



# **Adapt, Transform, Succeed** The UK Productivity Challenge

**SOCIETAL IMPACT REPORT 2023**

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**ANDY LEESER**  
CHIEF TRANSFORMATION  
OFFICER AND CHAIR OF  
THE IFT

## From the Chair

Welcome to the fourth social impact report published by The Institute for Turnaround. Our first was published amid the uncertain early months of the Covid-19 pandemic, in what business leaders hoped was a once-in-a-generation disruption.

But there has been no let-up – since 2020 businesses have faced a rollercoaster of disruption. Lockdowns created problems of stockpiles of goods and debts. On re-opening, pent-up demand crashed supply chains and, along with Russia's invasion of Ukraine, stoked inflation and interest rate rises – pushing both to levels not seen in two decades or more.

High inflation, in particular in energy and food, that precipitated a cost-of-living crisis in the UK has put pressure on the consumer. All of these factors have been exacerbated by a very tight labour market and, combined with the post-pandemic 'missing worker syndrome', it is clear that employment costs are rising. Taken together with the increased cost of debt, UK businesses have been hit from all sides.

The pressure is showing in the insolvency rate, which rose 27% in June 2023 compared with a year earlier, taking it to the highest level since the 2008-9 financial crisis. And the human cost of these statistics became all too clear when high street chain Wilco went into administration in August, putting 12,000 jobs at risk.

Against this backdrop, it is not surprising that the turnaround directors **The IFT** represents are forecasting higher demand for their services in the next year. By seeking support early, directors give their companies the best chance of survival and this will safeguard jobs, protect shareholder value, and contribute positively to the UK economy. ▀

“ By seeking support early, directors give their companies the best chance of survival.





**MILLY CAMLEY**  
CEO, THE IFT

In 2023's difficult economic climate, the work of our members has never been more important or relevant. ”

## From the CEO

When a company goes under, the loss is widely felt. First and foremost, by the people who worked for the business, whose livelihoods are on the line. Second, by the local community of which the firm is a part. Finally, by creditors and investors, who stand to lose some or all of their investment.

It is worth stating that some business failures, however painful, are inevitable. It is a sign of economic vitality when dynamic, innovative firms displace businesses which no longer have a viable business model. Who would go to Blockbuster when they can stream movies on Netflix?

But many failing businesses do in fact have a viable business offering. Sometimes good management teams find themselves struggling due to bad luck or highly leveraged balance sheets that looked viable pre-pandemic. Sometimes poor choices, controls, governance or management are the culprits. These stressed but viable firms are the ones that members of **The IFT** support.

That support starts with a turnaround – to put the company back on a stable financial footing. Ideally, it will be followed by a full operational transformation that enables long-term success.

Our members' increasing emphasis on transformation is reflected in **The IFT's** strapline: Transform, Adapt, Succeed. And we feature one business that has been on this turnaround and transformation journey: Willerby, a manufacturer of holiday, lodge and park homes, that went from uneven profitability to market leader with a full order book and a clear growth path for the future.

In 2023's difficult economic climate, the work of our members has never been more important or relevant. Last year, our members saved an estimated 55,000 jobs, and protected £2.6bn in shareholder value. In the next 6-12 months most are forecasting a busier period, as more firms struggle with escalating challenges, including availability of affordable credit after over a decade of easy money.

There are lots of tools our members can deploy to help companies regain their vitality. In this report, we highlight Restructuring Plans (RPs), introduced through legislation in 2020, which are beginning to show real promise as a turnaround tool. RPs are company-initiated, allowing them to retain greater control through the challenges of a restructuring.

As CEO of **The IFT**, I am really proud of the work our members do, which supports not just the companies themselves, but their employees, local communities and the wider economy. This report shines a light on some of that valuable work. ◀

# Executive Summary

The rollcall of crises to hit UK plc has not abated. After Brexit came Covid, labour and supply chain disruptions, swiftly followed by an energy crisis and severe inflationary pressures triggered by Russia's war in Ukraine.

An extended period of cheap borrowing resulted in interest rates going up faster, and possibly further, than might otherwise have been necessary. Suddenly, companies that had been forced to take on more debt during Covid are facing sharply higher costs to service their debts.

It is hardly surprising that company insolvencies are significantly higher in 2023 than last year, a trend that is expected to continue. Companies that are stressed or distressed should remember that not all is lost: the UK has significant turnaround

expertise, and a range of tools to help stressed companies get back on their feet – but they need to seek them out before it is too late.

In this latest survey, the turnaround and transformation professionals represented by **The IFT** highlight the current and coming challenges faced by the UK's businesses. ◀

The UK has significant turnaround expertise, and a range of tools to help stressed companies get back on their feet.

**55K** 

**Estimated jobs saved** in 2022-23

**1** Members of **The IFT** saved an estimated 55,000 jobs in 2022-23

Independent **IFT** members continued to save jobs. The estimated 55,000 jobs saved marked a return to pre-pandemic levels, after several years at a heightened rate as the impact of Covid put higher numbers of jobs at risk. Combined with corporate **IFT** members, an estimated 148,000 jobs were saved in 2022-23.

**£2.6 billion** 

**Added Shareholder Value** in 2023

**2** **IFT** members helped add £2.6 billion in shareholder value

**IFT** members helped UK companies increase shareholder value by an estimated £2.6 billion in 2023. Again, this was a return to pre-pandemic levels, after two years at a heightened level as Covid impacts worked their way through corporate UK.

**90%** 

Growth in **demand for turnaround management** services

**3** **IFT** members report higher demand for turnaround management

Demand for turnaround management services continues to grow among **The IFT's** membership. Over 90% are busier in 2023 than in 2022, and over 95% expect more turnaround activity in the next 12 months than in the last, with demand in Q4 2023 expected to be sharply higher.

**77%**   
**Strong resistance** among distressed companies to turnaround support

**4** **Heads in the sand: companies continue to resist early turnaround support**

This year's survey showed continued strong resistance among distressed companies to turnaround support. Over three quarters (77%) of **IFT** members reported cultural/psychological resistance to external advice as the most common reason that companies didn't seek support. Two thirds (66%) also reported a lack of understanding of the role of turnaround professionals.



# 54%

of companies **do not know they are in trouble until it's too late**

- 5** Over half of stressed companies don't know they are in trouble until it is too late

**IFT** professionals reported that over half (54%) of companies they are called in to assist are simply unaware that they are in trouble until it is too late. Qualitative interviews suggests that a lack of good quality MI and an underperforming Finance function can leave management in the dark. However, a tendency to optimism over realism can be just as damaging.



# Retail

saw largest increase in distressed companies in the last year

- 6** Retail sector sees biggest growth in distressed companies

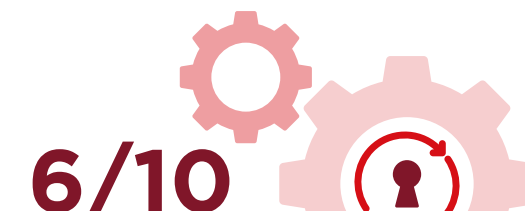
The retail sector saw the largest increase in distressed companies in the last year, and was the third most common sector seeking turnaround support. The manufacturing and construction sectors were the top two sectors providing work for turnaround professionals, both of which saw an increase in distressed companies over the period. Turnaround experts expect these three sectors to lead demand for turnaround over the next 12 months.

