# UNLOCKING VALUE ON THE ROAD TO NET ZERO

FOOD AND DRINK MANUFACTURING

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# FOREWORD

**Food and drink manufacturers across the UK are being challenged to take action to reduce their carbon footprint in support of the Government's net zero emissions by 2050 goal. But are SMEs in the sector ready to meet the net zero challenge?**

When it comes to decarbonisation strategies, some food and drink businesses are one step ahead, having already invested in eco-friendly products, green packaging solutions, waste minimisation strategies and energy-efficiency initiatives. However, others are starting from scratch, with some SME s finding there is little support or guidance available to them.

Research conducted by Make UK found that there is still a considerable amount of work to do in this area, with 30% of manufacturing firms yet to make an individual or team within their organisation accountable for the development and delivery of an environmental and social governance (ESG) strategy. In addition, 50% of firms are not measuring their sustainability performance.

Help is at hand, in the form of the Food and Drink Federation's 'Achieving Net Zero' handbook, launched at COP26. This guidance is especially geared to helping businesses that are at an early stage of developing a decarbonisation strategy. The handbook highlights the ambitious targets set by some leading food and drink businesses to achieve net zero by 2040, or 2035 in the case of Sainsbury's. It also provides guidance in areas such as ingredients, packaging, manufacturing, distribution & storage and customers & consumers.

In a separate move, the Environment Agency is leading an initiative to standardise metrics used to measure the environmental performance of the food and drink sector. With extensive industry support, the initiative is designed to raise understanding of environmental performance in areas such as carbon reduction and resource efficiency.

Some SME food and drink businesses may be concerned about the cost of carbon reduction strategies, but there are plenty of opportunities to add value too. As well as unlocking opportunities to secure valuable tax relief and other incentives, investing in sustainability can help to boost a firm's brand reputation, making it more attractive to potential investors, customers and employees. Businesses will need access to professional support, but for those that are prepared to lead the way to net zero, the commercial rewards could be significant.

25% **of a company's market value is its reputation**, according to the World Economic Forum

**Caroline Milton,**
**Audit Partner and Head of Manufacturing at Menzies LLP**

# WHY INVEST IN SUSTAINABILITY?

There are many reasons why food and drink businesses should invest in sustainability.

Green investments can add real value to the business in all sorts of ways. Here are just some of them:

### Consumer pulling power

Consumers are increasingly choosing to buy branded goods that reflect their sustainability and ethical ideals. This is impacting buying decisions across food and drink supply chains, from farm to fork. Food manufacturers and processors can strengthen their consumer pulling power by taking a more carbon-conscious approach to sourcing ingredients and investing in carbon reduction strategies alongside ensuring these actions are promoted through branding and marketing strategies.

### Boosting your employer brand

Attracting and retaining skilled workers has become a critical issue for many food and drink manufacturers. Putting in place a plan to reduce the business' carbon footprint and demonstrate a commitment to Environmental and Social Governance (ESG) principles can help employers to stand out in their markets.

### Unlocking supply chain opportunities

Investing in sustainability and carbon reduction strategies can help to unlock supply chain opportunities, particularly when tendering for contracts. Customers expect a commitment to transparency, but they increasingly prefer to work with organisations that have a good understanding of the whole-life carbon footprint of their products and are taking steps to reduce it.

**60%**

**of the carbon footprint of a manufacturing company is in the supply chain**

*Source: McKinsey & Company*

### Funding for growth

If a business owner is pursuing a sale or seeking an injection of funding to further their growth plans, demonstrating a strong commitment to sustainability and a track record of carbon reduction successes can have a positive influence. Private equity firms are guided by the preferences of their investors and many now consider ethical and environmental criteria when making investment decisions.

**67%**

**of 16-24 year old workers in the UK say sustainability credentials are important to them when choosing a company to work for**

*Source: Anthesis, April 2021*

### Future-proofing your business plan

Business owners and larger SMEs in the food and drink industry need to know that their business models are fit for the future and investment in sustainability and decarbonisation strategies are a prerequisite. Placing these strategies at the centre of their long-term, strategic plans will create opportunities to enhance business value.

