

# COVID-19 Brings New Challenges to the Food and Beverage Industry

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Today's abrupt new reality is shining a spotlight on the critical role the food and beverage industry plays in society. Grocery retailers and food suppliers have always been instrumental in providing a safe and reliable source of food, but now their role is more important than ever. The industry and its supply chain are being tested and so far, it's getting the job done, but not without its challenges. As we continue to navigate this crisis, the industry needs to be aware of the obstacles ahead so it can continue to meet consumer need.

## Help Wanted

A trip to the grocery store quickly reveals the pressure retailers are under as they struggle to keep products on the shelves as demand rises. With this increased demand comes a need to hire more employees, which makes the industry somewhat of an anomaly given many others are laying people off and struggling to keep their businesses afloat. An increase in employees brings higher carrying costs in addition to recruiting and onboarding costs. They also may need to have staffing contingency plans in place should an employee contract COVID-19 or fall ill. Retailers have long been challenged with striking a balance between having enough employees to effectively meet the demands of their business while managing their largest expense - their labour costs. As things slowly return to normal, retailers will need

to be cognizant of managing these increased costs through an efficient scheduling process. This will allow the flexibility to meet their day-to-day needs and manage the cost of labour.

## Protecting Employees

At the same time, grocery retailers and other companies within the food supply chain are faced with ensuring they keep their people safe. It's essential for companies to revisit and potentially step up internal policies such as paid sick leave, health and safety policies and procedures, and stay-at-home policies. Employers may consider paying bonuses to employees who continuously show up at work and put themselves in harm's way to service customers. Increased diligence is required around sanitization measures, despite the additional financial burden, as



## SUCCESSFULLY MANAGING THESE TURBULENT TIMES REQUIRES THE FOOD INDUSTRY TO CONSIDER A MYRIAD OF MOVING PARTS.

It not only protects employees, it gives them peace of mind that their employer is doing what they can to keep them safe. Some employers have already faced a backlash from employees who felt that not enough was being done to provide safe and sanitary working conditions, with employees walking off the job in protest for safer working conditions. Employers who fail to respond to employee concerns could see daily operations impacted and run the risk of permanent damage to their brand's reputation.

### Supply Chain Pressure

Without a doubt, higher demand is stressing the supply chain. Manufacturers are running productions around the clock and in some cases paying premiums for raw materials as some goods become more expensive to import. These manufacturers are bearing additional overtime costs as employees work longer hours to support the increase in production runs necessary to maintain a robust supply chain. These additional costs trickle down through the supply chain and may eventually result in consumers paying higher prices at the grocery stores. Truck driver shortages in Canada are reducing the flow of goods across borders, adding further pressure to the supply chain.

Retailers need to keep an eye on their supply chain and try to spot issues early on. If a critical supplier is struggling from a cash perspective, retailers may want to consider revised payment terms to help support cash requirements as aid to source and produce goods and ultimately be able to continue to provide product for store shelves. Some facilities may choose to take advantage of recent government incentives to support manufacturers by transforming their current production in favour of producing medical supplies and essential items such as hand sanitizer and face masks to help support increased need. This is a worthy and necessary shift though retailers need to be mindful that this could further impact their supply chain and product availability.

### Consumer Preferences Are Changing

There has been a noticeable shift in consumer buying habits with a surge in sales of non-perishable food staples such as pasta, frozen foods, and canned goods. Consumers are stock-piling inventory in their homes due to uncertainties around stockouts and potential store closures if a lockdown is put in place. Consumers are also reconsidering their spending habits. There has been a shift in purchasing certain discretionary purchases like baked goods and many are opting to turn to home-baking as people are confined at home, resulting in a recent surge in demand for flour. Retailers need to review their buying patterns and allot more shelf space to newly coveted items. A review of the SKUs can help identify those items in highest demand and ensure there is sufficient supply available. Revisiting the items put on promotion will also help the supply chain keep up with demand and make restocking store shelves easier.

There has also been a big surge in online shopping, especially in the food business. Consumers have turned to on-line grocery shopping where orders can be placed from the safety of their homes. As consumers become more comfortable with on-line grocery shopping as opposed to the in-store shopping experience, this new trend could lead to a long-term change in consumer habits, requiring retailers to permanently alter their business models to adapt to these 'new norms'. Many companies have been forced to increase their digital presence to meet changing customer habits. We will see more digital business platforms and home delivery models developed. In the interim, several grocery retailers are meeting digital demand by partnering up with home delivery services apps to fulfill customers on-line orders. The transition hasn't always been a smooth one as the surge in demand has resulted in significant backlogs in delivery schedules. Retailers are mitigating these issues by warning customers of delays in advance.



## NOW IS A GOOD TIME TO EVALUATE CURRENT BUSINESS PRACTICES AND PLAN FOR THE FUTURE.

### International Trade

New export bans are being imposed around the world and the reality is, certain commodities sourced globally may not be available in Canada while these bans remain in place. This will undoubtedly cause a shift in demand for more locally sourced products, though availability and variety will be impacted by local environment conditions. Consumers are used to having an immense amount of choice at the grocery store but that may soon change as borders tighten and supply chains are interrupted.

### Foreign Workers

Approximately 60,000 temporary foreign workers come to Canada each year to help produce and harvest crops.<sup>1</sup> The impact of COVID-19 on the labour market and agriculture sector in Canada is significant. To help alleviate concerns, the Canadian government has lifted restrictions on the entry of temporary workers into Canada, classifying them as an essential service. However, this is not without additional costs to employers who will be required to pay them while they fulfill their 14-day self-isolation upon entry into Canada. In addition, some countries have travel bans which makes it difficult to access foreign workers. Canada is not alone in this. The United States will also face similar issues which, in turn, impacts Canada given the significant amount of food products we import from the U.S.

The government has taken additional measures to support agri-food producers and processors such as extending the amount of time temporary foreign workers can stay in Canada from one year to two years, as well as increasing the availability of credit to farmers and the agri-food sector through Farm Credit Canada.

### Lessons Learned

Successfully managing these turbulent times requires the food industry to consider a myriad of moving parts. They must make a dedicated effort to support their employees, keep morale high, and put the necessary measures in place to keep them safe while satisfying increasing consumer demands. The companies who survive and thrive now and, in the future, will understand the importance of agility, flexibility, and adapting to changing times including expanding digital platforms and investing in technological advancements to meet changing consumer preferences. They must also be vigilant about supply chain management and wary of their reliance on any one supplier, globally sourced goods, and temporary foreign workers. Now is a good time to evaluate current business practices and plan for the future.

Please contact your Fuller Landau engagement partner or manager for any questions.

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<sup>1</sup> <https://www.cbc.ca/news/politics/food-security-covid19-trudeau-1.5520492>