BWYD A DIOD CYMRU
FOOD AND DRINK WALES

Llywodraeth Cymru
Welsh Government

www.gov.wales

Other Food Products Sub Sector

In June 2015 the Welsh Government published an appraisal of the Welsh Food and Drinks Industry by sub sector. One of the most prominent sub sectors was ‘Other Food Products’. It was decided that further investigation of this sub sector was required.

This short report provides more detail on the activities of the sub sector, its product focus and specialisms. Specifically, the report provides detailed employment and business activity statistics from ONS, consumer trends through a review of Kantar data, and business activity through a selection of case studies.

Definition of the Other Food Products Sub Sector
The ‘Other’ sub sector consists of the following nine SIC (Standard Industrial Classification) codes:

SIC Code and Description
10810 : Manufacture of sugar
10821 : Manufacture of cocoa, and chocolate confectionery
10822 : Manufacture of sugar confectionery
10831 : Tea processing
10832 : Production of coffee and coffee substitutes
10840 : Manufacture of condiments and seasonings
10850 : Manufacture of prepared meals and dishes
10860 : Manufacture of homogenised food preparations and dietetic food
10890 : Manufacture of other food products n.e.c

Business Activity: Other Food Products Sub Sector

The following table sets out the latest data on local business units by SIC code in Wales and GB. There are 95 local units in Wales which is around 5% of GB. Manufacture of cocoa, and chocolate confectionery appears to be a specialism in Wales at 7%.

UK Business Count: Local Units GB and Wales, 2015

SIC Code and Description	2015 Local Units		
	GB	Wales	Wales as % of GB
10810 : Manufacture of sugar	10	0	0%
10821 : Manufacture of cocoa, and chocolate confectionery	220	15	7%
10822 : Manufacture of sugar confectionery	200	5	3%
10831 : Tea processing	25	0	0%
10832 : Production of coffee and coffee substitutes	50	0	0%
10840 : Manufacture of condiments and seasonings	180	10	6%
10850 : Manufacture of prepared meals and dishes	215	10	5%
10860 : Manufacture of homogenised food preparation/dietetic food	105	5	5%
10890 : Manufacture of other food products n.e.c	740	45	6%
108: Manufacturing Other Food Products (Total)*	**1,745**	**95**	**5%**

*Note: Data is rounded to the nearest 5. Total may not sum to the column sub groups due to rounding.
Source: ONS

Business Unit Numbers

- The pie chart overleaf shows the proportion of businesses by type in 2015. The vast majority (50%) are 'other manufactured products', containing business activity that does not sit well within the alternative industry classification codes.
- 22% of businesses are involved in confectionery, including 17% (15 enterprises) in chocolate manufacturing.
- There are no coffee enterprises recorded since 2012, although up to five enterprises were recorded in 2010 and 2011.
- There has been growth in condiments and seasoning; increasing from 5 to 10 in 2013[1].
- In total 95 local units were recorded in the UK Business Count data for Wales in 2015[2].

