



Invest in technology to survive economic storms



For the food industry, cash-strapped consumers are not the only problem. Manufacturers are increasingly caught between the rock of rapidly escalating raw material and energy prices and the hard place of customer pressure to reduce costs. The price of many basic food commodities has soared in the last year, as have the prices of oil, gas and electricity. Predictably, many of the large supermarket chains have responded to the economic situation by pledging to be tougher on their suppliers in order to keep prices on the shelf under control. This means that manufacturers must operate within the ever-shrinking gap between their costs and their income if they are to survive. The most obvious approach when faced with this situation is one of strict cost control, shedding staff and looking for economies in production processes.

How quickly the fortunes of the global economy can change these days. This time last year, all the indications seemed to be positive and a mood of optimism prevailed. After a decade or so of steady economic growth across much of the world, it seemed that all was set fair for a prosperous future. Now, just twelve months later, the mood has turned to one of gloom and despondency, with predictions of a major recession, or even a depression, being widely reported on both sides of the Atlantic. With the financial sector in the grip of the so-called 'credit crunch' and several major banks announcing big losses, or apparently teetering on the edge of failure, the economic future looks decidedly shaky. While it appears that these problems have their roots in a complex, but fundamentally flawed, trade in packaged debts that even some banking insiders seem unable to understand, the knock-on effects will be felt by us all. When the financial markets take a serious downturn, so do economies in general.

It is often said that the food sector is better equipped to ride out economic hard times than most of manufacturing industry, because the consumer will always need to eat and food expenditure will be one of the last things that people will cut back on when money is tight. Like most clichés, this is essentially true, but the picture is a little more complicated now than in the past. Food manufacturing has changed a lot since the last recession struck in the early nineties. Since then, product development has focused very much on adding value, to the extent that the market is now flooded with premium products, healthy and functional foods and products offering the ultimate in convenience. Choice for the consumer has never been greater, and this has worked well while consumers have been relatively prosperous. Whether products from the further reaches of the added value spectrum will still have a place in the shopping basket of a recently downsized, debt-ridden shopper is open to question.

One of the first things to go in this climate is usually research and development, along with anything else that does not seem to have a direct input to productivity. This is natural, but may also be a short sighted, knee-jerk reaction. History suggests that the businesses best equipped to survive a recession and to prosper when it eventually comes to an end are those that can innovate and move quickly to take advantage of new opportunities, rather than those that were able to tighten their belts the most. To do that, a food business needs access to technical expertise and knowledge. I hope that the industry won't panic, stop investing in R & D activities, and so kill the goose before it gets a chance to lay any golden eggs. Of course, costs have to be controlled and R & D investment needs to be carefully managed when funds are harder to come by, but to cast it aside completely would be a disaster. Wise businesses will protect technology and knowledge as they would any other valuable asset and be ready to reap the benefits when things take a turn for the better.