

THE CURRENT STATE OF WHOLESALE AND RETAIL IN THE UK

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In the latest in our series of trade articles, Kieron Franks, Assistant Head of Risk Underwriting, examines the current state of the wholesale and retail industries.

Production of wholesale and retail goods has needed to adapt to recent global and national changes. In doing so, businesses throughout Europe face a number of challenges, experiencing peaks and falls in sales. For instance, retail demand for food soared at the height of the pandemic with frozen and packaged goods in particular becoming popular purchases.

In March 2021, weekly sales of frozen foods were 63% higher than the year before in France, while packaged goods sales were 56% higher year-on-year in Germany. These trends and spikes in sales were seen in countries around the world. In fact, general demand for fresh, frozen and packaged goods has been a relatively consistent 15-20% higher since the pandemic outbreak.

However, this new-found demand brings with it its own issues. The pandemic has increased customer interest in the hygiene of products - particularly fresh produce. Previously, loose fruit and veg were encouraged and consumed without the need for additional plastic waste. A reverse demand has resulted in a revival in packaging. This of course is bad for both the environment and for business costs.

The pandemic has also encouraged customers to replace in-person supermarket shopping with online delivery. It is estimated that delivery services will grow from their current market share of 1% up to 3 or 4%. A boom for larger businesses, but not as easily provided by smaller local shops where cash flow will be a greater issue.

Other areas of change include:

- A huge rise in e-commerce, drive-in pickup and home delivery services and a higher demand for short value chains linked to urban and peri-urban agriculture
- Large increases in online and telephone food sales, creating a boost in growth for the online sector
- Downstream packaged food companies are struggling with limited pricing power
- New strategies are needed to fight the effects of climate change such as crop yields
- Restaurant closures in the wake of the pandemic have also dried-up huge food outlets for wholesale market operators
- Cashless payment (avoiding the use of possibly 'contaminated' coins and notes) is now widely used – even for small payments – and many consumers are likely to stick with cashless payments going forward
- Sales of soft drinks have increased
- Increasing demand for locally sourced products, putting a strain on food makers to invest in new product lines
- Food consumption patterns change as the health crisis converges with an economic one, reducing income, increasing uncertainty and triggering coping strategies

Post-Brexit effects on wholesale and retail

Brexit trade deals have changed the UK's relationship with the EU and hit tariffs.

Meat producers: There are longer delays at borders, more paperwork and increased prices and market competition. The UK is a net importer of beef and pork and increasingly a net exporter of sheep meat. Beef prices, driven by the domestic market, are likely to recover and Chinese demand for imported protein remains strong.

Dairy: Increased complexity of trading with the EU means higher costs and will likely result in a reduction of volume in trade. Dairy businesses dealing with perishable products may need to adapt to increased costs of selling in the EU, which could mean product reformulation and investments in new capacity. Increased difficulty in securing skilled labour could increase costs.

Fresh produce: Free trade with the EU in most agricultural products, including fresh fruit and vegetables, will continue – along with organic standards based on EU regulations. But supply chains are set to get slower, more complicated and more expensive. Of the 67% of fresh produce imported by the UK, a third comes from the EU. Scotland's seed potato sector has been hit hard by the deal, with £13.5m of exports in doubt following the end of the Brexit transition period. Ware potato exports to Europe was also in doubt, but a last-minute agreement was reached by the EU, granting the product 'third country' status and allowing trade to continue.

Demand for wholesale and retail products is reaching an all-time high, but this is putting pressure on businesses and trade, with a higher risk of reduced cash flow affecting SMEs. The risk is higher, but the rewards are also there if your business model is able to adjust to the new economic climate.

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