# 7-15%

rise in stressed companies across most of the UK

- 7** Distress increased in every area of the UK, bar the Isle of Man

The number of distressed companies grew between Q2 22 and Q2 23 in all areas of the UK, bar the Isle of Man. The South East and London led for the absolute number of distressed companies for the second year running, reflecting the economic dominance of these regions. The rise in stressed companies in London, however, was just 1%, compared with 7-15% across most of the UK.



# 6/10

report strategic change and business transformation is key for turnaround

- 8** 6 in 10 turnaround advisers report business transformation as a key focus

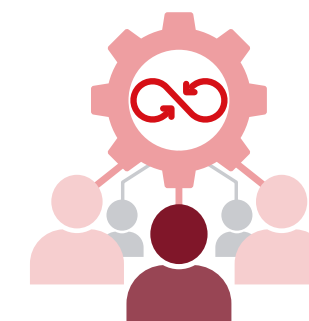
While turnaround projects typically require an adviser to focus on short-term survival, some 6 in 10 projects in the last year sought help transforming their businesses in response to the current economic and operating conditions. This included helping boards create strategic change and business transformation.

Turnaround advisors report that over half of companies are simply unaware that they are in trouble until it is too late.



- 9** Credit squeeze adds to inflationary and labour challenges in 2023

After more than a decade of rock bottom interest rates, rapid rate rises mean that the availability of affordable credit has become a key challenge for distressed but viable businesses in the next six months. Half of **IFT** members cited affordable credit as a key challenge, second only to inflation (75%) and ahead of labour supply (44%).



- 10** Changing pricing is a key focus of recent turnarounds, along with organisational structure, governance and cutting costs

Over half of **IFT** members have focused on changing a company's pricing structure in recent engagements, as companies have struggled with inflationary pressures. However, this has not detracted from the need to reform organisation structure and governance, cut costs and secure funding, which remain key areas of focus.



## ECONOMIC OUTLOOK

# A tipping point for UK plc

GEE LEFEVRE, TENEO

## UK inflationary pressures will continue to persist

Over the past three years, businesses have faced significant inflationary pressures. Although UK inflation reduced in June and July, it remains higher than most other developed economies. This is primarily due to an over-reliance on food and natural gas imports and an inflexible labour market, which has led to significant cost inflation and wage growth. While decreasing gas and food prices will likely lead to a gradual reduction in inflation, we believe that inflation will only fall to 5% this year and continue to decline throughout 2024.

Longer-term inflation remains a real risk. A rise in trade protectionism worldwide, post-Brexit workforce constraints, an ageing population, productivity challenges, and climate change are critical structural factors that will make inflation more persistent. This has led to the Bank of England recently announcing its commitment to prioritise tackling inflation over promoting economic growth, increasing the risk of recession.

## Real incomes are set to decline

Consumers are not faring much better. Wages are growing, but we expect inflation to continue to outstrip wage growth until the end of 2024, resulting in a material decline in real incomes throughout the period.

Similarly, high-interest rates risk triggering a housing crisis. Mortgage rate rises have already added over £6,000 to the average UK household mortgage bill, which will impact 5.1 million homeowners by the end of 2024. This is dampening housing demand, and could result in a decline in house prices of between 6-8%.

All told, these factors mean that the average household will have approximately £3,700 less disposable income by the end of 2023.

Despite persistent inflationary pressures, the UK economy has managed to avoid a recession, driven to a large extent by greater-than-expected levels of consumer spending. However, UK plc is now at a tipping point with, on the current trajectory, recession just around the corner.

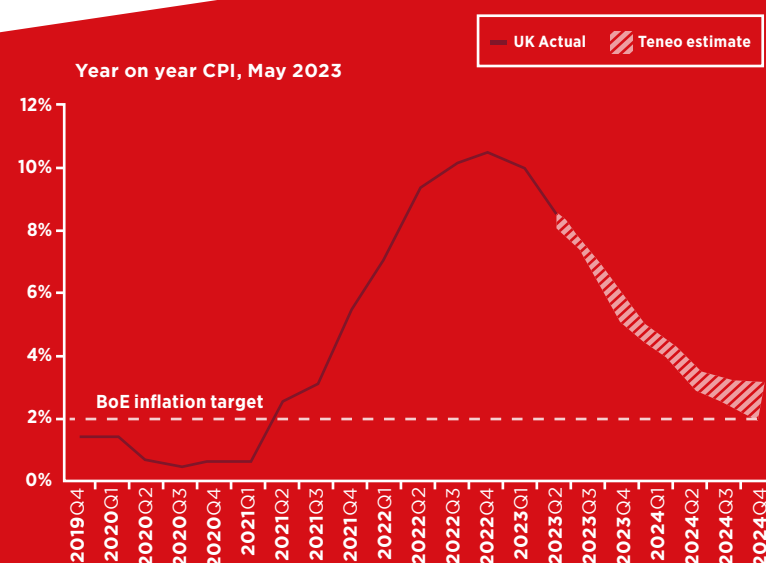
## Consumer spending behaviours are on the verge of changing

Against this backdrop, it is nothing short of extraordinary that UK consumer spending has held up thus far. Excess savings, increased use of credit, and high consumer confidence have propped up consumption over the past few months. Travel demand has bounced back, driven by pent-up demand post-pandemic.

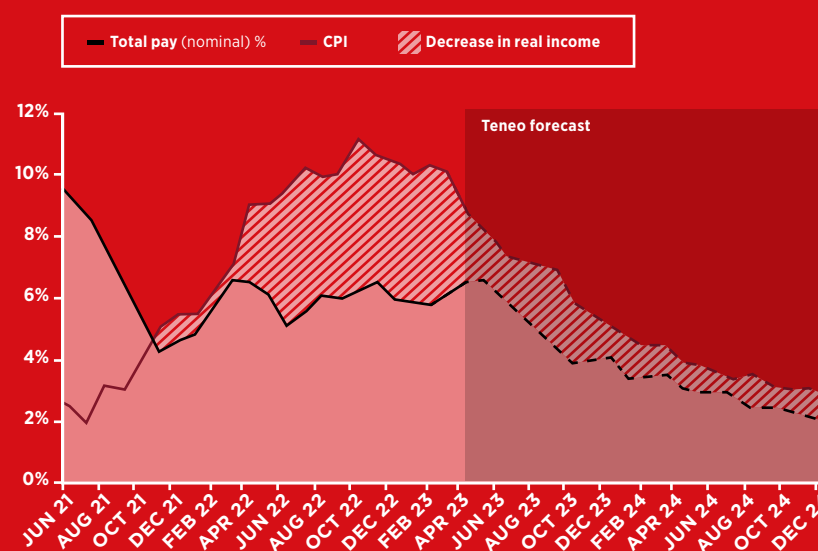
However, this spending is now likely on a cliff-edge. Consumers are beginning to rein in spending in restaurants and bars, large purchases, and holidays due to the cost-of-living crisis. Reduced spending on discretionary goods and services will hit businesses hard – and this will flow directly through to GDP.

