

By John Giles, Divisional Director of Promar International



The summer of 2021 has been one full of change in the UK fresh produce sector. We entered it, still feeling the impacts of Brexit. It took a long time to sort out the basis of how we would finally leave the EU. While the final deal with no tariffs or quotas on trade between the UK and the now EU-27 was probably as good as one might expect, the impact of what is referred to as “trade friction” (in effect the non-tariff barriers we face), has caused major problems.

Brexit - far from over

The UK is not a big exporter to the rest of the EU for fresh produce, but is a significant importer of a wide range of fruits and vegetables from the likes of Holland, France, Italy and Spain in particular. This trade friction has manifested itself in delays at points of entry. While the produce sector has probably escaped reasonably lightly in this respect, there have been much bigger issues with trade in meat, dairy and seafood products. There are though still some technical issues to be resolved in areas such as potatoes and seed potatoes, too.

This situation will change again in October of this year when new health certificates for imports into the UK will be required. The UK is still currently considering what, if any, changes to make to its own certification requirements between now and October. Customs import declarations are still required, but may now be deferred until January 2022, when border control posts will begin to operate. The full roll out of this, though, will not be completed until March 2022, with the final stage (relating to risk-based inspections on arrival) operating from January 2022.

As such, this is a bit of a moveable feast and there is still the issue of trade between the British mainland, Northern Ireland and the Republic of Ireland – this has far wider consequences than just the physical movement of food products.

From pandemic to pingdemic - labour supply under pressure

The roll out of the COVID vaccination programme has largely been regarded as a success, with almost 90% of the adult population having been “jabbed”, but the system that alerts people as to whether they have been in contact with someone who has been carrying an

infection - done by an app alert system - has caused huge issues.

The so called “pingdemic” has seen hundreds of thousands of people forced to self-isolate - when maybe they didn’t need to - for up to 10 days at a time. Some have been “pinged” more than once. This has seen fresh produce companies struggle at times to staff packhouse operations as well as be able to carry out a full range of distribution services.

The issue of labour in the horticultural sector is nothing new, of course, and certainly not unique to the UK. It has been talked about for some 15 - 20 years (maybe even more?), but we have relied on a ready supply of relatively cheap migrant labour to deal with this. The situation post Brexit appears to have fundamentally changed. Interest in robotic planting and picking technology has, as a result, probably never been higher.

Beyond this, there is now also a structural shortage of lorry drivers to physically move fresh produce around the UK. This has all been exacerbated by Brexit which has seen thousands of HGV drivers - often from Eastern Europe - return home. Antisocial hours and low pay have been cited as other reasons behind this shortage. As a result, in some cases stores have been unable to stock a full range of produce.

This has seen supermarkets and distribution companies in the UK offer to increase wages in order to try and resolve the situation. There are concerns though that the situation might get worse before it gets better and could already impact on the supply of fresh produce in the build up to the all-important Christmas period.

And oh, the weather...

And then we have the great British summer. Or rather, a lack of it. This has dampened demand (literally!) for seasonal produce such as soft fruit and hampered the forward production of other crops such as top fruit.

As one leading produce player told me recently: *“we don’t have enough staff to pick and pack the fruit, we don’t have enough lorry drivers to move it around and the weather has been on the whole awful. I have never known it to be such a chaotic time”*.

At the point of sale...

At the same time, there have been significant developments taking place at the point of sale for produce companies to contend with. Not least, large private equity firms have been targeting UK supermarkets, which they view as undervalued and attractive due to their large property portfolios.

As an example, in the last few months, Morrisons - one of the so-called Big 4 retailers in the UK - has been subject to a takeover bid by a US based private equity-backed consortium. The initial offer has been recently increased to £6.7 billion following speculation of a rival offer. Morrisons is the UK's fourth largest UK supermarket chain, with nearly 500 outlets across the UK and more than 110,000 staff.