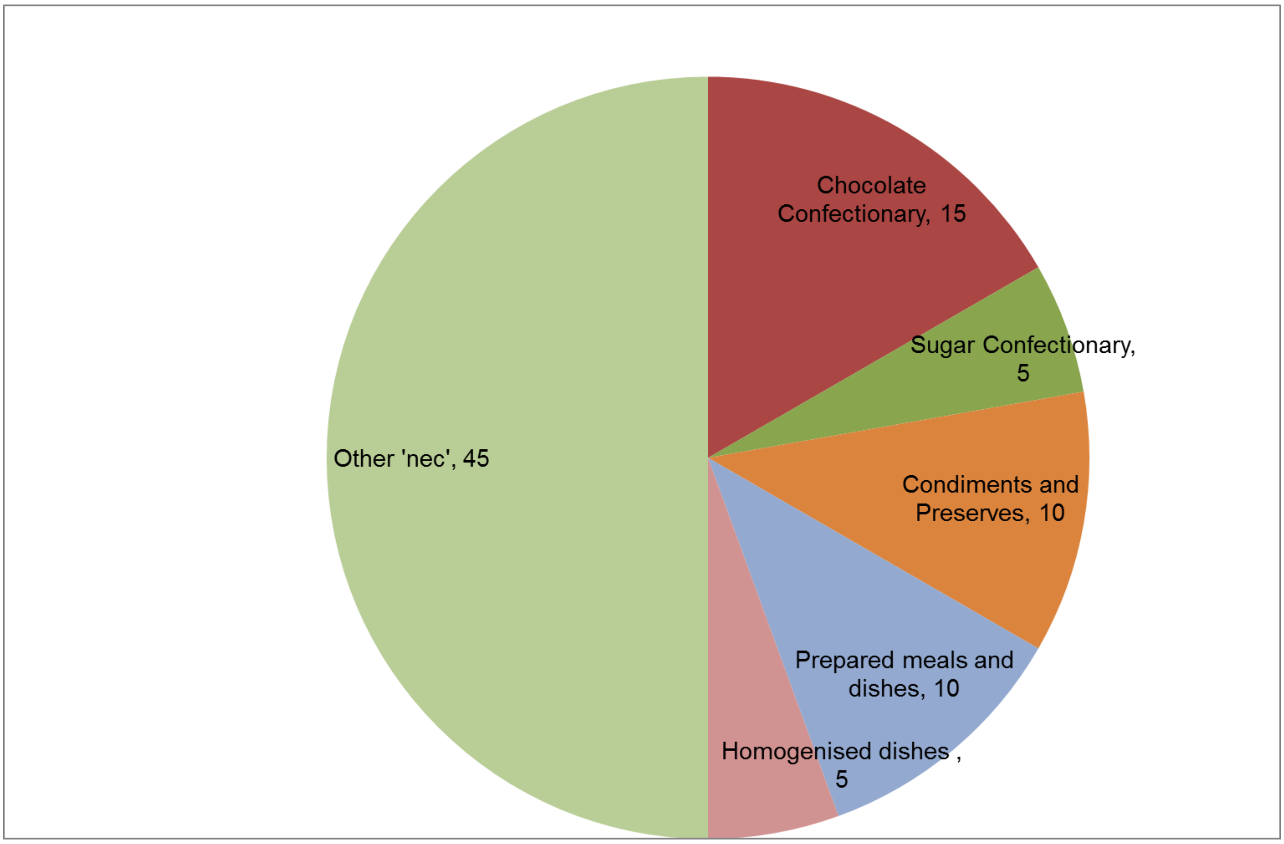
Business Size within the Sub Sector

- In terms of the **size of businesses**, the vast majority are micro (63% or 60 local units) employing between 0-9 employees. There were 15 small businesses (10-49 employees), 15 medium businesses (50-249) and 5 large business, each employing more than 250 employees.

[1] Note, data is rounded to the nearest 5, and therefore total increase may only be an additional 1 enterprise.
[2] Local units record the multiple sites operated by enterprises and are therefore greater than the number of enterprises recorded.

- Sub sector detail shows that the 5 large business units (+250 employees) recorded operated within the **prepared meals** sub sector.
- Within the medium sized business units (50-249 employees), 5 were recorded in the manufacturing of **chocolate confectionery** and 5 in the **prepared meals** sub sector.
- Relative to GB, Wales has fewer prepared meal and sugar confectionery manufacturers than expected (local unit LQ of 0.9 and 0.5 respectively)[3]. Wales has more chocolate manufacturers than expected (local units LQ of 1.3).

Welsh Local Units by 5 digit SIC, 2015



Source: ONS. Note: Total number of local units: 95

Employment[4]

- There were 5,300 in employment within the Other Food products sub-sector in Wales in 2014, down 3% from 2013 (ONS).
- 38% of employment (2,000 in employment) was within manufacturing of **prepared meals** and dishes, which grew by 3% from 2013.
- Employment in **prepared meals** has fluctuated over the last 5 years. Having increased by over 1,000 between 2009 and 2010, it fell 16% to 2,000 in 2011 and has remained relatively constant at that level.

