



# Bank of Ireland Sectors Team Food and Drink 2020 Insights / Outlook 2021

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**Bank of  
Ireland**

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# 2020 Insights

Despite the challenges of COVID-19 and Brexit, the Irish Food & Drink sector remained resilient through 2020. Looking to 2021 while the spectre of a no-deal Brexit has passed, significant non-tariff barriers are now a feature of trade with our largest trading partner. Industry focus will remain on diversifying into new markets, while adapting to both the opportunities and challenges associated with Brexit disruption.

## Summary

The industry entered 2020 in a strong position, with significant export growth and broadening horizons as new markets opened in Asia. COVID-19 began to affect exports to China from February and proceeded to affect exports to the UK and Continental Europe from the end of March. While sales into the retail channel increased, foodservice dependent companies and sectors were badly hit. As an essential industry, food processors remained open during even the strictest lockdowns and they were at the forefront of adapting business models to the new physical distancing protocols. Despite these challenges exports declined a modest 2% compared to 2019, demonstrating the resilience of the sector. From a sectoral perspective, Dairy continued to be the standout performer. Growth in Pig and Sheep meat export, compensated for a more difficult year for Beef in the meat sector. However the drinks sector faced particular challenges, largely driven by a fall in US whiskey exports.

## Key Sector Trends in 2020

### Change from Foodservice to Retail

The primary effect of COVID-19 on the sector was to switch consumer demand from Foodservice channels into Retail. Bord Bia figures to the end of November 2020 indicated a 48% decline in the value of food and drink purchases by the Foodservice sector domestically. As food and drink supply chains have become increasingly more complex and specialised, it was difficult for foodservice oriented suppliers to change their product to fit retail. For many, this challenged their overall business performance. Others managed to innovate and open new routes to market via their own website or by cooperating with new partners. However, even within the growing retail channel, impulse and grab and go categories were abandoned in favour of long life take home staples. As a result of these new customer buying patterns, supermarkets reduced their range significantly with artisan producers in particular impacted by the reduced range.

### Market Volatility

The rapid change of demand from foodservice to retail and the ripple effect as COVID-19 moved from China to the West caused significant market volatility. This resulted in a decline in most commodity prices - creating issues for primary producers and processors, but giving some relief to secondary processors. Commodity prices increased as supply tightened towards the back end of year with the World Bank Food Price Index up by 3%.

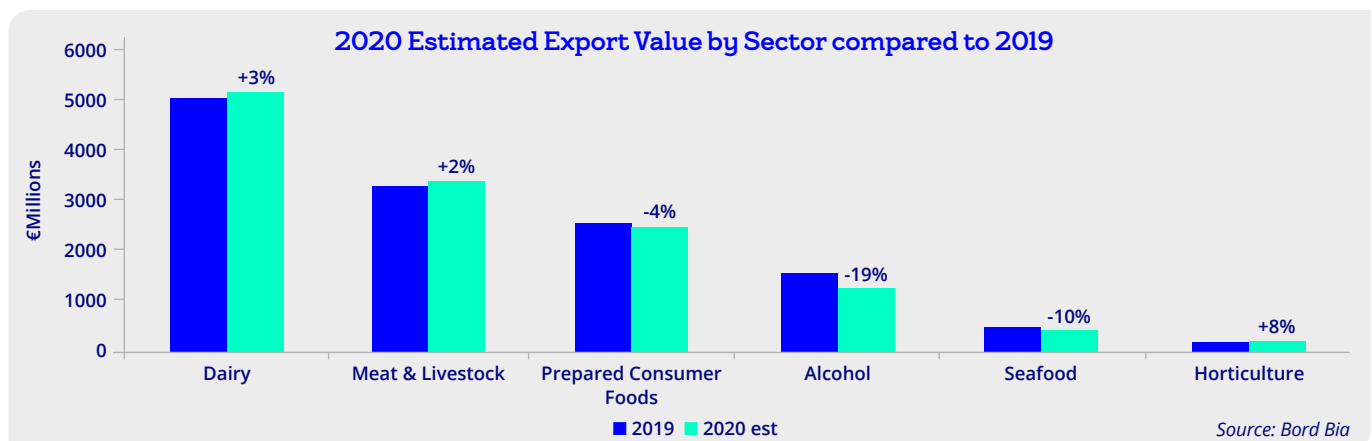
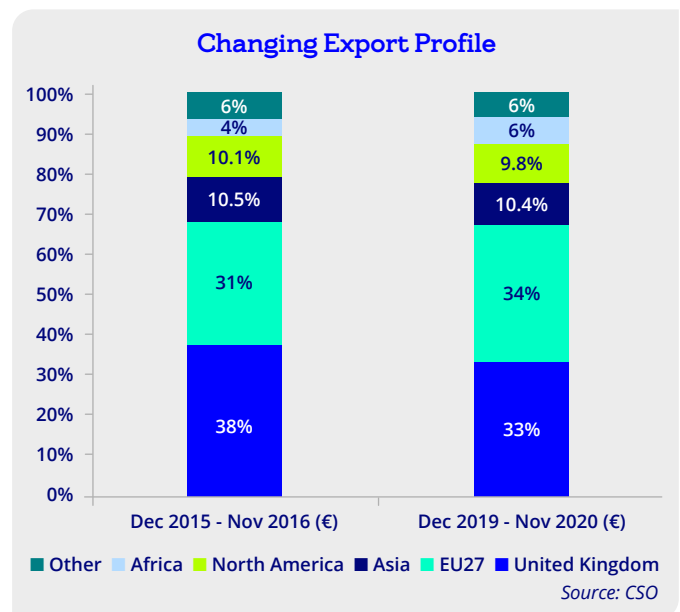
## Operational and Supply Chain Complexity

