

# Executive Summary

## Background to the Survey

1.1 The Welsh Government commissioned Strategic Marketing to undertake a survey of food and drink producers in Wales. A telephone survey of 300 producer businesses in the food and drink sector was undertaken between February and March 2013.

## Demographics and Profile of the Sector

1.2 The sector remains mature with 72% of businesses having been in business since 2006. Around one in ten (9%) have been trading since 2010. As the FMDD database has not been updated since 2011, there are virtually no new recent start ups in the sample.

1.3 The majority of the sector consists of small businesses with 61% having a turnover of under £500,000 and the majority of these companies have less than 10 employees. One in ten businesses (8%) have a sales turnover of £1m - £5m and 6% turnover £5 million or more.

1.4 Producers are typically micro businesses and 81% have 1-9 employees. 14% have 10-49 employees and the remainder have 50 or more employees. The average number of employees is 14.1 people. 82% of employees are in full time positions and 18% work part time.

1.5 29% of businesses interviewed are located in South East Wales, 18% in Mid Wales, 28% are in the North and 25% in the South West.

1.6 The majority businesses are independent producers with just 8% being part of a larger organisation. 14% of those with 10-49 employees are part of a larger organisation which is down from 20% last year. Almost half of the larger businesses (46%) with 50 or more employees are part of a larger organisation. The location of parent companies is largely domestic with 57% based elsewhere in Wales and 37% in the rest of the UK (37%) and just 8% outside of the UK.

1.7 The distribution of the sector by product category remains broadly unchanged since last year. Meat and Bakery & Confectionery sectors account for just over half of all producers (52%). Dairy & eggs account for just over one in ten producers (12%). Businesses producing Preserves & sauces account for 10% of the sector. All other sector categories represent between 1% and 8% of the all producers.

## Business Operations & the Production Process

1.8 37% of all businesses have a business plan which they use to help manage their business. This has fallen from 45% in 2012 which may reflect access to finance issues which are one of the main motivations for developing a business plan. Business plans are in place for the majority of businesses with 50 or more employees (92%). 58% of businesses with 10-49 employees have a business plan - down from 65% in 2012. As in the previous survey, the smallest businesses are least likely to use a business plan (30%) and this has also fallen from 39% in 2012.

1.9 Production processes are predominantly non-automated (50%) or semi automated (47%). Production in one in ten businesses with 10-49 employees (9%) is fully automated and 15% for businesses with 50+ employees. Since 2012,

automation has become more common amongst businesses with 10-49 employees as only 23% are non-automated compared with 35% previously.

1.10 Almost half of all businesses (45%) have achieved one or more accreditation or standard, which is up from 37% in 2012. The most common standards mentioned were Red Tractor (14%), SALSA (14%) and BRC global standard food safety (11%).

### **Sustainability and Local Sourcing**

1.11 Action on sustainability and environmental measures remains high amongst producers with 95% undertaking some kind of activity and just 5% not doing so. The biggest change is on water conservation where 77% of businesses have taken action, up from 68% in 2012. There is a slight increase of 3% for those taking action on energy conservation and reducing distribution costs which have risen to 82% and 67% respectively. The use of renewable energy sources has fallen slightly from 23% to 19% of businesses.

1.12 Over half of all businesses (52%) say that they source three quarters or more of their ingredients from within Wales showing little change since 2012.

1.13 More businesses are sourcing produce locally as almost two thirds (62%) source more than half of their ingredients locally rising from 57% in 2012. The proportion of businesses sourcing none of their ingredients locally has fallen from 14% to 9%. Progress in this area impacts not only on sustainability but also on developing a sense of place for businesses using local produce and the development of food tourism.

### **Supply Chain**

1.14 Collaborations between producers and their customers or suppliers remain at similar levels to 2012 with 59% of businesses collaborating in this way. As before, this is more common in businesses with 10 or more employees.

1.15 The most common type of collaboration undertaken is new product development (88%). There is a greater emphasis on NPD compared to the previous survey. 'Accessing new markets' was mentioned by a fifth.

1.16 Just over a quarter of businesses (27%) showed interest in working in collaboration with foreign companies but this appeals most to businesses with 10 or more employees – 42% of those with 10-49 employees and 62% of those with 50 or more employees. Those who already collaborate with customers or suppliers are also more interested (36%) than those which do not (14%).

1.17 More businesses are investing in NPD (55%) compared to 2012 (47%). As before, involvement in NPD increases with the size of business. The largest rise is amongst businesses with 10-49 employees as 77% invest in NPD compared with 61% in 2012. Half of all micro businesses invest compared with 43% previously.

1.18 Almost all businesses investing in NPD use internal resources (96%), up from 81% in 2012. 15% use external assistance compared with 28% in the previous survey. The pressures of the economic climate may be contributing to the shift between the use of internal versus external resources.