### Making the most of tax reliefs and allowances

When investing in new facilities or processes, manufacturers often don't realise how much tax relief they can claim and, by the time they seek professional advice, opportunities may have been missed. By involving a trusted adviser at an early stage, it is possible to optimise R&D tax relief claims and/or make the most of capital allowances to enhance cashflow.

# THE ESG FACTOR

Environmental and social governance (ESG) is an increasingly important factor in consumer, customer, employee and investor decision making. Food and drink businesses that take the lead and commit to reducing carbon emissions and focus on having a positive social impact, stand to gain a competitive advantage.

In the longer term, those businesses that have taken a proactive approach to reducing their operational carbon footprint and developing net zero products are also more likely to attract interest from potential investors, such as private equity firms or from  trade buyers.

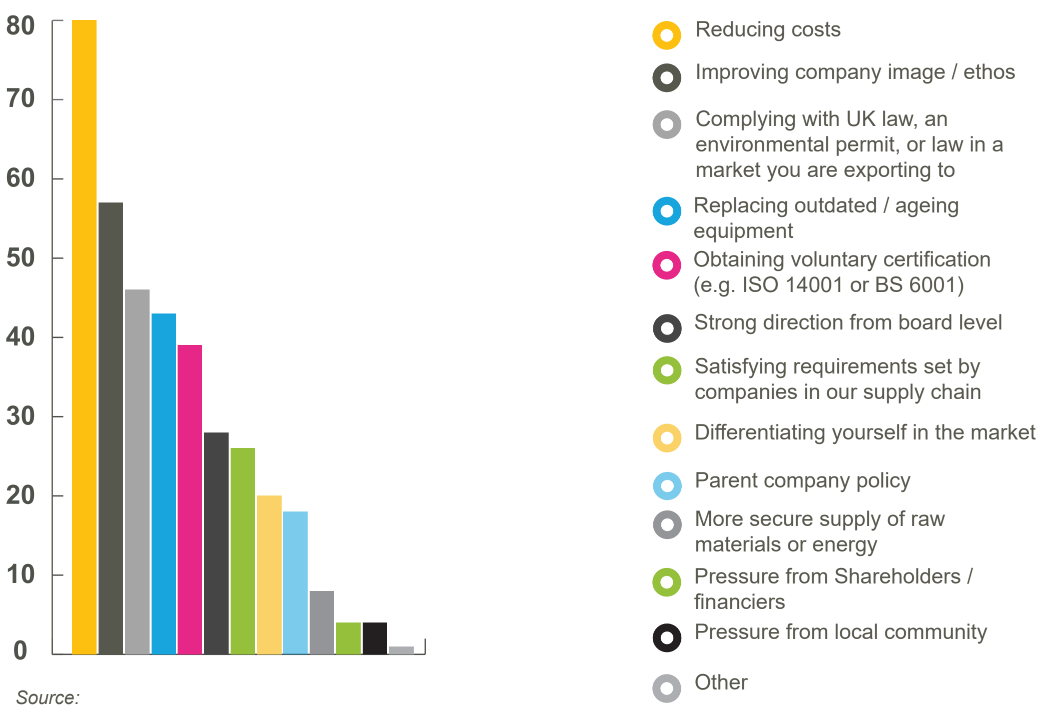
> *Businesses that can demonstrate their return on investment in sustainability will secure a clear stakeholder advantage. To achieve this, they need a strategic plan – a road map, to guide their decisions about where, when, and how to invest. Taking this approach will help them to secure maximum value for their investments, benefiting both the environment and the business.*
>
> **Caroline Milton, Head of Manufacturing at Menzies LLP**

## The net zero challenge for the UK's food and drink industry

The food and drink industry is the UK's largest manufacturing sector and it will therefore have an important role to play in delivering the UK's net zero by 2050 target. However, the complexity of food and drink supply chains mean that measuring and reducing carbon emissions will be challenging.

It has been estimated that greenhouse gas emissions from the UK's food supply chain are equivalent to 2.2 tonnes of $CO_2$ per person per year.

