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MANAGEMENT CONSULTANTS

Food & Beverage Margins

Where Cost Pressure Becomes Margin Leakage

Food and beverage margins remain under pressure, but the core issue for leadership teams is changing. The question is no longer only how to offset higher costs, but how well the business is designed to absorb volatility without turning it into recurring margin leakage.

Many companies have already used the most visible levers: procurement actions, selective pricing, productivity programs and initial cost reduction. These remain necessary, but they are less likely to be sufficient on their own. The next level of margin improvement is increasingly found in the operating choices that shape complexity, capacity, planning, reliability, logistics and investment decisions over time.

This shifts the executive discussion from cost reduction to margin design. Product complexity, unstable planning, avoidable changeovers, underused capacity, reactive maintenance and inefficient flows may appear operational. In practice, they determine whether cost pressure is absorbed, passed through or converted into recurring margin leakage.

Where *Margin Pressure* **Really** *Accumulates*

Margin pressure in food and beverage rarely comes from one source. It builds across connected decisions that are often managed separately: portfolio choices, planning assumptions, capacity use, network flows and asset reliability. When these decisions are not aligned, cost pressure is not simply absorbed by the organization; it accumulates and becomes recurring margin loss.

For leadership teams, this raises a different question: not where to reduce costs, but where the current operating model is consistently translating complexity into margin loss.

Product portfolio complexity is a clear example. It is one of the most common sources of hidden cost. Ranges often expand for valid reasons: innovation, customer requirements, local market needs or acquisitions. In many organizations, part of the product portfolio contributes limited value once the full cost-to-serve is considered. This complexity creates cascading effects, increasing the number of changeovers, reducing forecast accuracy and putting pressure on both capacity and inventory.

EFESO case examples illustrate the size of the opportunity. In one confectionery case, portfolio optimization identified around $10 million in operating income improvement alongside a 22 percent reduction in product complexity. In a cheese business, simplification led to a 40 percent reduction in product range and a sharp reduction in negative-margin products, resulting in measurable EBIT improvement.

The implication is not that every company should reduce its portfolio. It is that every company needs to know which products create value after the real cost of complexity is included. For executives, this moves portfolio management out of a purely commercial or supply chain discussion and into margin design.

Structural Cost **is Often Hidden in the Network**

The same logic applies to manufacturing and distribution networks. Many food and beverage networks reflect years of growth, acquisitions, customer shifts and local optimization more than a deliberate design for today's economics. The result can be avoidable logistics cost, duplicated activities, underused capacity and product flows that no local efficiency program can fully correct.

EFESO benchmarks show direct impact on cost and margin performance, with examples including a 16 percent cost reduction in a frozen food network and more than 23 percent reduction in operations cost alongside significant inventory improvements in global footprint optimization. The point is clear: in many cases, the next margin gain comes less from incremental efficiency and more from reallocating volume, capacity, inventory and activity across the network.

For leadership teams, site-by-site performance is only part of the picture. A plant can improve, a warehouse can perform well, and logistics teams can control costs, while the overall network remains misaligned with demand, service requirements and the economics of the business. When networks are misaligned, cost pressure is reinforced across the value chain and directly affects margins.

Operational Stability **has Become a Margin Lever**

Manufacturing performance remains central, but the improvement agenda has changed. Many companies already have Lean systems, routines and productivity programs in place. The next level of value often comes less from launching another initiative and more from reducing variability, stabilizing execution and making better use of existing capacity.

EFESO benchmarks indicate that performance improvement can generate productivity gains of 5 to 15 percent and OEE improvements of 10 to 40 percent across cases. The executive issue is not the metric alone, but how reliably the operating system can deliver the plan, protect service and use capacity as intended. When operations are unstable, downtime, rework, schedule changes, labor inefficiency and inventory buffers all become more expensive.

This is why operational stability belongs on the margin agenda. In food and beverage, the gap between planned and actual performance can decide whether higher throughput creates profitable volume or simply adds cost, complexity and working capital pressure. In this context, unstable operations tend to convert cost pressure into margin erosion more quickly.

Planning, Reliability and *CapEx* Shape the Margin Outcome

Some of the most important margin levers are less visible than procurement, pricing or labor productivity. Planning is one of them. It determines how demand, production, inventory and capacity decisions are connected. Stronger planning can reduce inventory, improve EBIT and lower non-value-added supply chain cost. Weaker planning creates the conditions for short-term interventions, inefficient sequences, excess stock and service risk. In practice, planning discipline often determines whether cost pressure is absorbed or converted into margin impact.

Maintenance and reliability also influence margin performance more than is often assumed. A more structured approach can reduce variability and improve predictability in operations. EFESO observations point to significant potential in reducing both maintenance cost and execution inefficiencies, while external benchmarks also underline the financial cost of downtime in food and beverage operations. When downtime increases, cost pressure is amplified and margin impact accelerates.

CapEx decisions also shape margin outcomes because they define the cost structure for years. When investments are designed, governed and ramped up with operational discipline, they can accelerate value delivery and stabilize performance. When they are disconnected from operational reality, they can lock in inefficiency, delay benefits and reinforce the margin pressures they were meant to address.

These areas are often managed in different forums, yet their margin impact is shared. A planning decision can expose a capacity constraint, a maintenance issue can undermine a network assumption, and a CapEx choice can either reduce or institutionalize future cost. For this reason, margin management increasingly depends on the quality of cross-functional decisions, not only the performance of individual functions.

In practice, the difference is less about identifying cost levers and more about how consistently organizations translate decisions into execution across the value chain.

What more *Effective Companies* do Differently

Companies across the sector face similar external pressures, but they do not achieve the same margin outcomes. The difference often lies in how clearly they separate symptoms from structural causes, and how consistently they connect decisions across the value chain. More effective organizations tend to develop a clearer understanding of where value is created and lost, align decisions across functions and simplify complexity where it adds clarity. They also maintain discipline in execution over time. Others, less effective, may act more locally, focusing on immediate issues without fully addressing underlying structural drivers. Over time, this can result in new layers of complexity, even when individual problems are resolved.

This is where margin protection becomes a leadership challenge. Most companies do not lack initiatives. The question is whether those initiatives are connected to the few operating decisions that most influence margin performance. In practice, progress does not necessarily come from large transformation programs. It often starts with sharper priorities and more consistent execution.

A Shift in how Margins are *Managed*

The current environment points to a sustained shift in how food and beverage companies need to manage profitability. Cost pressure may ease in some areas, but volatility, retailer expectations, consumer sensitivity and operational inflation will continue to test the economics of the business. Margin protection therefore needs to move beyond short-term mitigation and focus on the core choices that shape profitability over time: portfolio structure, network configuration, planning effectiveness, operational stability and investment priorities.

The companies that protect margin will move beyond functional cost reduction and build a more integrated view of how operational decisions shape financial outcomes. They will understand the real cost of complexity, quantify where value is leaking, connect decisions across functions and turn analysis into disciplined execution.

This is where EFESO works with food and beverage leaders: connecting strategic choices with operational reality, identifying the structural sources of margin leakage and translating margin ambition into executable change across the value chain.

Ultimately, margin performance will depend not only on how external costs evolve, but on how effectively leadership teams manage the operating decisions that turn pressure into cost, value or leakage. The real challenge is to identify where value is structurally lost, then translate that insight into aligned decisions, disciplined execution and measurable margin improvement that prevent those losses from recurring.

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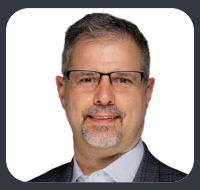

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