## What this means for the UK economy

As summer ends and the colder months roll around the corner, persistent declines in real income will likely come to a head. With continued falling real income, a cooldown of consumption drivers, and a likely impending housing crisis, we believe there is a real risk that consumption will fall drastically, plunging the UK into a recession in Q4 2023 or Q1 2024. ◀

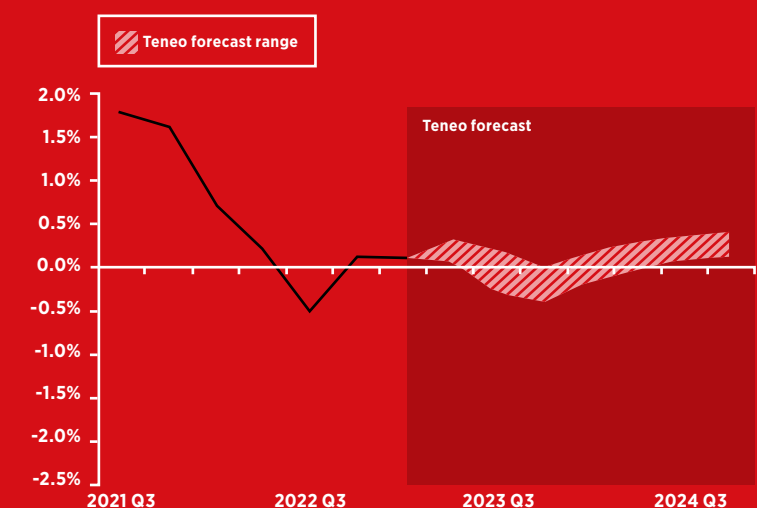


Average weekly earn rates vs. UK CPI, monthly, Jun 21 – Dec 24F



Source(s): ONS, Teneo research and analysis

Real GDP quarterly growth 2021-2024



Source(s): ONS, Teneo research and analysis



## **RETAIL AND CASUAL DINING**

VIEWPOINT  
CASE STUDY



## VIEWPOINT Retail and casual dining

# Retail parks winning battle for consumers

The end of 2022 didn't bring the contraction in retail that many expected, with better-than-anticipated consumer confidence and spending. However, the retail sector showed the sharpest rise in corporate distress between Q2 2022 and Q2 2023, reflecting a highly challenging trading environment. This includes continued fierce competition, post-Covid, between in store and online retailers. It also reflects the ongoing struggle between high streets, shopping malls and retail parks for the consumer's pound.

The demise of the Wilko discount chain has intensified concerns about the resilience of the retail sector against the broader economic challenges of high inflation, labour shortages and wage inflation, higher interest and mortgage rates. But there are opportunities too. "Retail insolvencies are up, but in these turbulent times there are lots of opportunities for retailers who are on a good financial footing to pick up brands and assets. There will be winners as well as losers," says IFT Member Lizzy Wood.

**IFT members and partners serving the retail market share some of their insights into the state of the retail market today.**

## Shopping around: stores fight back

**"The retail sector went through huge turmoil due to the pandemic, which changed how people buy," says PwC's Kien Tan.**

Retailers benefited as consumers diverted leisure and travel spending to retail – but not all retailers benefited equally. While those without an online offer suffered initially, post-pandemic, "the pendulum has swung back towards the store experience from online," says Teneo's Rebecca Leaser. This is reflected in online sales, which have settled at around a quarter of total retail sales – sharply lower than the pandemic high of almost 38% but higher than their pre-pandemic share of just below 20%<sup>1</sup>.

Some of the pandemic's online retail heroes are struggling, having prioritised top line profit growth over bottom line profit growth. "Businesses had become a bit complacent about the low cost of debt," says Rebecca Leaser. "Debt has got very expensive very quickly."

Leaser points to the fact that online retailers weren't assessing their lifetime product margins, including the high cost of online returns. Returns are three times higher online than in store, accounting for some 10% of total supply chain costs<sup>2</sup>, and this is prompting more online retailers to charge for returns, and 'bricks and clicks' firms to encourage consumers to collect in store where they may make another purchase.

## Location, location, location

Although Covid proved the relevance of physical retail, with customers returning to stores, significant challenges remain. This is particularly true for those retailers whose store portfolio leans towards high streets and shopping malls, many of whom find themselves 'over-rented' – locked into long and expensive leases. This was a major contributor to the failure of Wilko which, by some estimates, was paying £40m over the market rate a year in rent<sup>3</sup>.

By contrast, retail parks have boomed – with the divergence amply illustrated by vacancy rates. These were 13.9% on high streets in Q2 2023<sup>4</sup> according to The British Retail

Consortium, and 17.8% in shopping malls. However, the rate in retail parks was 8.1%, and on an improving trend<sup>5</sup>.

Retail parks are thriving due to their successful pivot to include hospitality and leisure alongside their retail offer. Casual dining, long a mainstay of shopping districts, has been supplemented by cinemas and what is becoming known as "competitive socialising" – activity bars with a high-tech twist – combining food and drink with a 21st century take on everything from darts and golf to bingo and ping pong. This combined retail and experiential leisure proposition provides both a great all-round customer experience and a convenience that town centres and shopping malls are struggling to match.

## KEY RETAIL STRATEGIES

- Delivering value at every price point, resulting in premium retailers like John Lewis launching value ranges
- Broadening the offer in retail parks and making them leisure destinations, combining retail with cinemas, casual dining and premium activity bars
- Capitalising on logistics capabilities and store footprint to acquire and create value from distressed lifestyle brands, with Next, for example, adding Joules and Made to its stable of brands
- Rewarding loyal customers with special prices
- Introduction of pop ups and in-person brand experiences by online retailers

<sup>1</sup> <https://www.ons.gov.uk/businessindustryandtrade/retailindustry/timeseries/j4mc/drsi>

<sup>2</sup> <https://www.cbre.co.uk/insights/local-response/the-end-of-free-returns-will-consumers-continue-to-spend-online>

<sup>3</sup> <https://www.thetimes.co.uk/article/inside-wilkos-demise-and-why-a-rescue-could-cost-70m-g0bfm3qjp>

<sup>4</sup> <https://www.thetimes.co.uk/article/d0ad0856-37ba-11ee-8810-d3022cd752ba?shareToken=1aa5399c9a4158c4f0996b03f29cbcb0>

<sup>5</sup> <https://www.knightfrank.com/research/article/2023-08-04-q2-2023-all-quiet-on-the-retail-front>

## VIEWPOINT Retail and casual dining

Meanwhile, high streets and town centre shopping malls are struggling to redefine their role in today's world. "Because of the shift to shopping online and to retail parks, fundamentally there are too many high street shops," PwC's Kien Tan believes. Some developers are addressing this through mixed use regeneration schemes. To take one example, a British Land redevelopment in Slough will reduce shop numbers, allowing space for homes, workspaces, retail, leisure and public spaces<sup>6</sup>. However, in many town centres, regeneration requires the public and private sector to work together, which adds to the complexity of trying out different formats and alternative uses. John Lewis' Chair recently called for a royal commission "to set a course to revitalise our high streets", looking among other things at the impact of post-Covid working practices, and high business rates.