[3] Location Quotient (LQ) captures the concentration of resource within a sub sector relative to the structure of resources across GB. LQ=1 is the same as GB, <1 is less concentrated; <1 more concentrated.
[4] Note employment figures rounded to the nearest 100 to avoid disclosure.

- 39% of employment (2,100) was categorised as '**other food products n.e.c**.', capturing employment amongst companies that found it difficult to attribute their activities to the SIC coding system. Employment in 'n.e.c' has doubled since 2009, with steady growth each year.
- There were 700 in employment within the **confectionery** sub sector, down 9% on the previous year. Confectionery manufacturing employment in Wales grew strongly from 2010 (500 employment) to a peak of 800 in 2013, an increase of over 45%. Current levels have fallen, but remain a third higher than 2010. The sub category accounts for 14% of employment.
- Employment in **condiments and seasonings** accounts for 7% of employment within the Other Food Products. Employment had grown steadily up to 2013, with 200 additional jobs since 2009. However, latest data shows a 22% decline and employment falling from 500 to 400.

Wales Employment Relative[5] to Great Britain

- Comparing Wales' relative employment amongst the Other sub sector categories to Great Britain shows that Wales has relatively low employment (LQ<1) within confectionery[6] and condiments (LQ 0.73 and LQ 0.85 respectively)
- Wales has a higher concentration of employment within homogenised food products (despite total employment being small) and a greater concentration of employment within prepared meals (LQ 2.17 and LQ 1.27 respectively)
- Wales has a higher concentration of employment allocated to 'n.e.c' than GB, with an LQ of 1.15.
- Within sub groups of sugar manufacturing coffee and tea processing, Wales has negligible activity.

Directory Review

- A search of limited companies identifies 99 Welsh companies in the 'other' sub sector and a further 11 non-Welsh companies but with significant operations in Wales. That makes 110 companies in total.
- 52 of these are new companies incorporated since 2010 and 20 since 2014.
- 23 had a net worth[7] of more than £500k in 2014 and 11 had a net worth of more than £1m. 37 had a net worth of less than zero highlighting the small size and parlous financial situation of many companies.
- The oldest companies are the largest – 32 companies were incorporated before 2001 with a combined net worth of £78m in 2014. In comparison, the 78 companies incorporated on or after 2001 have a combined net worth of £9.1m with almost half being down to one company.
- The total employment of firms identified was 4,700, though many smaller firms do not disclose figures. This is close to the ONS estimates above.

[5] Location Quotients (LQ) measure the relative concentration of employment within the sub sector compared to the GB norm. An LQ of greater than 1 means higher concentration and LQ less than 1 means less concentrated.
[6] Influenced by sugar confectionary. Wales' employment in chocolate confectionary is LQ=1.08
[7] Net worth provides a snapshot of total assets less liabilities and an indication of size and financial health of a company.

Retail Activity: Other Food Products Sub Sector

Kantar Data[8]

- The 'Other' sub sector is worth £16.6bn at retail in GB and £1.01bn in Wales.
- The sub sector comprises 12 miscellaneous Kantar retail categories that include Chilled Convenience, Take home confectionery, Hot Beverages, Savoury home cooking, and Sweet home cooking. These 5 categories account for 80% of sub sector sales in GB and 81% in Wales.
- The sub sector has shown year on year growth of 1.7% in GB, predominantly driven by price inflation/customer trade-up. In Wales similar growth of 1.8% is also predominantly fuelled by average price per unit moves.
- Spend on various categories to May 2015 in Wales was:
  - Ready meals (chilled and frozen) £216m, up from £203m in the previous 12 months.
  - Chocolate confectionery unchanged at £161.3m.
  - Sugar confectionery £43.9m.
  - Sweet home cooking £87.9m, down 2.4%.
  - Preserves £10.5m, down 1.5%.
  - Pickles, chutneys and relishes down to £5.6m from £6.4m in 2013.
- The categories driving GB growth are Chilled Convenience, Hot Beverages, Packet Breakfast, Savoury Carbohydrates and Frozen Confectionery. In Wales, Chilled Convenience, Hot Beverages, Savoury Home Cooking, Packet Breakfast and Savoury Carbohydrates are driving growth.
- Wales has a 6.1% share of the Other sub sector indexing slightly ahead of Total Grocery at 102 overall.
- Wales heavily over indexes (i.e. sells more than expected) of 'Other', Frozen Prepared, Frozen Confectionery, Take Home Confectionery, Hot Beverages, and Packet Breakfast Sectors.