### Driver for the last change / investment that achieved a positive environmental outcome (%)




*Source: https://www.makeuk.org/insights/reports/manufacturing-stepping-up-to-the-sustainability-challenge*

# NET ZERO PLANNING: MAKING IT PAY

**Investing in sustainability and profitability don't have to be mutually exclusive; businesses can profit while delivering against their ESG goals.**

Some food and drink manufacturers have already started out on their net zero journeys, but not all know if they are getting the best value from their investments. Regardless of whether the business sells direct to the consumer or to another business, the journey starts by putting in place a bespoke sustainability or net zero plan. This plan should be rigorously tested to ensure it is viable and capable of delivering long-term value. It should also be underpinned by robust metrics, so the business can measure success by reducing the whole-life carbon footprint of its products.

Before implementing a new net zero plan, decision makers need to evaluate financial forecasts so they can assess the cash flow impact of any planned investments, and operational changes to the company's systems and processes. Coupling knowledge of the past with strong financial forecasts will help a business in assessing the viability of market opportunities, and react accordingly.

Here are some tips for making investments in sustainability pay:

## TAX PLANNING OPPORTUNITIES

### TIMING

If the business is planning to invest in new plant and machinery, it may be worth bringing forward investment plans to take advantage of both the **capital allowances 130% super-deduction** for plant and machinery (available until 31 March 2023) and the current £1 million limit for the Annual Investment Allowance where assets do not qualify for the 130% super-deduction. The AIA allowance limit is now available until the end of March 2023.

### HAVE YOU TAKEN ADVANTAGE OF TAX RELIEF SCHEMES?

The definition of R & D is much broader than many businesses imagine. The scope of the R & D tax relief was extended in the Autumn Budget to include spending on cloud computing and data costs. Innovative manufacturers can obtain an enhanced deduction of up to 130%, that equates to **tax relief of up to c.44% of the qualifying expenditure** for profitable companies and where the investment leads to a loss there is scope to reclaim a cash repayment of circa 33% of the R & D spend. Even if the business is innovating in collaboration with a third party, such as a customer or supplier, it may still be possible to qualify for relief. Seeking advice at an early stage can help businesses to leverage optimum value from the scheme.

### PLASTIC PACKAGING TAX

The plastics packaging tax, which is due to be introduced in April 2022, will apply at a rate of £200 per metric tonne for UK businesses that manufacture or import 10 tonnes of plastic packaging per year. The tax will apply to packaging that contains more plastic by weight than any other single material and the definition of plastic includes biodegradable and compostable plastics. On the other hand, **packaging that contains at least 30% recycled plastic is exempt**. Manufacturers should consider the impact this new tax could have on their business model and make adjustments where needed.

# BUSINESS PLANNING AND GROWTH STRATEGIES

## DO YOU HAVE ACCESS TO AN ACCURATE FINANCIAL MODEL?

This is the most reliable way to work out the payback period of any planned investment in carbon reduction, waste minimisation or other sustainability initiatives. The ‘cost of capital’ and resources, such as employee time spent on initiatives, should be taken into account. With a model in place, the business will have a much clearer idea of how a planned investment will impact cashflow and the value of the business over the short, medium and long term. Once an accurate financial model has been produced, it should be kept under review and updated as necessary.

## ARE YOU FOCUSED ON GENERATING REVENUE?

With any investment strategy, securing some financial quick wins at an early stage can help to secure Board-level buy in and demonstrate that a healthy return on investment is achievable. When planning a waste minimisation strategy for example, a good place to start might be to explore opportunities to monetise waste by selling unwanted by-products to another business. There are many examples of such ingenuity within the food and drink sector.

## COULD YOU DIVERSIFY TO MEET A NEW OR GROWING AREA OF MARKET DEMAND?

NEW

During the pandemic, many food and drink businesses learned that adapting to change can bring opportunities to boost revenues and profit. Staying responsive to market changes in recovery can open up opportunities to diversify. For example, a number of meat producers have capitalised on vegan and health trends by producing meat-free and plant-based alternatives alongside their standard ranges.

## PEOPLE MANAGEMENT

Responding to the net zero emissions challenge is an opportunity for food and drink producers and manufacturers to strengthen their employer brand. Businesses with a strong sustainability story to tell are more attractive to employees who often prefer to work for companies that are aiming to have a positive impact on the environment and society. People management strategies to boost employer brands include building employee involvement, expanding communication, both internally and externally – to give workers a wider sense of purpose.