Despite the pressures in high streets and town-centre shopping malls, there are some clear winners. Primark has retained its store only model, and continues to thrive. Retailers like Next have successfully combined a bricks and mortar footprint with a slick online marketplace, acquiring a large number of troubled brands – from Cath Kidston to Victoria's Secret. Next's success is, according to Kien Tan, down to "listening to its customers, and giving them what they want, when they want it, with ultimate convenience." It's a model where you can order online before 11pm and collect your shopping from a store by midday the next day.

Marks & Spencer and Frasers are doing something similar, creating a house of brands – revamping the department store model. "M&S's amazing turnaround has been driven by a focus on online, and by partnering with brands," says Lizzy Wood. The reinvigorated stores and clothing ranges, fronted by Sienna

Miller, are luring customers back in store. "We fell out of love with department stores," says Teneo's Rebecca Leaser, "but the model now is different: innovative and agile."

Ultimately, what will define the most successful retailers is 'clarity of proposition', says PwC's Zelf Hussain, combined with a strong brand, and a store footprint in the right locations, at the right price.

### Pandemic savings won't protect retail indefinitely

Consumers built up an estimated £200bn of excess savings during the pandemic, cushioning the impact of the cost-of-living crisis, and allowing them to continue to spend. However, cost-of-living pressures are now prompting consumers to trade down from brands to own-brands and discounters.

BDO's high street sales tracker also shows that consumers are continuing to defer spending on big ticket items.

While some value retailers like B&M and Home Bargains are doing well, the collapse of Wilko, putting 12,000 jobs and some 400 stores at risk, shows what is at stake. "Retailers need to remain really agile to cope with the double effect of high borrowing costs and more competitive price points," says BDO's James Stephen.

### Outlook

While the impact of the cost-of-living crisis on consumer spending has been muted thus far, it will almost certainly dampen future demand, with big ticket items taking the earliest hit.

The IFT members we spoke to are expecting retail stresses to peak in the second half of 2023 or early 2024. BDO's Kiri Holland is

expecting a "shallower but longer" downturn, during which the market returns to a more normal cycle of failure and renewal.

Another factor causing concern is the rise of the buy-now-pay-later model, as popularised by Klarna and ClearPay. The impact of these mainly unregulated credit agreements have not been put to the test in an economic downturn, and there is anxiety that consumers may overstretch themselves and fail to keep up their payments if cost-of-living pressures intensify.

**Against this backdrop, there will be opportunities as well as challenges. Which of the above trends will prove to have staying power remains to be seen. ◀**

## VIEWPOINT Andrea Trozzi

**Alix Partners and Chairman of SGS**  
*SGS is the owner/landlord of four large centres across the UK*

**“**In retail, the relationship between landlord and tenant is transitioning to a partnership model,” says Andrea. “where there is a much greater focus on rent affordability, to create a sustainable income stream. Many more rents are linked to turnover as a result.”

“Landlords are also using much more data driven approach. We look at consumer behaviour, what works as a mix of retailers and results in a higher degree of cross-shopping. The objective is to create a best-in-class shopping experience, which is valuable to the shopper, the retailer and the landlord.”

<sup>6</sup> <https://www.thetimes.co.uk/article/acd01abc-548f-11ee-bc18-cbdd58145dc6?shareToken=f5decb84618ee5545c095647cef8666d>

<sup>7</sup> <https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/articles/economicmodellingofforcedsavingduringthecoronaviruscovid19pandemic/2022-06-06>



# CASE STUDY

## 01

### Willerby

## Delivering the Willerby 'wow'

After 70 years of making memories for British holidaymakers, an ill-fated buyout resulted in holiday lodge manufacturer, Willerby, seeking turnaround support in 2015 to reverse a large fall in turnover and profits. Willerby went on to win The IFT's large turnaround of the year award in 2017. Under CEO Peter Munk, Willerby began shifting its focus to transformation – bringing the Willerby 'wow' factor to customers and investors alike.

### People, product and place

"Willerby was a sleeping giant," Peter Munk recalls, when he set the company on its transformation journey in 2017.

The first step was to understand the value of the Willerby brand. Willerby does not sell direct to end users, and had no relationship with the people who holiday or live in its homes. It broadened its focus from park operators and distributors to include the end customers – a B2B2C model. It built engagement with end customers through its website and showgrounds. It created an owners' club from a standing start, and dialogue with its 10,000-strong owners' club brings both valuable feedback and contributes to a strong net promoter score and repeat purchases.

Beyond the brand, "values around people, product and place are what's really driving the business forward," explains Peter Munk. "If what we are doing doesn't hit one of these, we ask why we are doing it."

On the people side, there has been investment in health and wellbeing. During Covid, the company

prioritised retaining staff and the six directors phoned all 800 employees on furlough to check on their welfare. Investment in training and development has been increased, including a significant increase in its apprenticeships scheme.

Product investment has focused on "delivering affordable luxury across all price points" says Peter. "We start with the 'wow' factor and work out how to deliver it a different price points, rather than starting with the price and working backwards to what we can afford." Sustainable product development is also key, with the company pioneering energy efficient GreEN standards and all-electric homes.

Environmental considerations are at the heart of the proposition. An all-EV fleet and charging points, LED and smart sensor rollout are reducing energy usage and the firm is also investing in energy generation from biomass and solar panels, and, potentially, wind power. As well as being good for the environment, these will bring "significant financial returns through reduced energy costs".

Throughout its transformation, the company has maintained very strong cost discipline, which

meant that it didn't break a single covenant during Covid.

While sales dropped by about a fifth in 2020 to £122m, they rebounded strongly to £217m in 2022 and Peter Munk is optimistic about the future, thanks to staycation trends, strong demographics and buoyant institutional investor interest.

Although dealing with Brexit, Covid, high inflation and supply chain pressures has been a challenge, it has made the company more agile. A pipeline of operational improvements, including pioneering electric homes, new kitchen designs, and targeting a more premium product, Peter Munk is targeting a £50-70m EBITDA business in the next three years. ■



“We start with the ‘wow’ factor and work out how to deliver it a different price points, rather than starting with the price and working backwards to what we can afford.”





## FOOD SECURITY

VIEWPOINT  
CASE STUDY



**VIEWPOINT** Food Security

# Food sector has a lot on its plate

**Everyone needs to eat. That gives the food industry a strong reason to exist, and the fact that the UK's population continues to grow should make this an industry with great prospects.**

However, the UK also has a “brutally competitive food environment” says Michael Rice of Isara. Consumers have benefited, adds Aidan Robson of Endless LLP: “We’ve got used to a very low cost of food in this country.”

As a significant importer of food with the UK importing 46% of its food supply in 2020, the sector is exposed to a wide range of global, UK-specific and sector challenges. These range from the supply and energy vulnerabilities exposed by the invasion of Ukraine, to labour shortages resulting from Brexit and Covid. These have fuelled inflation and interest rate rises, putting pressure on consumer spending and company finances. These present significant risks to individual companies, and broader risks to the country's food security and supply.

## Vulnerabilities in the UK's food supply chain

The invasion of Ukraine was a wake-up call to the vulnerability of wheat, sunflower oil and energy supplies, and also to wider risks in the food supply chain.