What now are the chances of copycat bids for the other two large quoted UK supermarket chains, Tesco and J Sainsbury? Industry analysts suggest that Tesco might be simply too big for a private equity raider - its current market capitalisation is nearly £18 billion, nearly three times the size of the Morrisons deal. And at Sainsbury's there is a potential blocking shareholder in the shape of Qatar Holdings, which still owns 15% of the chain. If the Qataris can be brought on side though, Sainsbury's could, perhaps, become a takeover target.

Online driving international growth

Marks & Spencer has launched an expansive range of its food products on worldwide export platform, the British Corner Shop, enabling customers in over 150 countries to buy M&S lines for the first time. The range is made up of over 800 M&S products. Through British Corner Shop's export platform, customers from the US to Australia will be able to purchase a tailored M&S food range for the first time - and have it at their door in one to three days. The launch is part of the M&S commitment to accelerating international growth through online channels.

The Russians are coming!

At the other end of the market, the Russian discount chain, Mere, has announced plans to open over 300 stores in the UK within the next eight to ten years. They have said it will undercut Lidl and Aldi by 20 - 30% and is set to scale its UK presence once processes have been established. The first four UK stores will open this year mainly in the north of England.

Under its business model, Mere's suppliers are required to deliver directly to stores, and pay only for stock that is sold. Food will be displayed on pallets in stores of about 10,000 sq. ft, including a walk-in chiller. Each store will have a maximum of 1,200 SKUs across ambient, chilled and frozen, and just eight staff, including about four cashiers and three handling deliveries.

The grocery retail sector analyst group, IGD, predicts that the unprecedented 8.5% growth in 2020 will slow to 1.7% in 2021 and then to 0.9% in 2022, as shoppers economise and the eating out industry reclaims sales. This sharp decline will be followed by a period of modest

recovery, that will see the UK retail food and grocery market grow by 8% to £229 billion over the period between 2021 - 2026.

Recovery will be driven by rising employment levels, growing consumer confidence, economic recovery and the new channels and opportunities created by the disruption of COVID-19, such as quick commerce. The discount chains - led by Aldi and Lidl - will continue to grow, as well the convenience store sector. Supermarket and hypermarket growth will be patchier.

Discounters help set the pace

Lidl, which employs nearly 26,000 staff in the UK, will invest £1.3 billion this year and next with a plan to open about 50 more new stores in 2021 to add to the 800 it already operates - and will shift to a new British headquarters in south-west London and build a new warehouse in Luton. The company also plans to install 300 electric car charging points in its car parks by 2022 and is installing solar panels on new freehold stores.

Aldi has also confirmed plans to open more than 450 new stores in the UK - and as such has released a “wish list” of locations for the expansion. In total, the chain says it wants to open more than 400 shops in England, 30 in Wales and 20 in Scotland. Aldi currently has over 900 shops in the UK and opened its first stores here in 1990.

What does this all add up to?

So, what does this all mean for produce suppliers? Several things stand out:

- the supply chain has been put under huge pressure over the summer months - at times, it has shown how resilient the UK supply chain has become, but at other times, how fragile it can be
- the UK market, despite all its challenges - still looks an attractive market with US, German and Russian companies all looking to invest
- the impact of Brexit - this isn't over yet
- the UK market will continue to recover from the impact of COVID but the routes to market continue to change
- interest in horti-tech products, technologies and services has never been higher but the proof will, as always, “still be in the pudding”
- concerns over environmental and sustainability issues are intensifying, with ambitious targets across the supply chain to reduce carbon emissions. It will be interesting to see what comes out of the COP 26 annual UN climate change conference to be held in

Scotland in November

Where this all leads time will tell, of course, but one thing is for sure - the summer of 2021 is one we won't forget in a hurry. Produce companies both in the UK and internationally will need to be more resilient and better prepared for what looks to be changing market, regulatory and environmental landscape, than ever before.

John is a Divisional Director with Promar International, the consulting arm of Genus plc. He has worked on fresh produce assignment in some 60 markets around the world, including the EU, US, NZ, SA, Chile, Peru, India, China and the Gulf region. He is the current President of the Chartered Institute of Marketing's Food & Agricultural Group and the Chair of the annual City Food Lecture.