



CommBank Manufacturing Insights

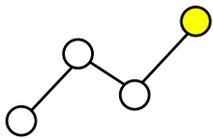
Food and beverage manufacturers and
distributors in focus

May 2024

Manufacturing Insights

As Australia's largest manufacturing sector, Food and Beverage producers and distributors play a vital role in supporting the Australian economy.

Encouragingly, most have navigated an operating environment marked by higher costs, constrained skills, and fluctuating customer demands by prioritising productivity. That has provided a strong foundation for growth in 2024, supported by planned investment in new technologies, skills and sustainable practices.



Food and Beverage sector to maintain growth trajectory in 2024

More than two in three Food and Beverage manufacturers and distributors grew revenue or profit in 2023. Most lifted production output and increased prices amid inflationary conditions and rising costs. With fewer able to expand their workforce in a tight labour market, this suggests efficiency gains were in sharper focus.

	2023 <small>(Slightly or significantly increased)</small>	2024 outlook <small>(Proportion expecting increase)</small>	2023 vs 2024
Revenue	68%	71%	3%
Profit	72%	71%	-1%
Employees	57%	55%	-2%
Production levels	61%	67%	6%
Prices	72%	63%	-9%
Fixed costs	61%	66%	5%

These trends are set to continue in 2024. Fixed costs are expected to remain elevated, with around three in four anticipating higher energy costs and persistent inflation to have a medium to high impact.

Specifically in response to inflationary conditions, Food and Beverage manufacturers and distributors are planning the following in the next 12 months:

52%

improve productivity and internal cost controls

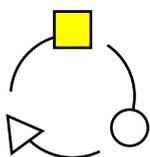
43%

innovate with cost-effective products

43%

increase prices

Most are also forecasting a rise in production, revenues, and profit in the year ahead, and there are early signs that prices may normalise. This is supporting confidence across the sector, with 84% optimistic about conditions in 2024.



Adapting to customer-led shifts

Food and Beverage manufacturers and distributors continue to adapt to changing customer preferences. Compared to peers in other sectors, they are more likely to have seen customers focus on supply chain resiliency. Other top customer-initiated shifts include the need for faster delivery and changes in order frequency and spend. Almost two in three expect continued changes to customer behaviour to have a medium or high impact in 2024, and improvements to quality, supply chains, productivity, and cost-effective value to meet demand are the top responses.

Identified changes in customer expectations in past 12 months

- 39% saw more focus on supply chain resilience
- 33% saw a change in overall order frequency
- 33% saw a need for faster, more flexible delivery options
- 32% reduced overall spend
- 31% higher expectation for product quality and reliability

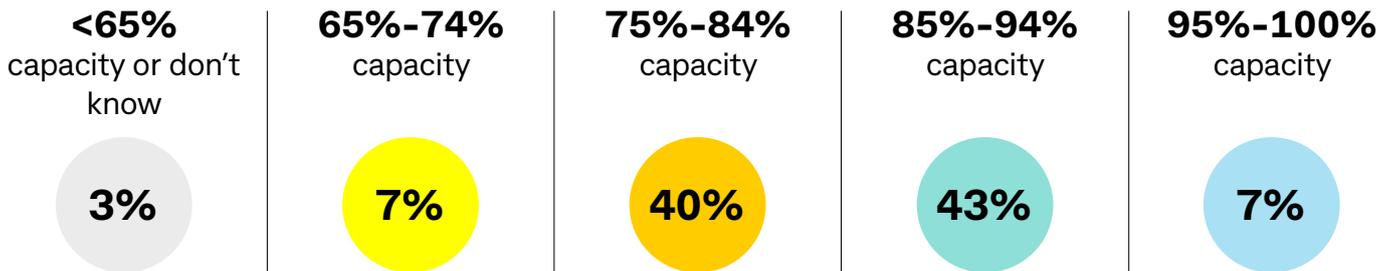
How the sector will adapt to customer expectations in next 12 months

- 38% will improve product and service quality
- 35% will streamline supply chain for efficiencies
- 31% will invest in new equipment and machinery to enhance productivity
- 30% review or reposition pricing
- 29% will have more focus on product innovation and development



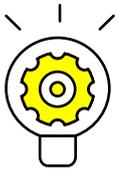
Enhancing skills and systems to boost productivity

Capacity Utilisation Rate



Food and Beverage manufacturers and distributors were most likely to cite constrained access to labour and skills, as well as ineffective operating systems, as a drag on productivity. Despite these challenges, one in two are operating at 85% or more of their maximum capacity, with most others achieving a 75-84% capacity utilisation rate. Considering many Food and Beverage Manufacturers and distributors are planning to increase output again this year, initiatives and investment in supply chain efficiencies, technology and digital skills are in focus.