The businesses most reliant upon ‘wheat and heat’ – such as bread and cake manufacturers – were initially hit hard, financially and operationally. As well as dealing with extreme commodity inflation, manufacturers struggled to actually secure supplies, says Aidan Robson. Sunflower oil, chocolate, dairy and glucose have all been hit with supply challenges. “Crisp manufacturers had to learn overnight how to cook with a different oil,” he says.

While security of supply had been taken for granted for a long time, the vulnerabilities in the UK's food supply chain have now become very clear. “There's no one factor,” says Aidan Robson. “We source too much from abroad; we don't manufacture or grow enough; we're heavily reliant on international transport (air, shipping); we've adopted a just in time business model in manufacturing our food.” This combination of factors mean “there is no margin for error”, making the UK particularly vulnerable to disruptions.

## Challenges have exposed structural underinvestment in the food industry

The crises in the global economy have exposed some uncomfortable truths in the food sector. As well as underestimating risks in the supply chain, firms have underinvested in automating their processing.

This became particularly apparent, with growing labour shortages caused first by

Brexit, and further exacerbated by Covid. “It's been too easy to hire and fire and this has resulted in not enough capital investment in the sector,” says Isara's Michael Rice. It's another example of the productivity challenge facing the UK. “This is a structural problem that has been growing for many years.” Investment in automation is not cheap. “It requires investment of about £60-70m to build a new bread factory,” Aidan notes.

## Feeling the squeeze: overdue regeneration is underway

The combination of pressures means some businesses are beginning to struggle. “The short-term pain has fallen on shareholders and consumers,” says Aidan Robson. “Companies have seen profits fall, dividends cancelled, and the need to charge more for products.” However, this is not sustainable and the pressure is now efficiency and getting costs down.

Companies are having to evaluate their finances, products, processes, and their whole value supply chain – a process that will take time. Squeezed by high inflation, interest rates and labour costs, some companies will require new capital investment and/or balance sheet restructuring.

In addition, “there is real opportunity to drive change and operational improvement,” says Aidan Robson. Isara's Michael Rice agrees. “There's excess food right across the supply chain,” he says. “Reducing food waste – by

“ There's no one factor. We source too much from abroad; we don't manufacture or grow enough; we're heavily reliant on international transport; we've adopted a just in time business model in manufacturing our food.

**Aidan Robson, Partner at Endless LLP**

bringing the supply chain closer together, by automating production, by integrating cold storage and the cold chain network more effectively – these are all opportunities.” There is also clear scope for a review of energy usage and carbon footprint, which will almost certainly require upgrading facilities and consolidation of food deliveries.

Ownership structures will impact how individual firms react. Listed companies have obligations to the market and to grow their share price and dividends to keep investors onside. Family-owned businesses can take a multi-decade view, sacrificing profit in the short-term to build market share. PE-backed companies have shorter time horizons and are often highly geared, limiting room for manoeuvre, so a tight focus on innovation and business discipline is essential. “There's no silver bullet,” says Aidan Robson. “It's about staying ahead of the game, focusing on your customer and keeping your business model sustainable.” ◀

# CASE STUDY

## 02

BBF

## The icing on the cake

Britain's largest cake manufacturer was only days away from running out of cash when PE fund Endless stepped in to rescue the business. A poorly managed site move had created operational and service issues, resulting in the loss of two key customers. With the support of Endless, the Blackburn-based cake manufacturer staged first a turnaround and then a transformation during which sales tripled.

### Recipe for success: key ingredients in BBF's turnaround

In 2015, BBF had gone through a challenging site reorganisation which had impacted profitability and customer service, with pre-acquisition revenues of £64 million and an EBITDA loss of c£4 million. With key customers walking away, and only days of cash left, the business was acquired by PE-fund Endless, which embarked on a turnaround led by CEO Jonathan Lill, a former Morrisons executive.

Lill reorganised the Board and senior management, and together they drove an improvement programme that covered working capital, production efficiency and automation, supply chain consolidation and new product development. The success of the turnaround was evident in renewed customer support based on quality and service, delivering revenues of over £100 million and good EBITDA margins.

Embarking further on its growth strategy, BBF looked to acquisitions. First was the cake and desserts division of Greencore Plc, which had strong revenues but was marginally loss-making. BBF applied the same turnaround techniques to its new division that had reinvigorated the wider business. This increased revenues significantly and delivered strong EBITDA margins. In 2021, BBF

acquired Sargent's Bakeries, a manufacturer of sweet pies and tarts. The facility and volume were successfully consolidated into the core BBF operations in early 2023 and will drive further product diversification and profitability.

**Despite facing high inflation in the price of its core components – 'wheat and heat' – as a result of the invasion of Ukraine, BBF continues to go from strength to strength as Britain's largest own-label cake manufacturer, with a turnover of around £200m, and 1,900 employees working across four sites in the UK and one in Poland. ◀**

## BBF'S TURNAROUND STRATEGY

- Strengthening BBF's operational, commercial and technical capabilities, including appointing new members to the board.
- Development of strategic relationships with key customers.
- Restoring best in class service levels to customers.
- Extensive capital investment in manufacturing capabilities.
- Developing a strong culture of cost optimisation.
- Developing a market-leading product innovation capability.

“The success of the turnaround was evident in renewed customer support based on quality and service, delivering revenues of over £100 million and good EBITDA margins.”







# MODERN MANUFACTURING

VIEWPOINT  
CASE STUDY



## VIEWPOINT Modern manufacturing

# Making the best of it: manufacturing sector

After a better than expected first quarter for manufacturing, “we are heading towards a challenging period,” Verity Davidge of Make UK believes. “Output, exports, orders are going into negative territory again.” NatWest’s Alexandra Henderson points out that the manufacturing PMI has been negative for the last 12 months, driven by “weak domestic/export demand, and post-pandemic/supply chain issue de-stocking.” Interpath’s Kenny McKay agrees: “If you took a temperature test for the sector it would be amber, heading toward red.”

That’s not to say that the impacts are being felt uniformly. The manufacturing sector is a very broad church with many subsectors. There are obvious sectoral winners – such as defence and aerospace – but few are immune to the combined challenges of labour shortages, high energy costs, interest rates and inflation. “Lots of businesses are in survival mode,” says Alexandra Henderson, “but others are doing extremely well, especially those operating in any specialist, added-value, non-discretionary markets, which spans a broad variety of manufacturing sub-sectors.”

## Resilience of balance sheets and supply chains is key

Manufacturers have faced a huge amount of volatility; they are grappling with the fragility of supply chains, access to raw materials, staffing and inflationary pressures, rising interest rates. “We’ve moved from ‘just in time’, to ‘just in case,’” says Verity Davidge of Make UK. It’s been something of a wake-up call to the sector, with resilience now a key topic in the boardroom.

**Balance sheet resilience** is the foundation that will divide success from failure. In an era when credit is no longer easy or cheap, that means, says Interpath’s Kenny McKay, reducing complexity to save costs. This can mean the simplification of product ranges, consolidating sites, reducing international footprint, “non-core disposals to realise cash, focusing on working capital requirements, and going into debt and facility negotiations early” – as much as 18 months out.