1.19 Two fifths of producers (41%) have invested in production capacity and efficiency improvements in the last year. A greater proportion of businesses in the

10+ employee groups have invested with 58% in the 10-49 group and 77% of the 50+ employee group doing so.

1.20 In total, the businesses interviewed invested around £33m in the last year with an average of £331,000. 84% of investments have resulted from businesses with 50 or more employees which invested £2.8m per business on average. Businesses with 10-49 employees invested £189,000 on average compared with £24,000 amongst those with less than 10 employees.

1.21 A fifth of businesses received public sector support towards their investment. Public sector support is most common in businesses with 50+ employees where two fifths (41%) received support compared with a quarter (24%) of businesses with 10-49 employees and 16% of those with 1-9 employees.

### **Customers and Markets**

1.22 All have a strong bias towards local market distribution although this is lower for the largest employers (85%). The proportion of businesses with 10-49 employees distributing across Wales has risen from 65% to 79% since 2012 and 62% distribute across the UK up from 57%.

1.23 The majority of businesses with 50+ employees distribute nationally and to UK markets. 12% of all producers distribute internationally and is strongest amongst businesses with 10+ employees.

1.24 72% of producers sell direct to the general public compared with 83% in 2012 and this remains an important market for all but the largest companies. 52% sell to independent retailers which is the most frequently mentioned market for businesses with 10-49 employees (60%). 40% sell to food service/catering and hospitality, 27% to wholesalers/distributors, 17% to multiple retailers and 7% sell through direct export typically to France, USA, Spain and Holland.

1.25 Sales direct to the general public account for about half of all turnover (48%), on average with independent retailers accounting for 20% and food service/catering and hospitality 14%.

1.26 22% of those not currently exporting are interested in doing so, up from 17% in 2012. Businesses with 10-49 employees show the most interest (37%) up from 29% in the previous survey.

1.27 46% of producers say they are a current supplier to the tourism sector. Just over a third of businesses (35%) have never considered supplying the sector.

### **Marketing**

1.28 Marketing themes remain broadly similar to the previous survey. 74% of producers refer to their products as being 'Welsh' in their marketing or packaging. Around two thirds (62%) refer to their products as 'local'. 40% refer to their products as 'regional' but this is less common amongst businesses with 50+ employees (23%).

1.29 44% of respondents are aware of the Protected Food Name Scheme and a third think it may be of relevance to their business.

## **Product Distribution & Collaboration**

1.30 83% of producers distribute their own products and 49% through customer collection. 33% use third party distribution routes and just 4% have a collaborative arrangement in place.

1.31 There is a generally positive response to the idea of collaborating with other food producers and processors. Two thirds were interested in one or more area of potential collaboration. The most popular areas for collaboration are 'accessing new markets' (60%), new product development (50%) and sales (42%).

## **Business Constraints and Future Plans**

1.32 The most significant constraints on business development are increased costs/overheads and finance and access to finance which were both mentioned by 29% of businesses unprompted. Both of these themes reflect the impact of the current economic climate.

1.33 Producers remain relatively positive about the future development of their business. 38% expect their employee numbers to grow in the next two years and this rises in the larger size bands. 60% expect employee numbers to remain the same. Just 2% expect employee numbers to fall.

1.34 Overall, almost six in ten producers (57%) expect their business to expand in the next five years compared with 49% in 2012. Eight in ten businesses with 10 or more employees anticipate expansion. Half of businesses which expect to expand in the next five years have a business plan in place.

1.35 'Local direct sales' is a priority area for future market development for 69% of respondents but is less of a priority for larger businesses. Businesses with 50 or more staff show more interest in National retailers (50%), local hospitality/catering, national food service or export markets (42% each).

## **External Business Support**

1.36 The most common areas of support from FMDD were entry into the 'Wales the True Taste' food and drink directory (27%) and involvement with the 'Wales the True Taste' awards (21%). 14% have received business advice or consultant support, 13% have been involved as an exhibitor at a WG sponsored/supported food festival, event or exhibition and 13% have received grant assistance.

1.37 Three quarters of producers (73%) have heard of at least one of the food centres, up from 64% last year.

1.38 Producers who were aware of one or more of the food centres were asked if they had used any of them in the last two years. Just under a third had done so (32%). The most commonly used centre was Food Centre Wales, Horeb which 14% said they had used compared with 11% for Llangefni and 10% for Cardiff.

1.39 A large proportion of respondents made no suggestions on what services they would like to see, primarily because they have little or no experience of the Food Centres. Suggestions for services which should be delivered include NPD support (12%) and product testing (10%). Training and skills courses were mentioned by 10%, often by those in the Meat and Bakery & confectionery sectors.

1.40 The main area for future support from WG is finance/grants and access to finance (37%). Many comment on the need for a general increase in grant assistance

available particularly for expansion and growth, start ups, new equipment, training and development.

1.41 Businesses would also like to see a range of support from the WG including practical business advice/support, marketing support and assistance with business costs.