Category	Index Vs Total Grocery Sales in Wales
Other	134
Frozen Prepared	126
Frozen Confectionery	116
Take Home Confectionery	107
Hot Beverages	107
Packet Breakfast (not cereal)	104
Sweet Home Cooking	103
Savoury Home Cooking	102
Savoury Carbohydrates	97
Total Condiments	97
Chilled Convenience	95
Canned	90
Total	**102**

Source: Analysis of Kantar May 2015 data

[8] All Kantar data is for the twelve months to May 2015.

Further detail is provided below on the five main segments of the other sub sector - Chilled Convenience, Take home confectionery, Hot Beverages, Savoury home cooking, and Sweet home cooking

Chilled Convenience

- Includes Ready Meals, Savoury Pastry, Desserts, Dips, Cooking Sauces, Pate & Spreads, Sandwich fillers, Soup, Olives, Vegetarian and other.
- Is worth £5.5bn in GB and £315m in Wales, with growth of 4.1% and 4.7% respectively.
- Chilled convenience under indexes at 95 for retail sales in Wales vs Total Grocery sales.
- The six segments below account for 90% of sales in GB and 95% of sales in Wales. Chilled Dips show the strongest growth +9% in GB and +7% in Wales.

Chilled convenience breakdown	Wales	GB
Ready Meals	£163m	£2.8bn
Savoury Pastry	£62m	£1.06bn
Desserts	£42m	£703m
Dips	£7.4m	£161m
Sandwich Fillers	£7.1m	£126m
Fresh Soup	£5.2m	£122m
Total	**102**	

Trends: The Chilled Convenience Category is dominated by retailer Own Brand. Over the past 20 years, growth has been huge. More recently, we have seen segmentation as retailers have created ranges to meet different shopper needs within the ‘good, better, best’ consumer solutions. That said, there has also been increasing pressure on price and some commoditisation. This commoditisation has given space for brands where they have a point of difference, such as ‘true authenticity, ultra-premium or healthier’.

In Ready Meals, the launches of the ultra-fresh ready meal brand Scratch and the super-premium brand Charlie Bighams have been successes. In Savoury Pastry there are numerous national brands e.g. Ginsters has created a well-established premium position, but there are a number or other brands such as Pukka Pies, Peters, Pork Farms and Walls. These brands have originated in convenience and transferred their consumer strength into credible major multiple retailer listings. In Wales there are some strong brands such as Village Bakery and Welsh Pantry.

In Soups we have started to see influence of the ‘mega healthier’ trend, whether it is more natural/freshness or ‘better for you/not as bad’. The launch of SkinnyLicious a low calorie, natural fresh soup brand has been a new success. In Desserts, GU has reset the standard for premium desserts and created a new tier for ultra-indulgence. In Dips Sabre occupies the authenticity space.

Take Home Confectionery

- Includes take home Chocolate Confectionery, Sugar Confectionery and Gum Confectionery.
- Is worth £3.3bn in GB and £210m in Wales.
- Chocolate Confectionery is the biggest sector worth £2.4bn and £161m in Wales and is static year on year.
- Take Home Gum Confectionery is the smallest sector worth £89m in GB and £5.3m in Wales but is in strong growth up 4% in GB and 22% in Wales.

Trends: Chocolate consumption has seen a shift from out of home to in-home sharing as consumers slow their day time consumption and opt for sharing bags on the sofa. Some out of home consumption has moved to **natural confectionery**. The first brand, Fruit Bowl, was launched over ten years ago and since then many others have launched such as Bear and Nakd and the sector is seeing strong growth.

