

# Any way you slice and dice it

**Ron Alalouff examines the prospects of the fruit and vegetable processing industry, drawing on market intelligence that was published before the current Covid-19 pandemic.**

**T**he fruit and vegetable processing industry is wide-ranging and covers everything from minimally processed produce, such as peeled, washed and cut fruit and vegetables, through tinned products to more heavily processed products, such as jams, nut butters and pickles.

According to research published by IBISWorld in August 2019, revenue for the sector was expected to have reached £5 billion by 2019-20, representing a compound annual growth rate of 1.9% over the last five years. Strong demand on the back of rising health consciousness, increasing disposable income and increasing exports due to a weak pound has contributed to this growth, but intense competition among retailers has caused profit margins to fall from 2015-16. The average industry profit margin was expected to be 7.6% in 2019-20.

The fruit and vegetable processing industry's revenue is closely tied to farm-gate prices, which fell in 2015-16 after seeing 10 years of growth, but returned to growth in 2017-18.

### Key drivers

Demand for processed fruit and vegetables is heavily influenced by supermarkets, which are the main source of the sector's revenue. Demand from supermarkets was expected to rise in 2019-20, as an aggressive price war has encouraged consumers to take advantage of low prices. Strong competition between supermarkets, however, heightened by the expansion of discount retailers such as Aldi and Lidl, has resulted in downward pressure on suppliers' prices. As a consequence there was, according to one report, a 60% increase in food suppliers close to going out of business in 2016-18.

The IBISWorld report says that the market has undergone "major structural changes" over the past decade. While ten years ago, the processing of fruit and vegetables mostly involved freezing, drying, canning or preserving produce to extend its shelf life, today's industry focuses more on washing, peeling, cutting and packing produce, as time-poor consumers are willing to pay a premium for the convenience of ready-to-use products. Prepared and packaged vegetables and mixtures were expected to account for 40.9% of industry revenue in 2019-20, with prepared and packaged fruit representing an additional 19% of revenue. The rising proportion of these types of product has benefitted the industry, as margins on them tend to be higher.

Consumers have also become increasingly interested in the provenance of their food, with many willing to pay a premium for locally produced goods. This has led to the emergence of numerous smaller producers, with the result that the number of businesses in the sector was projected to rise at a compound annual rate of 2.7% for the five years through to 2019-20. In recent years there has also been a rise in demand for healthy snacks, with more producers focussing on improving their products' nutritional value.

**“Consumers are expected to become even more time-poor over the coming five-years...This will result in increasing demand for convenience products and processed fruit and vegetables...”**

The UK is highly dependent on imports of fruit and vegetables, says the report, with UK vegetable production making up 53% of domestic supply in 2018 and fruit production accounting for just 16% of supply. The weak pound has seen an increase in input costs which, while contributing to increased turnover, has reduced margins by processors having to absorb some of the cost increases.

> While prepared and packaged vegetables and mixtures, like bagged salads, are the most successful, tinned products are the preferred option for waste-conscious consumers.

**Outlook**

The fruit and vegetable processing industry is expected to grow modestly over the next five years, with rising farm-gate prices contributing to revenue growth. But the report expects the supermarket price war to intensify, leading to a further squeeze on profits – especially for businesses that produce own-label products.

Industry revenue is forecast to grow at a compound annual rate of 1.4% to reach £5.3 billion by 2024-25. Export revenue is expected to grow at a compound annual rate of 5.9%, while imports are expected to rise at an annual rate of 4.2% over the same period. However, the introduction of trade barriers could raise input costs and limit revenue growth for processors.

The number of establishments and enterprises operating in the industry is expected to continue to grow modestly over the next five years – at 2.3% and 2.5% respectively – with changing consumer tastes expected to create niche markets. Employment is expected to grow at a rate of 1.9% in the five years to 2024-25.

Consumers are expected to become even more time-poor over the coming five years, with disposable incomes expected to rise. This will result in increasing demand for convenience products and processed fruit and vegetables generally, as well as for

premium products such as nut butters and preserves, though the increased demand for these may be limited by concerns about sugar levels.

