaluation of business risks. Headline-grabbing issues like fuel costs often divert attention, but longstanding threats like cybersecurity and labour shortages can have huge impacts on the bottom line over a much longer period of time.

Any signs of stress should be a reason to engage with specialist advisers. If you are in any doubt of your business' resilience, evaluate your debt and equity refinancing options early, restructure your balance sheets and check bank covenants so that you are prepared to meet any challenges head on.

3 Embedding secure and scalable AI for future growth

Opportunities to recover rising costs through pricing are being squeezed by reduced consumer spending power, but investment in AI is becoming seen as a non-negotiable for future-focused businesses.

The next generation of AI applications extends far beyond automating repetitive administration and reducing cost. Manufacturers are beginning to deploy AI agents that support decision-making across procurement, production and logistics, creating digital twins that simulate factory and supply chain scenarios and autonomous systems capable of identifying risks and initiating actions with minimal human input.

There can be huge data challenges in scaling up AI systems - poorly-managed data creates poor quality outcomes, and even small data hiccups are magnified by AI. To make the most of the opportunities, businesses will need to have strict data governance, hygiene, and security in place now to be able to react and build when developments come along. Businesses will also have to take a proactive approach to minimise the risk of costs spiralling out of control – Silicon Valley giants Uber spent their entire 2026 token budget in four months[27]. Having controls and systems in place ahead of scaling use throughout a business is becoming paramount.

In an environment defined by cost volatility, labour constraints and increasingly complex consumer demand, the winners will be those that can use AI efficiently to fundamentally redesign how value is created across their business.

[27] https://fortune.com/2026/05/26/uber-coo-ai-spending-tokens-claude-code/

4 Engage in proactive value creation

New product development and process innovation can play a role in preserving and improving value in 2026. In many cases there could be valuable tax reliefs available, so understanding your current and future R&D processes could bring much-needed capital. When looking to maximise the value and robustness of your R&D tax claims, it will pay to seek professional advice – the system can be notoriously complex.

On a larger scale, the opportunities presented for mergers and acquisitions in a challenging market can be substantial. With more distressed assets on the market, businesses looking to divest and investors looking for businesses with potential, leaders with an eye on growth and healthy financials could take an advantage.

Expert support when you need it most

Uncertain times give rise to plenty of questions. Should you refinance or try to cut costs and release capital? Are you confident in your data on what products or sites could be diluting your business value? Are your investments funding growth or subsidising complexity?

When contemplating vital strategic moves, such as exiting from a private equity portfolio, refinancing or investing into new products and processes, it is important to seek expert advice - and few firms can deliver better advice than BDO.

Our clients range from entrepreneurial and privately owned businesses to publicly listed companies, in the UK and internationally.

Mergers and acquisitions

When you are looking to complete a deal, fundraising for growth or preparing to enter the capital markets, you need advisers who understand your business, industry and market.

Working with our team of specialists, you will have access to the full range of corporate finance services from M&A strategy, planning and due diligence through to post-deal value creation. We've advised on deals across UK manufacturing, from the sale of SK Foods and Zorba Foods to the Compleat Food Group, provided IPO services to Applied Nutrition PLC and worked on complex refinancing for Highland Spring.

Global risk advisory

Our Risk Advisory Services specialists offer global assurance and advisory services over the quality of internal control, risk and governance frameworks.

Applying our enterprise risk management and risk transformation approach, we can tailor an end-to-end risk service to your vision, objectives and levels of risk management maturity. As food supply chains become more interconnected, competitive advantage increasingly comes from anticipating risk rather than simply managing its consequences. Whether you are looking for best-in-class outsourced risk solutions or want to enhance and improve your existing systems, our globally connected team can bring specialist manufacturing and supply chain experience to your business.

Digital transformation

BDO Digital delivers the business-led, technology-driven outcomes underpinning successful and worthwhile digital transformation.

Innovative technologies like agentic AI present food and drink manufacturers with strategic opportunities for operational enhancement and acceleration. Balancing enthusiasm and adoption with the inherent challenges around risk, implementation, and measurable ROI, however, often results in stalled progress.

Our digital experts work with you to test, prove, and strengthen your security and data maturity, establishing robust foundations for secure, scalable transformation. As a result, manufacturers can drive measurable impact and maximise the value of technology investment.

Restructuring your business

If your business is facing financial or operational difficulties or needs to unlock capital, then our commercially minded team can work with your management and stakeholders to identify the best route forward and make it a reality.

We can help you find efficiencies, improve business performance and preserve value. We are represented on every lender panel in the UK, so are best placed to mediate with stakeholders, and in our team of 21 partners and 200 staff are sector specialists, working with businesses like yours in the food and drink and manufacturing industries every day.

▶ For more on how BDO can help your Food and Drink manufacturing business, visit www.bdo.co.uk/en-gb/industries/manufacturing/food-and-drink.

Your UK Food and Drink specialists

Ece Akser
Partner
R&D Tax
+44 (0)7341 121826
ece.akser@bdo.co.uk

Roger Buckley
Partner
Corporate Finance
+44 (0)7966 373914
roger.buckley@bdo.co.uk

Matthew Clark
Partner
Customs, Excise and International Trade Services
+44 (0)7795 924577
matthew.clark@bdo.co.uk

Cindy Hrkalovic
Partner
Head of Food and Drink
+44 (0)7966 229696
cindy.s.hrkalovic@bdo.co.uk

Andrew Souyave
Partner
Digital
+44 (0)7503 670011
andrew.souyave@bdo.co.uk

Andrew Waudby
Managing Director
Business Restructuring
+44 (0)7870 564361
andrew.waudby@bdo.co.uk

Steve Talbot
Partner
Employment Tax
+44 (0)7814 092431
steve.talbot@bdo.co.uk

Ian Tarplee
Associate Director
Carbon Advisory, Sustainability Consulting
+44 (0)7443 735634
ian.tarplee@bdo.co.uk

FOR MORE INFORMATION:

CINDY HRKALOVIC
+44 (0)7966 229 696
cindy.s.hrkalovic@bdo.co.uk

www.bdo.co.uk

26-04-4358