The debate on sugar may affect future prospects as even natural fruit brands such as Bear are being identified with high sugar albeit natural sugar. The question is whether consumers will regard all sugars as the same or regard natural sugar vs refined sugar in a similar way to saturated vs unsaturated fats. Overwhelmingly, brands that have nutritionally strong values and deliver a treat will be the ones that are best positioned for growth.

Interestingly **Sugar confectionery** is also growing, but this sugar has always been overt - consumers already know it is there. It seems that products with hidden sugar are the ones that are struggling.

Hot Beverages

- Includes Instant Coffee, Liquid & Ground Coffee & Beans, Tea and Herbal Tea.
- Is worth £1.74bn in GB and £111m in Wales.
- Is growing faster than total grocery at +1.8% in GB and 2.2% in Wales, with the growth being fuelled by trade up.
- The instant coffee sector is worth £823m and £54m in Wales, The Tea sector is worth £654m and £41m in Wales, and the Liquid & Ground and Coffee Beans sector is worth £271m and £15m in Wales.

Trends: significant premiumisation over the last few years. In **Tea** the varieties and variants have proliferated. Herbal, fruit, green and flavoured teas are in strong growth, all at the expense of "standard" black tea. Twinings has been at the forefront of this growth firstly through getting shoppers to trade up and then diversify. Now mainstream brands are launching into new sectors such as PG Tips into new premium varieties of black tea and Tetley into new flavours and functional teas such as Tetley Supergreen Tea Immune.

In **Coffee** the explosion of the in-home coffee machine has seen the coffee pod sector become a £100m plus sector accounting for 10% of total Coffee. With household penetration of machines at 12% vs 50-60% in France/Germany there is still significant room for growth. In addition this growth is incremental as the instant coffee sector remains flat year on year.

Savoury Home Cooking

- Includes Ambient cooking sauces, Ethnic Ingredients, Herbs and Spices, Meat Extract, Packet Stuffing, Salt, Sweet & Savoury Mixes and Vinegar.
- Is worth £1.67bn in GB and £100m in Wales.
- In GB Sweet Home Cooking is showing 0.8% growth and in Wales 2.8% driven by increased volumes. Wales slightly over indexes in Savoury Home Cooking at 102 vs Total Grocery.
- The four biggest sectors are Cooking Sauces worth £755m in GB and £46m in Wales; Meat Extracts £361m in GB and £22m in Wales; Ethnic Ingredients £179m in GB and £9.7m in Wales

and Herbs & Spices at £169m in GB and £9.5m in Wales. These four segments account for 87% of sales value in GB and 88% in Wales.

- Ethnic Ingredients, Herbs & Spices and Meat Extracts are in strong growth in GB and Wales.
- In value terms, Ambient Cooking Sauces are down -1% in GB and just up in Wales +1%, however volumes are up in both GB and Wales suggesting some deflationary pressure in this segment.

Trends: The general trend towards scratch cooking, new cuisines and authenticity has driven Ethnic Ingredients, Herbs and Spices and Meat Extracts. Three innovations have helped drive this trend:

- Maggi So Juicy has launched a cook in the bag solution where you add meat into a bag with spices already included.
- Old El Paso foods has pioneered the Tex Mex sector with kits, sauces and spices that accompany this occasion.
- Knorr have reinvigorated the stocks market with Knorr stock pots and this has been followed up recently with gravy pots.

Sweet Home Cooking

- Includes Ambient Sponge Puddings, Artificial Sweeteners, Home Baking, Milkshake Mixes, Mincemeat, Desserts and Custards, Icing, Sugar , Syrup & Treacle and Jellies.
- The biggest segments are Home Baking worth £482m in GB and £28m in Wales, Sugar worth £289m in GB and £19.2m in Wales, Desserts and Custards worth £226m and £14m in Wales and Artificial Sweeteners £67m and £4m in Wales.
- These segments account for 87% of sales in GB and Wales.