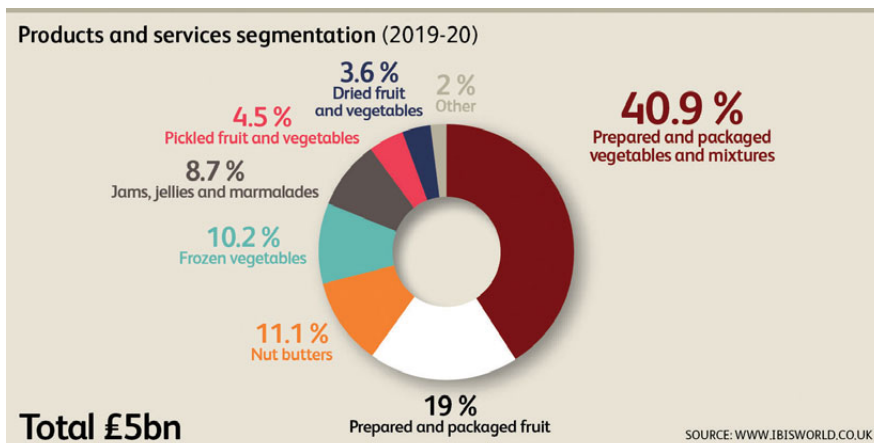
According to the report, any limitations on the free movement of labour as a result of Brexit – without an immigration policy that allows for seasonal workers – will significantly affect the industry in the likely shape of increased purchase costs of and reduced domestic supply from UK growers.

While around 22% of fruit and vegetables remain uneaten each year, according to Defra estimates, tinned or frozen products are less likely to be wasted, making them appealing to waste-conscious consumers. Sectors that account for higher levels of waste, such as bagged salads, may have to reduce waste by adapting their processes or improving preservation, in order to appeal to those consumers. Such measures – together with their involvement in sustainability and waste-reduction schemes such as Courtauld 2025 – may increase participants' costs in the short term, but in the longer term is expected to improve their public image and therefore have a positive effect on sales.

**Competitive landscape**

In 2019-20, the four largest companies in the sector were expected to generate 17.8% of the industry's revenue, indicating a low level of market concentration. The most successful products are prepared and packaged salads and vegetables. But as supermarkets outsource the packaging of fruits and vegetables, this sector of the industry is becoming more fragmented, with many operators specialising in particular areas. In 2018, more than 70% of firms in the fruit and vegetable processing industry had fewer than 10 employees, according to the ONS. Growth for smaller firms over the next five years is expected to be limited, so the level of concentration is likely to remain low.

Putting the report into context, it's likely that because of its essential role, most of the food industry in the UK will not be as badly affected in the short-term by the coronavirus pandemic as many other areas of the economy.







Retail sales are likely to stay resilient during the lockdown, while foodservice will continue to be hit hard. But when the likely downturn takes hold post-lockdown, it's more uncertain how the market will be affected. Like most sectors in the UK, the prospects for the fruit and vegetable processing industry can only come down to intelligent guesswork at the moment.

### Labour issues

Travel restrictions on overseas workers has seen a record number of people apply for fruit and vegetable harvesting jobs, according to job site TotalJobs.

As a result of the current Covid-19 crisis, the UK has faced a shortage of fruit and vegetable pickers.

TotalJobs says it saw 50,000 searches for farming jobs in one week as well as an 83% increase in applications for agricultural roles in the past month.

Searches for roles such as 'fruit picker' had increased by 338% and 'farm worker' also saw a 107% rise in searches.

As reported by the BBC indeed.co.uk also said that there had been interest in fruit picker jobs, with an increase of more than 6,000% in searches for these roles between the 18th March and the 1st April.

Speaking last month, managing director of Regency Purchasing Group, Alex Demetriou, warned of a potential labour shortage for UK growers during the Covid-19 pandemic.

“The potential impact on the availability of migrant workers is by far the most significant challenge facing our UK growers this year.

“The bottom line is that a shortage in labour may well lead to crops not being picked in time and therefore wasted as well as a potential under-supply for the UK and export market. This is likely to leave a large gap in the labour required – and no real solution to fill it.”

The competition for fruit pickers has increased since the arrival of the virus and as this issue went to press there were media reports that labour was being lost to Germany and Romania who were offering higher wages than the UK.

**Fruit & Vegetable Processing in the UK is available from IBISWorld: [ibisworld.co.uk](http://ibisworld.co.uk)**