The need for **supply chain resilience** has also come to the fore, following disruptions caused by Brexit, the pandemic and instability in Ukraine. “Manufacturers are balancing quality, cost and geography,” says Make UK’s Verity Davidge, as they seek to establish a more geographically diverse supply for re/onshoring and nearshoring. This is where investment in technology is proving its worth. “Digitalisation of the supply chain will help business manage

logistics and inventory better,” says NatWest’s Alexandra Henderson, “and will give better visibility on the potential disruptions ahead”.

“You can’t just turn supply chains on,” cautions Lee Swinerd. “There are finite capacities in supply chains, as we have seen with semiconductors.” As well as identifying critical suppliers, it is important that manufacturers look at a wider range of potential vulnerabilities. “It’s not just about raw materials or components,” adds Kenny McKay. “There may be vulnerabilities you don’t expect, such as the availability of spares for your machinery.”

## MI, finance systems and reporting unfit for tough financial climate

After 15 years of a benign lending market, businesses are facing a tougher financial climate. “We’ve not yet seen the impact of interest rate rises” believes Lee Swinerd. “Profits are still on the way down, and there’s enough fat in the covenants to cover higher rates. But problems have started to kick in in the US.” As a result, some banks are reviewing their portfolios actively. Lenders are no longer “waiting for the stresses to come through, but are actively exiting clients as “traditional drivers of stress and distress, including, cash and liquidity” become more apparent.

As stresses work their way through, **IFT** members are reporting that the quality of MI, financial systems and reporting packs in stressed

“ Productivity is about wasting less – wasting less time, wasting less money, wasting fewer resources.

Kelly Jones, Kingsgate

companies is not fit for purpose in a challenging trading environment. According to our member survey, over half of companies (54%) don’t know they are in trouble until it is too late.

“Financial insights in manufacturing firms are too limited,” says Kenny McKay. In a fast-changing environment, there is added urgency for up-to-the-minute MI and performance data, and a lack of ‘grey hairs’ in some finance teams is adding to the challenges. “Younger professionals have no experience of an inflationary environment, or of a higher interest rate environment,” says Kenny McKay. “With inflation, cost cards get out of date quickly, rule of thumb calculations are no longer working,” adds Lee Swinerd.

“We need to be alive to the risks of finance teams carrying on as before, and not taking account of the additional risk factors in a very different risk environment,” notes Independent **IFT** member Kelly Jones. She worries about the “disconnect between operations and finance teams who are not connected to the reality of the business”. This can lead to situations where the company has “done the refinancing, but they haven’t asked for enough finance, because they’ve been overoptimistic on forecasts and not allowed enough of a buffer”.



## VIEWPOINT Modern manufacturing

### Persistent labour shortages a catalyst for apprenticeships and automation

In Q4 2022, there were some 95,000 unfilled roles in manufacturing, which Make UK estimates accounts for around £7bn in lost productivity. Although vacancies are now down to around 70,000 – or about three in every 100 jobs – that rate is still almost twice as high as it was pre-pandemic. Manufacturing workers tend to be an older demographic, so the sector has been hit hard by the pandemic ‘missing workers’, as well as fewer workers coming from Europe, with an immigration system that manufacturers can find slow and expensive to use.

Two positive consequences of this are investment in apprenticeships and in automation. Verity Davidge of Make UK notes the “huge investment and commitment in the manufacturing sector to apprenticeships”, also acknowledging that hiring an apprentice, while building a skills pipeline for the future, cannot replace a qualified and highly skilled worker, with many years of experience under their belt.

Meanwhile, NatWest’s Alexandra Henderson, notes that “Labour challenges are driving the need for efficiency and cost reductions, and catalysing investment in digitalisation, automation and robots.” With the UK’s output per hour running at 10% lower than the average of the G7 nations in 2021, this investment she adds “is well overdue”, while cautioning that businesses need to “take employees with them on this journey. It’s not about replacing people, but about using automation for repetitive, mundane or dangerous tasks.”

### Rising to the productivity challenge: innovation, automation and the energy transition

Although recent ONS data has shown that the economy bounced back from Covid faster than previously believed in 2021<sup>2</sup>, UK productivity remains a key issue for manufacturing, and the UK economy as a whole.

**“Productivity is about wasting less – wasting less time, wasting less money, wasting fewer resources.”**

Kelly Jones, Kingsgate

“Those that will do well are those that are further ahead in digitalisation, automation and the net zero transition,” says Make UK’s Verity Davidge. “Those who’d invested in digital prior to the pandemic were able to shift rapidly when Covid struck; those who’d invested in supply chain data and insights have done better during the supply chain volatility.”

In a tight investment climate, “businesses still need to be forward looking,” Alexandra Henderson says. “It’s important they don’t batten down the hatches and stop investment.”

“With the productivity challenge the key positive is that the cost of technologies is coming down,” says Alexandra Henderson, noting that “as little as 5-10k can buy a robotic arm to help with assembly”. However, automating existing processes is not a magic bullet. “Manufacturers need to look afresh at the end to end process from manufacturing, to packaging, to warehousing and dispatch.”

High energy costs have quickened the pace of investment in low energy solutions. “Lots of manufacturers are investing in LED lights, insulation, because the payback time is now much shorter,” says Alexandra Henderson. “The climate angle is important too,” she adds, not only because of “future carbon taxes coming down the road” but because of the commercial opportunities of the green economy. “Climate-focused businesses are doing well,” she notes. “Building materials suppliers who are focused on retrofit are doing better than those linked purely to housebuilding, for example.”

**“Sometimes the best innovations come out of challenging times,”** Henderson notes. ◀

“ Labour challenges are driving the need for efficiency and cost reductions, and catalysing investment in digitalisation, automation and robots.

Alexandra Henderson, Sector Manager Natwest

<sup>2</sup><https://www.ons.gov.uk/economy/grossdomesticproductgdp/articles/impactofbluebook2023changesongross>

# CASE STUDY 03

## Grainger and Worrall

# F1 supplier gets back on the leaderboard

Grainger and Worrall, a family engineering business, had successfully evolved from a pattern-making business to a global supplier of parts and prototypes to Formula 1, motorsport and supercar manufacturers.

The business stalled, however, when it tried to branch out into higher volume production, which revealed the firm's inexperience in operational planning and volume production capacity. The firm's problems were exacerbated by the loss of experienced workers after Brexit and during Covid, falling revenues and rising debts. After three consecutive years of losses, the firm was at risk of insolvency, and the family owners called in turnaround and transformation advisers to help put the business back in the fast lane.

### Kicking the tyres

The first step in the company's turnaround was to strengthen the management team and restructure the company's debts. This required bringing experts into the family Board to manage the financial restructuring, and to address operational performance, MI and financial controls.

The successful debt restructure took about six months, and achieved funding stability with all the firm's financial stakeholders, including HMRC. This provided the foundation for the operational turnaround, as it bought time from, and bolstered the confidence of, investors and creditors, allowing Grainger and Worrall the space to adapt, transform and thrive.

### From backmarker to pole position

The operational turnaround required a root and branch overhaul of the business, including:

- engaging with the firm's employees to obtain their buy-in to the transformation, and instil pride in the quality of the business. This included a 'Top Gear' style launch day involving employees, customers and a selection of their cars, other suppliers and the bank.
- improving cashflow forecasting and management, including new customer payment terms and investing in new IT and finance systems;
- investing in new machinery, improving operational planning and introducing standard operating procedures to drive higher production;
- rebuilding credibility with suppliers and customers while also renegotiating contracts to smooth volatile order patterns;
- a corporate restructuring, involving a management buyout of three companies in the group, and disposal of a loss-making part of the group.