Top productivity challenges	Top initiatives to boost productivity	Top areas of investment to improve productivity
<ul style="list-style-type: none">Labour skill level (38%)Ineffective operating systems (37%)Labour availability (34%)Quick change of customer orders (33%)Outdated plant and equipment (31%)	<ul style="list-style-type: none">Tighter inventory management systems (46%)Digital technology adoption and staff reskilling (44%)General staff reskilling (42%)Review production KPIs (39%)Closer management of hours worked (34%)	<ul style="list-style-type: none">Supply Chain (56%)Operating systems (49%)Technology & Software (46%)



Realising the promise of emerging technologies

Almost nine in ten Food and Beverage manufacturers and distributors plan to increase technology investment in 2024, including 30% that will significantly extend digital spend. There is broad agreement that emerging technologies hold productivity benefits, with businesses also striving for increased financial performance and customer experience improvements. Again, in the absence of existing skills, the cost and time to upskill staff on new technologies is seen as the top barrier.

Most impactful emerging technologies in next three to five years



1

Supply chain integration platforms



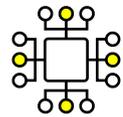
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Track and trace for supply chain visibility



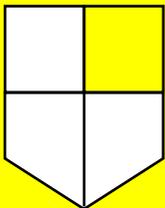
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Energy Storage Technology



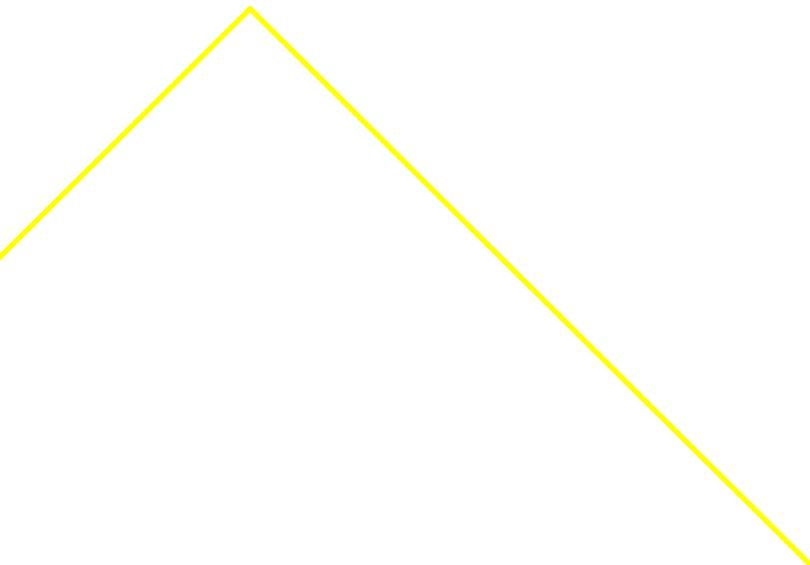
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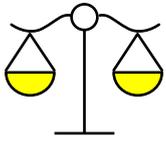
Artificial intelligence and machine learning



Sector on cyber security alert

Seven in ten Food and Beverage manufacturers believe cyber security and data privacy will have a medium to high impact on their business in the year ahead. More than one in four (28%) have experienced a cyber breach in the past 24 months, which is higher than other sectors. Employees being targeted by phishing and other social engineering attacks is the most commonly cited vulnerability.





Balancing efficiencies and environmental impact

No sustainability initiatives

3%

In the initial stages of implementing

16%

Implemented some sustainable practices

63%

Implemented many sustainable practices

18%

Almost all Food and Beverage manufacturers and distributors have implemented at least some practices to improve environmental sustainability, although they are at varying stages of maturity. The top drivers of sustainability initiatives include operational efficiencies, cost reduction and an increased competitive edge, while the top obstacles are financial constraints, supply chain complexities and operational disruptions.

While using recycled materials, reducing operational waste, and renewable energy are the most commonly adopted practices, the fastest-growing initiatives are expected to be:

49%

Establishing teams to manage upcoming regulatory frameworks and requirements

48%

Implementing sustainable procurement processes across supply chain

46%

Reducing energy usage and driving energy efficiency

46%

Collaborating with external organisations on sustainability projects



Did you know?

Just 31% of Food and Beverage manufacturers and distributors have a good understanding of incoming mandatory sustainability reporting requirements, while 43% have some understanding. Once implemented, 44% of businesses anticipate that added compliance and resource allocation will increase the cost of doing business, while 42% believe mandatory reporting will increase investment in ESG initiatives, which is higher than in other sectors.



Case Study

Bickford's Australia

The Australian owned and operated Bickford's Australia (Bickford's) blends and bottles a renowned range of branded heritage cordials, juices, and syrups, along with more contemporary mixers and beverages. The business is on a continuous improvement journey to become a highly automated and high-speed filling, labelling, and packaging operation.