Trends: Only **Home Baking** is showing strong growth of 4% in GB and 5% in Wales. Sugar is in massive decline, -17% in GB and -16% in Wales. Home baking has been revived in the last few years fuelled by the BBC's Great British Bake Off with more households home baking. However in the last year the growth has been through trade up to more expensive ingredients rather than increased volumes as total volume is down 1% in GB and flat in Wales. Dr Oetker has pioneered the decoration market encouraging shoppers to trade up and add value through buying beautiful but easy decorations for home baking.

Reducing Sugar intake is being championed by the GB Government in tackling the population's health problems. It is the health issue most talked about by the media. As a result there has been a significant shift in awareness of the harm that sugar can do to health. It is unsurprising therefore that Sugar is down 17% in value in GB and 16% in Wales, however volume is only down 5% in GB and 3% in Wales with most of the value drop due to deflation.

Stevia is the first of lower sugar natural plant extracts that companies are using to retain sweetness and reduce calories. Tate and Lyle have launched Sugar with Stevia that has half the calories of ordinary sugar. It is likely that there will be more of these types of products as companies try to get sweetness without the calories.

Case Study Activity: Companies in Wales

Large Company Case Study

OP Chocolates, based at Dowlais, Merthyr Tydfil, was incorporated in 1990 and employs around 415 staff. In 1991 it was bought by the French Groupe Cemoi. OP Chocolates specialises in producing own brand moulded wafers and biscuits as well as moulded chocolate bars and mallow and wafer bars. It is one of the largest Welsh companies in the 'Other' sub sector by turnover at £43m in 2014. The company is a good example of Wales' specialism in chocolate confectionery.

Innovative Company Case Study

Newport based Bar Foods Ltd was incorporated in 1987 and was Welsh owned until it was acquired by the Billington Group in 2012. The company is a major supplier of soup, sauces and recipe dishes to the pub and restaurant trade, and has been operational for nearly 30 years. It was the first to market with BBQ ribs, and to identify the need for individual portion control sauces. The company has a net worth of £9.6m, and employs around 250 employees.

Core Competence Case Study

Express Contract Drying Ltd has sites in both Ebbw Vale and Tregaron and specialises in drying to produce natural flavours and colours for the food and pharmaceutical industry. The company claims to be the largest toll dryer for the food sector in the UK and has recently installed new capacity to reach 6,500 tonnes per year. Employing around 70 staff, the company estimates that its recent expansion will enable turnover to increase to £3.5m.

Ingredients Company Case Study

PB Gelatins UK Ltd has been part of the international chemical group, Tessenderlo since 1964. PB Gelatins makes gelatine products for numerous applications including confectionery, dairy products and desserts and savoury products. Collagen hydrolisates are used in food supplements, nutritional and sports food and drinks, and in special foods with a low glycemic index or for people with diabetes. Based in Rhondda Cynnon Taff, the company employs around 70 employees and has a turnover of £28m, and a net worth of £2.3m.

Research Intensive Company

ANR Probake Ltd was established in 2008, at the Newcastle Bioscience centre, focusing on developing nutritionally enriched baked foods. With success and expansion, the company moved to a modern factory in Blackwood South Wales in 2011. A research intensive business, ANR Probake researches individual ingredients in terms of nutritional benefit, shelf life, processing etc. in order to develop nutritionally advanced food products for markets such as sports nutrition, clinical nutrition, balanced foods for children and the elderly and paleo diets. Products include nutrition bars, brownies, cookies, cakes and muffins with a key focus on the private label market. The company has a net worth of circa £660k.

Great Taste Awards 2015 Case Study

A number of companies have won numerous Great Taste 2015 awards for their products. Examples include Miranda's Preserves, Footprint Coffee, CK Food and Drinks for Pad Prig Pao Sauce, CoalTown Coffee, Bim's Kitchen for peanut butter and Piri Piri Sauces, Black Mountain Gold Chocolate, Patchwork Traditional Foods for pates, and Anglesey Sea Salt. Whilst these businesses are smaller than some of the examples listed earlier, they help illustrate the quality and diversity of Welsh 'other' food companies.

BWYD A DIOD CYMRU
FOOD AND DRINK WALES

www.gov.wales/foodanddrinkwales

bwyd-food@wales.gsi.gov.uk

@FoodDrinkWales