"It was a very intensive turnaround," recalls Andrew Burn, current Chairman of Grainger and Worrall, who led the transformation and the MBO. "Over the period, the business transformed its operations, doubled production volume, restored profitability and has an orderbook that secures its financial future. By ramping up production from under 1,000 to over 2,000 units per week, we were able to award staff the highest pay rise in the company's history and, as part of the MBO, shares were reserved for an employee share scheme so they can share in our success."

**In under two years, the business has gone from loss to profit and is targeting sales of £100m by 2026 through organic growth and acquisitions. ◀**



“

In under two years, the business has gone from loss to profit and is targeting sales of £100m by 2026 through organic growth and acquisitions.



## RESTRUCTURING PLANS AND TURNAROUND TOOLS

# RPs put companies in the driving seat of turnaround

Following a slow start, the past year has seen Restructuring Plans (RPs) rapidly gain traction. “RPs are a game changer for restructuring in the UK,” believes Alison Goldthorp, IFT Member and an insolvency and restructuring partner with law firm Charles Russell Speechlys.

This is because they allow directors to remain in control of the turnaround process, supported by advisers, whilst they look to reach agreement with their creditors and shareholders to reset their balance sheet and establish a path to viability and profitability. Further, commencing discussions on the possibility of applying for a Restructuring Plan can drive a more consensual approach to restructuring, which is benefiting both stressed businesses and their creditors.

### Use of RPs is picking up pace as stresses grow

Pandemic-related measures – such as government-backed debt, forbearance from HMRC, lenders and investors, furlough support, and the effective prohibition on creditors being able to issue winding up petitions to put pressure on a debtor company to pay a debt – provided much-needed support for UK plc at a time of immense stress, limiting demand for this new restructuring tool.

However, the use of RPs is now gathering pace, as companies seek to tackle a build-up of debt that rising interest rates are quickly making unaffordable. At the time of writing, over 20 RPs have been sanctioned to date, including for high street brands, Prezzo, Fitness First and Clinton Cards, and in only three cases was sanction refused.

“RPs are better for businesses, better for creditors, better for employees and better for investors,” says James Davison, Partner at DLA Piper. Many of the alternative tools result in a loss of control for the shareholders and management teams, whereas an RP can preserve the corporate structure and avoid the value destruction, operational risk and disruption (and stigma) that an insolvency process can cause. It gives the company a chance to deliver a turnaround whilst requiring it to ensure that creditors are no worse off than they would be if the plan didn’t go ahead.

RPs fundamentally change the restructuring landscape, says Alison Goldthorp. “They promote better discussion between creditor groups and the risk of the use of the cross-class cram down mechanism forces creditors to be more realistic and reasonable about their position and their leverage.” This means that dissenting creditors are less likely to be able to block a reasonable restructuring proposal. Andrea Trozzi, Partner and Managing Director with Alix Partners also points to RPs as a game changer, citing the “certainty of the timetable and process”, combined with the “quality and trust in English Courts and judicial system”.

**Each case – whether a sanction is granted or refused – is helping establish key principles for the future, including:**

- RPs require companies to present an effective restructuring plan and business model – that means they are more appropriate for viable but over-leveraged firms, than for loss-making businesses;
- From plan to sanction typically takes 3-6 months, but can be quicker for a company with a simpler debt structure;
- The Court has shown itself willing to discourage creditors who are ‘out of the money’ from opposing RPs, by imposing cost orders on those creditors;
- RPs allow for HMRC to be crammed down alongside other creditors but, as an ‘involuntary creditor’, treatment of HMRC must be fair. Two RPs have been refused due to opposition from HMRC, but in other cases HMRC has voted in favour of the plan;
- Smaller companies can benefit from RPs and the beginning of discussions about the possibility of an RP can improve the chances of a consensual restructuring, avoiding the court process;
- The flexibility of RPs, the availability of turnaround expertise, and a well-regarded judiciary could make the UK a preferred location for international corporate restructuring.

## WHAT IS A RESTRUCTURING PLAN?

RPs were introduced as part of the **Corporate Insolvency Governance Act 2020**, and are designed to facilitate the rescue of a distressed company. They use a Court process to agree a plan that is binding on all creditors and/or shareholders, including HMRC. The plan can provide, amongst other things, for revised timing, terms or amount of liability, restructure of the equity and, if necessary, the injection of new money for a company to regain its viability and profitability.

An RP will require the support of **75%** (by value) of at least one ‘in the money’ class of the creditors. The company is then able to seek the sanction of the court to the plan at a court hearing, even if there are other dissenting classes, so it prevents a minority of creditors blocking a workable proposal for the wider creditor group. This is because the guiding principle for the Court is that the planned outcome will be better for all creditor groups than the alternative of doing nothing – which may well be liquidation or administration.

**Crucially, RPs are not an insolvency process, but are initiated by the stressed company and their advisers, which means the company retains control of its destiny if the RP is sanctioned.**

## RESTRUCTURING PLANS AND TURNAROUND TOOLS

The flexibility of RPs, the availability of turnaround expertise, and a well-regarded judiciary could make the UK a preferred location for international corporate restructuring. ”

### Broadening the reach of RPs to SMEs and international corporates

The IFT believes that RPs offer a very flexible tool with potential application to all companies. Turnaround professionals can support the board in proposing an RP to start a discussion on a restructuring for an SME, with the option to go to court if agreement is not reached.

Houst, a property management company offering services for short-term holiday lets, secured an RP in 2022, demonstrating the potential of RPs for the mid-market sector. Typical costs for an RP are already lower than for other insolvency processes, and the IFT is now backing suggestions to reduce costs for companies with simpler debt structures that would not require primary or secondary legislation; for example, conducting the first hearing on paper. There are perceptions among SMEs that RPs are too expensive, but James Davison urges companies to evaluate the cost of the RP in the context of the value it can generate. “The plan, if successful, should more than pay for itself” he notes, and companies raising new capital to fund legacy liabilities should consider whether an RP might enable their turnaround plan to be accelerated and/or de-risked. James points to increasing interest among funders in creating a product to underwrite the costs of RPs, which could be a “really useful option for smaller companies where working capital can be tight, particularly if they are late to recognise the issue at hand and might otherwise not have the runway to deliver an RP, even if that would ultimately be the best solution”. James notes that, as ever, the earlier companies seek advice, the more options they will generally have.

Hill Dickinson’s Lizzy Wood also believes RPs will grow substantially. “The process is in its infancy, but the tool itself, from a flexibility standpoint, and its applicability in a range of scenarios, is fabulous,” she says. “What’s really heartening is to see the case law moving forward. For example, the Clinton Cards plan allowed it to exit 38 stores and rebalance its leasehold portfolio, as well as a debt-for-equity swap.” Being locked into above-market rents was a contributing factor to the collapse of Wilko, the discount retailer, which was estimated to be paying £40m a year over the market rate in rent. Other over-rented high street retailers should take note.