Group Operations Manager, George Kotses, says Bickford's purpose-built manufacturing plant is one of the world's most complex multi-product manufacturing lines under one roof presenting great challenges and benefits. To ensure all facets of production are optimised and working together, digital innovation is a key strategy.

While George says Bickford's is keeping pace with technology, this is a humble assessment. The business has pioneered innovation in automation, is now investing in new digital tools and systems, and embedding a culture of continuous improvement to ensure it can capitalise.

The path to an agile, responsive and connected business

Bickford's has a history of being at the cutting edge when, around a decade ago, it streamlined its operations and reduced costs by introducing automated manufacturing equipment.

This included five automated guided vehicles (AGVs) to transfer the finished product from the manufacturing floor to the warehouse, pick bulk pallet orders and replenish and track stock levels. These robots significantly mitigated human error, reducing Bickford's six-monthly stocktake variances from an average of up to \$50,000 to within just \$50, while also managing labour costs.

More recently, investing in new processing technologies has helped Bickford's diversify its product range and markets. This included an Aseptic PET filling system and glass filling technology, to replace mechanical fillers. While George says this level of sophistication that supports diversity in its product portfolio does come at a significant cost, the return is evident in the business' stronger market position and consumer appeal.

Improved business efficiencies have also been realised by implementing what George calls a "productivity module". That is, having software that links automated equipment to its Supervisory Control and Data Acquisition (SCADA) system, delivering real-time line performance, efficiency reporting and data analysis.

"We have real-time data on all of our lines, providing information from top down to bottom up, so everyone from executives to the shop floor has good visibility," George says. "It empowers all users to make effective decisions, underpinned by the automation around us – from manufacturing equipment to the back end and front end, and the processing side."

Additionally, using a compliance module analyses control data in real time, delivering immediate alerts to the quality team should an issue arise. This is an advantage to ensure quality and speed when product recalls or withdrawals occur. While most food and beverage producers experience this issue, what took days to identify stock for recall now takes minutes, affording swift decision-making and enhanced food safety management.

The acceleration of digital innovation

Looking ahead, George anticipates that digitisation across Bickford's operations will only accelerate, with robotics becoming increasingly important. System logistics opportunities and robotics palletising will be one focus to achieve more efficient and effective inventory management, which will once again link to SCADA.

AI is also expected to take a stronger hold, with more accurate data collection and analysis to help predict demand, presenting an attractive proposition. A key area of interest for Bickford's is using AI to enable more accurate sales forecasting and just-in-time production cycles. The end goal will be a more efficient, profitable operation with a more responsive supply chain.

Adapting to changing skills demand

Though digital innovation is here to stay, George says that Bickford's people continue to be its most valuable asset. However, without the right people to manage digital transformation and operate new digital tools, the benefit will lie dormant.

According to George, systems and process automation has demanded a step change in Bickford's teams, their thinking, and their skillsets. With fewer administration tasks and greater data analysis requirements, its teams need a problem-solving and growth mindset, and the motivation and aptitude to learn. This is a significant challenge due to skilled labour shortages, but one the business is tackling head-on.

Using an intensive training program, Bickford's is cultivating a collaborative approach across its business and creating cross-functional teams and a collective-action approach to solving problems.

As George says, "Without having the right people with the right skills, even with automation, our aspirations for digital innovation aren't going to work. We have a great team around us, and we're all on a continuous improvement journey; we never stop, the journey keeps going."



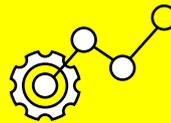
Learn more with CommBank Manufacturing Insights 2024

This provides just a snapshot of the findings from our latest research ahead of the launch of the full Manufacturing Insights Report in May 2024. The report will contain further information about:



Performance indicators

Financial and operational performance and outlook across manufacturing and distribution sectors.



Productivity tactics

Productivity enablers and detractors, and areas earmarked for capital investment.



Digital opportunities

Challenges and opportunities of emerging technologies such as AI, and cyber security initiatives.



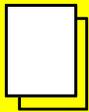
Sustainability imperatives

Existing and planned sustainability initiatives and the impact of the changing regulatory landscape.



About the Manufacturing Insights research

The CommBank Manufacturing Insights research is based on a survey of 464 manufacturers and distributors across Australia conducted in February 2024. This includes 115 operating in the Food and Beverage sector. The research examines current and future financial and operational performance drivers to support decision-makers as they develop their growth strategies.



To ensure you receive a copy of the CommBank Manufacturing Insights Report 2024, please register your interest by contacting maria.christina@cba.com.au. For more information about how we help Food and Beverage manufacturers visit CommBank.com.au/Manufacturing.

Things you should know:

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The survey was undertaken by Fifth Quadrant on behalf of the Commonwealth Bank and the analysis was undertaken by Fifth Quadrant and the Commonwealth Bank.

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