From a logistical and operational perspective 2020 was particularly challenging. The changing consumer demand patterns due to lockdown resulted in rapidly shifting production forecasts. Furthermore existing processes had to be adapted to ensure the safety of employees from COVID-19 infection. Inward and outward supply chains became more costly and subject to delays. The effects of COVID-19 were exacerbated by the need of both producers and retailers to stockpile in advance of the Brexit deadline. Producers adapted to this complex environment by simplifying ranges, delaying new product development and carrying increased inventory. Significant efforts were made in building resilience into inward supply chains through analysing the roster of ingredients suppliers and to this end preparations made for Brexit and rapid reaction to the effects of COVID-19 were largely complementary.

## Changing Export Profile

The UK remains our single biggest export market at 33%, however exports to Non EU/UK markets are becoming more important. For example, exports to Africa reached €883m in 2020, rapid growth since 2016.

Exports to the USA were significantly impacted by the decline in Irish whiskey sales due to the lockdown.



## Key Sector Activity

Brexit and COVID-19 had a dampening effect on sector investment activity with 54% of respondents to Bord Bia's 2020 Readiness Radar survey claiming that Brexit had a negative effect on their investment plans in 2020.

Development of warehousing space was a key feature of sector activity. In some cases this was related to the growing need for whiskey maturation facilities. However, the majority related to the in housing of storage. Progressive companies identified cost savings and operational improvements facilitated by development of their own warehouse space, particularly given growing pressure on warehouse space in the country as a whole.

Food and Drink companies also invested to open up new market segments, both geographically and at product level. This was a particular feature of the dairy industry which sought to take advantage of the growing global demand for dairy along with mitigating the effects of Brexit.



## Outlook 2021

### Summary

While COVID-19 related market disruption is likely to continue, the outlook for 2021 is broadly positive as the threat of a no deal Brexit has been removed and the industry can move forward with greater confidence.

### Recovery in Food Service and continued COVID-19 turbulence

The recovery in foodservice demand is critical to improvement in industry margins. Bord Bia forecasts an increase in Foodservice demand for food and drink of between 16-41% in 2021 in Ireland. Much depends on the rollout of the vaccine and the ability of governments to lift restrictions. 2021 is unlikely to recover to 2019 levels so food companies will need to continue to focus on retail and direct to consumer options. At a global level, we are unlikely to see the full control of COVID-19 in 2021 and so rolling lockdowns may be a feature of international trade in the short to medium term. This may lead to ongoing disruption, therefore, food organisations will continue to build resilience into their operating models.