## IS GRANT FUNDING AN OPTION?

Grant funding is available to support manufacturers in making specific sustainability investments. These tend to be focused geographically. Manufacturers should seek advice on the options available to their business through industry and funding organisations, such as Local Enterprise Partnerships (LEPs), in their region, or using the government website here.

## COULD YOU IMPROVE EFFICIENCY BY REDUCING COSTS?

With any business investment strategy, it is important to look for opportunities to trim costs to ensure processes are operating efficiently from the start. When devising a net zero or sustainability plan, manufacturers should seek the help of employees in identifying cost reduction opportunities that can reap significant rewards, particularly if implemented at an early stage.

# CASE STUDY:
# PORKY WHITES LIMITED

## The challenge

Premium pork product manufacturer, Porky Whites, wanted to step up its sustainability performance, while keeping costs under control. This would involve making green improvements across all areas of the business' operations, while keeping an eye on their cash management and making the most of opportunities to secure tax reliefs and other incentives.

As well as needing to improve the energy efficiency of its factories, the business was coming under pressure from customers to implement green packaging solutions and carbon neutral processes, while still making up to six deliveries per week. As a fledgling company, without access to significant cash reserves, these changes needed to be achieved in a cost-efficient way.

## The approach

Through close collaboration with packaging producers, Porky Whites was able to develop innovative greener packaging solutions, that also maintained the integrity and shelf-life of its meat products. This was achieved by switching to using a 95% seascrape RPET, reducing the weight of the tray and cutting the amount of cardboard used in its sleeve for the outer pack.

By partnering with ethical suppliers that shared the business' sustainability vision, Porky Whites was also successful in cutting its waste. For example, it switched to receiving meat deliveries in a single reusable container, rather than several cardboard boxes. The business also worked with supermarkets to optimise its delivery schedule, enabling it to significantly reduce its carbon footprint. Through increased investment in automation, Porky Whites was able to reduce its electricity consumption, improving the energy efficiency of its factories.

Throughout its green transformation, Menzies LLP's advisers supported Porky Whites in unlocking value from its decarbonisation strategy. This included providing valuable advice on making the most of tax reliefs and allowances, identifying green grants and structuring the company in the best way, to facilitate its continued growth.

## THE OUTCOME

By strengthening its carbon reduction strategy across all areas of its business model, Porky Whites has delivered tangible sustainability improvements across the following areas:

- More recyclable content used within its packaging – **Virgin materials usage has been reduced by over 60%** since November 2019
- Improved its energy efficiency – **Energy efficiency of factories has improved by 35%** since November 2019
- Reduced its waste – A **60% reduction in the business' waste** since November 2019
- Carpooling scheme introduced – Porky Whites' new carpooling scheme encourages the **workforce to reduce their carbon footprint by sharing journeys** to and from work
- **Reduced carbon footprint – Between 35 – 40% since November 2019**

# MEET THE EXPERTS

For more information about the food and drink manufacturing sector or the impact of sustainability on your business, please contact one of our experts below:

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**Menzies Sustainability Statement**

As we reflect on our own ambitions, we strive to go beyond being mere service providers and pursue and inspire change, for a more sustainable world where the responsibility is shared among everyone. Our Brighter Thinking approach constantly challenges us to re-evaluate, reassess and reconsider, so that we are prepared to master the growing demand of our stakeholders. A demand for more action; to help tackle pressing societal and environmental issues.

As part of our 'Better Place to Work' strategy we have developed agile working policies and continue to promote health and wellbeing on a regular basis. We are looking at ways to reduce our carbon footprint and be more digitally-focused. Diversity and inclusion continue to be a key focus for the firm. We are committed to making changes to bring about the outcomes that we have in our Vision.

We also have our own charitable foundation, the Menzies Foundation. Each office nominates a local charity each year and we are partnering with Macmillan this year as our firmwide charity. We have also recently held our first volunteering week, 'Make A Difference Week,' which is centred on people and the planet, offering all staff a day to volunteer in any way that gives back to the community.

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