At the larger end of the market, RPs have the potential to build on the UK’s existing role as a preferred location for international restructuring. This was illustrated by the case of Adler, a German real estate firm, which needed to restructure £3bn of liabilities within a matter of months, before the first maturities came due. Adler applied for a Restructuring Plan in the UK, which was sanctioned within three months. The case underlines the potential for Britain to capitalise on its outstanding commercial turnaround expertise and well-regarded judicial system, utilising the certainty in timetable and process for RPs to become a hub for continental restructuring, with James Davison noting an “increasing interest in the UK as a restructuring location among German corporates”. ◀

## THE RP PROCESS IN BRIEF

1

### Company prepares a plan

- Company sends a notice of application and supporting documents to creditors

2

### 1st Court hearing

- Court considers application, whether pre-conditions have been satisfied and composition of creditor classes
- Landlords are typically a separate class

3

### Creditor meetings with Court

- Creditors can request additional disclosures
- Each class of creditors votes on RP
- Provided one class agrees RP, it can be put forward for sanction

4

### 2nd Court hearing

- RP is agreed at the discretion of the Court
- Court considers dissenting creditor classes, and whether the plan is ‘just and equitable’
- Sanction is not automatic



# Use of Restructuring Plans gather pace

2020

September **Virgin Atlantic** *travel*  
October **Pizza Express** *dining*

2021

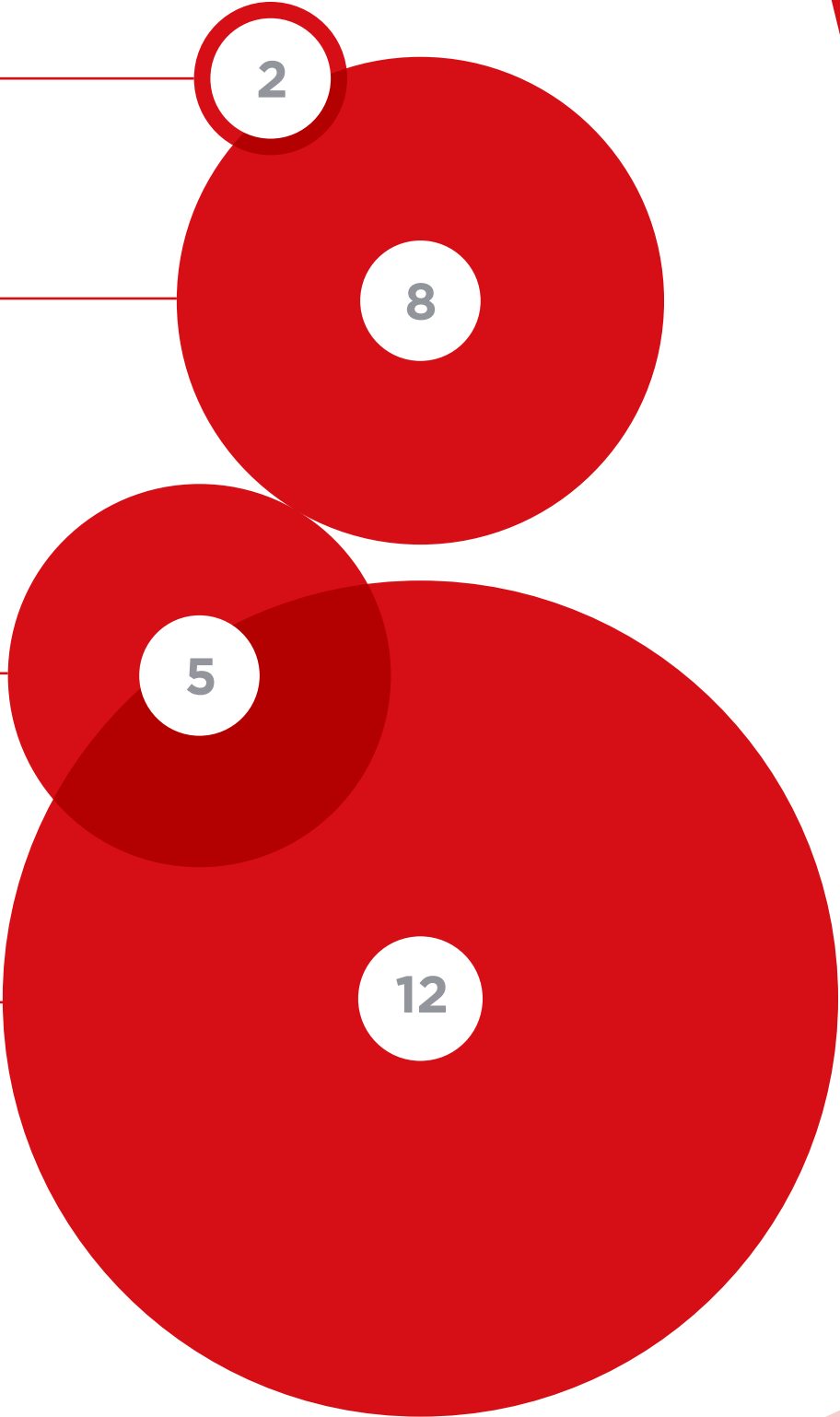
January **Deep Ocean** *energy*  
March **Smile Telecoms** *telecommunication<sup>1st</sup>*  
March **Gategroup** *travel*  
March **Premier Oil** *energy*  
May **Virgin Active** *leisure*  
June **Hurricane Energy** *energy* **NOT SANCTIONED**  
August **Amicus Finance** *property*

2022

March **ED&F Man** *agriculture*  
March **Smile Telecoms** *telecommunication<sup>2nd</sup>*  
July **Houst** *property*  
September **China Fishery** *fishing*  
December **Hong Kong Airlines** *travel*

2023

February **The Good Box Co** *fintech*  
February **Listrac Midco** *supported living*  
April **Adler** *property*  
April **Nasmyth Group** *manufacturing* **NOT SANCTIONED**  
May **Great Annual Savings** *energy* **NOT SANCTIONED**  
June **SGB -SMIT GmbH** *energy/power transformers*  
June **Fitness First** *leisure*  
July **Prezzo** *dining*  
July **Chaptre Finance plc** *power plant finance*  
August **Yunneng Wind Power Ltd** *energy*  
August **Clinton Cards** *retail*  
August **Cimolai S.p.A** *steel*

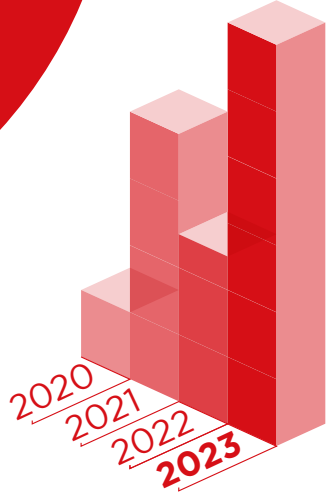


## Sector Use of Restructuring Plans

Restructuring Plans have been used across a variety of sectors:



TOTAL  
**23** Sanctioned  
**3** Not sanctioned  
**13** Sectors affected





Warnford Court  
29 Throgmorton Street  
London  
EC2N 2AT  
[www.the-ift.com](http://www.the-ift.com)