### Adapting to the reality of Brexit

The new Trade Cooperation Agreement signed between the UK and EU following the UK departure from the EU is the single biggest change to trading conditions on this island since we joined the EU. And like all significant disrupters it brings both problems and opportunities. This especially applies to trade in Food and Drink where the supply chains between the two countries have been intrinsically linked for decades. In terms of food and drink, the UK accounts for 33% of our exports and we account for 17% of theirs. The majority of our food and drink exports to the UK will be tariff free which will give confidence to companies with a significant UK business. While non-tariff barriers will be challenging, many of our exporters are already familiar with these procedures via their Asian or US trade experience. Producers here are more likely to be affected by supply of goods from the UK, which in many cases due to their composition may be affected by rules of origin and encounter tariffs. We are likely to see additional migration of the supply chain to focus on imports directly from the continent. The increase in direct freight links to the continent has been welcomed by the industry due to concerns with delays on the landbridge, although it is likely to make freight to the continent more expensive than before Brexit. It will take time to assess how attractive the landbridge will remain to Irish exporters and importers, as post Brexit systems bed down and transit times become more predictable. On an annual basis the UK exports circa £10bn of food and drink to the EU outside of Ireland and this business will be the focus for aggressive competition by Irish producers, particularly in the areas of short shelf life food, where non-tariff trade barriers will be more significant.

### Market Diversification

While the UK and Europe will continue to be our main trading blocks, the key challenge for 2021 will be to grow business in the rapidly growing markets of Asia and Africa. The potential resumption of in person trade shows later in 2021 should help companies open up business with new customers in these markets. China is likely to be a key focus for the pig meat sector; with a significant upside on Beef sales should it reopen for Irish processors.

## Online Growth

2020 proved that there was significant consumer demand for online food and drink deliveries - from existing operators in the grocery sector, from tech focused companies such as Amazon and from niche direct to consumer operators. This is set to continue for 2021 and opens new channels and competitors for food and drink companies.

## Sustainability

COVID-19 exposed some of the vulnerability in global supply chains. There was a significant move by consumers towards buying local in 2020 and this “gastro nationalism” is set to continue in 2021. Food and drink companies will continue to innovate around sustainability in order to gain a competitive advantage. This will include full audit of the supply chain to ensure resource use is optimised responsibly and a greater focus on the full waste cycle including both food and non-food waste.



## Funding Activity - What we expect to see

We expect to see an increase in activity on the back of the clarity provided by the Trade and Cooperation Agreement between the EU and UK, as companies begin to have more confidence in their UK income streams. To mitigate Brexit related difficulties, the government has secured an additional €1bn in EU funding and has already announced measures such as a €100M fund administered by Enterprise Ireland to support innovation in the dairy and meat industries. This will spur new investments in these sectors.

As UK distribution hubs encounter issues with distribution onto the Irish market, we expect to see additional links created with continental producers and customers, leading to a continued need for domestic warehouse space, driving a need for commercial property related loans.

COVID-19 also highlighted some of the problems with longer supply chains; Ireland has a particularly poor balance of trade in fruit and vegetables. There is government help available to address this issue, which should drive investment in the emerging area of hydroponic/vertical growing systems. Issues related to COVID-19 social distancing will also increase the focus on automation, particularly in meat plants.

The focus on sustainability is likely to drive continued capital investment around renewable energy and waste reuse.

As businesses review their post COVID-19 models, we expect an increasing level of consolidation via mergers and acquisitions as the industry adjusts to new demand and cost profiles.

## Bank of Ireland

Bank of Ireland is committed to supporting Ireland's largest indigenous Industry. This is amply demonstrated by our ongoing support of the Blas Na hEireann food quality awards and our deep sectoral knowledge. COVID-19 has highlighted the necessity for companies to have an in market, long term, stable, finance partner that can offer timely support, dedicated relationship managers and an understanding of the cyclical nature of the various sub sectors.



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Roisin joined Bank of Ireland in 2019 as Head of the Food & Drink Sector, in order to support the Bank's business in this strong, indigenous industry. She brings an in depth understanding of the Food & Drink sector to the role due to her wealth of experience in both Ireland and the UK across a number of companies and product categories. She has held a number of senior commercial positions in both indigenous and multinational consumer goods companies including PepsiCo, Valeo Foods, Carbery, Boyne Valley and Robert Roberts Ltd. Her knowledge base spans end to end product development, from procurement and new product development, to branding, marketing and sales achievement. Her most recent role was in the Sports Nutrition Industry. Roisin holds an undergraduate Law Degree from UCC, an MBA from Warwick Business School and Post Graduate qualifications in Digital Business and Digital Marketing.

#### Sources:

Bord Bia, CSO, World Bank Data, UK Food & Drink Federation

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