

MID-TERM EXECUTIVE REPORT THE VALUE OF WELSH FOOD AND DRINK 2017



Bwyd a Diod Cymru
Food & Drink Wales

A copy of this report is available in Welsh

THE VALUE OF WELSH FOOD AND DRINK

2017 marks the mid-term point in the Welsh Government's Strategic Action Plan, 'Towards Sustainable Growth: An Action Plan for the Food and Drink Industry 2014-2020'.

This is an appropriate time to review the performance of the industry since 2014, to highlight its achievements and to provide insight into future needs and challenges¹.

THE FOOD AND DRINK SUPPLY CHAIN

The Food and Drink supply chain includes primary production, food and drink manufacturing, wholesale, retail and foodservice, the sector accounts for one in five business units and 18% of the Welsh workforce and has grown strongly over the period.

This growth is down to a 20% increase in foodservice employment where the sector has steadily recovered following the financial crisis of 2008, with very strong growth in out of home consumption.

240,200

EMPLOYED ACROSS:



CATERING

82,500



RETAIL & WHOLESALE

77,700



AGRICULTURE

59,600



MANUFACTURING

20,400



£19.1 BN

TURNOVER



*Gross Value Added



27,575

BUSINESS UNITS

THE FOOD AND FARMING PRIORITY SECTOR

The Welsh Government has identified food and drink as a 'priority sector' (the priority sector includes primary production and food and drink manufacturing only).

The food and drink manufacturing sector in Wales has good links to its agricultural production and has built on its strong heritage by expanding into new products and markets through innovation in product development and marketing. The Welsh Government, working with industry, has set a target to grow the food and drink priority sector to £7bn turnover by 2020. The sector has made strong

progress towards this target, increasing from £5.4bn in 2013 to £6.9bn in 2016, very close to achieving this ambitious target, three years ahead of schedule.

The sector in Wales has grown by 27% compared to 15% at the UK level. The increase in turnover has been achieved without increasing employment, suggesting improved productivity over the period. In fact, Welsh food and drink manufacturing productivity has risen from £58,400 to £60,000² in 2015 (latest data) with some fluctuation over the period, while the UK has slightly declined.

£6.9

BILLION
in 2016



INDUSTRY TURNOVER TARGET OF £7BN

¹ This report takes as its baseline an average of the years 2012 and 2013. This is to smooth out fluctuations from choosing only one year as the baseline.

² Gross Value Added per employee.

THE FOOD AND DRINK MANUFACTURING SECTOR

The food and drink manufacturing sector has seen turnover grow by 3% since 2013, ahead of UK growth. Welsh manufacturing turnover accounts for a growing proportion of total UK sector turnover, rising to 5.5% in 2016, reflecting Wales' continued growth within the sector.

A key feature of the Welsh food and drink sector is its ability to offer economic opportunities across the country, even in the most remote rural areas where local produce and entrepreneurial talent have combined to create many new innovative businesses. Survival rates of new start-ups in the sector in Wales are among the highest in the UK - the 5 year survival rate in Wales being 56% in 2016 (UK 45%).

The Welsh business birth rate for the sector was 11% in 2016 and while below the UK level of 15%, the Welsh business death rate at 9%, is also below the UK level of 13%.

Structurally, the food and drink manufacturing sector in Wales is relatively similar to the UK when total business units are reviewed. The key difference is within dairy, where Welsh businesses represent 11% of the sector, compared with 7% in the UK. However, as a number of these businesses are small, this difference is eroded when total employment is reviewed, and dairy accounts for 5% of total employment in both Wales and GB.

Employment numbers show the importance of meat processing, accounting for 27% of Welsh sector employment, compared with 19% in GB. Welsh employment in 'Other' food products³ is also above the GB average at 27% of employment compared with 23% for GB. On the other hand, Wales remains under-represented in seafood and fruit and vegetable processing relative to GB. These sub sectors account for only 1% of Welsh sector employment compared with 12% across GB.

Over the course of the action plan, sector employment has fluctuated somewhat, with 2015 being a peak year for most sub-sectors. The drop in 2016 means that overall, employment is down 6% over the period, with dairy, bakery and pet food witnessing the greatest declines. The 'Other' foods³ category, whilst down year on year, remains 5% above the baseline. Across GB, employment is up 9% on 2012/13 with year on year growth between 2015 and 2016.

Despite the fall in employment, business units in Wales have continued to increase, up 16%. Growth has been seen across most sub-sectors. Productivity is up (as highlighted above). Meat processing and seafood are the only sub sectors to have seen business units decline. At the same time, UK business units have increased 19%.



Wales has a slightly higher proportion of medium and large businesses (employing more than 50) than the UK food and drink manufacturing sector. This is particularly apparent in grains and starch, meat, and 'other'.³ Over the period, Wales has seen an increase in the largest businesses within the 'other' sub sector and a slight drop in the medium sized businesses within the drinks sector. Amongst Wales' large businesses, there appears to be some specialism in supplying the retail 'own label' markets.

The majority of employment within the food manufacturing sector is full time (94%), though median wages of £19,000 (2016) are below the wider economy figure of £20,800. Across all sectors, wages in Wales are 10% lower than the UK economy and this is also true of food manufacturing. Median wages within the drinks industry are substantially higher than food manufacturing (£36,800 Wales) reflecting a greater level of mechanisation with fewer low skilled line operatives.

The sector skills council highlights a need for 19,000 trainees in the Welsh food and drink supply chain by 2022. In particular, there is seen to be a shortage of food technical and engineering skills plus concern at the potential impact of Brexit on migrant worker availability.

³ Comprising ready meals, chocolate, confectionery, condiments, and preserves.



FOOD AND DRINK RETAIL

The Welsh food and drink retail market captures £5.4bn of consumer spending, employing 72,200 people within Wales, many in part time roles.

Whilst the Big 4 still dominate, and account for a combined market share of 62% in Wales, they are being squeezed at both ends. Growth amongst the discounters means that Aldi and Lidl now have a combined market share of 12%, while Iceland and Farm Foods have both increased market share. At the premium end, Waitrose and M&S have also increased their market share. These competitive pressures have subdued prices, leading to deflation over the period, despite strengthening economic conditions. The competition for listings is fierce, with supplier and retailer margins under pressure.

There are around 3,700 Welsh products currently available in Wales at retail level. With a single retailer listing between 20-30,000 products, the scope for growth is substantial. Recent research into the Value of

Welshness showed that there is strong shopper support for Welsh food and drink, with 78% of those surveyed saying that they would always choose Welsh products if price was not an issue and 44% saying that they would pay more for Welsh produce. There is clear demand for quality Welsh produce at retail, and real opportunity for Welsh businesses to expand their supply.

Welsh manufacturers have shown their capabilities in supplying the 'own label' market. Often overlooked, 'own label' branding is a far more prominent feature in the UK market than Europe, with 50% of all products sold under retailer branding, and almost 96% of fresh produce, meat and poultry. Building on Welsh food and drink manufacturing specialisms and driving further growth in own-label supply is a real opportunity for Wales.



FOODSERVICE AND OUT OF HOME

The Welsh out of home market has grown strongly over the period. Welsh out of home spend is estimated at £2.8bn in 2016, showing year on year growth of 7.8%. Wales' share of out of home spend has been increasing to 5.9% of GB spend, near the population share of 6.1%.

Growth is being driven by increased frequency of purchases, together with increased unit prices. The foodservice sector in Wales captures a massive 41% of total out of home spend.

Foodservice account for 8,200 business units, and employment of 82,500. Employment has increased by 20% over the period to support the increase in demand.



Formal and quick meals are important in Wales, and account for 63% of total out of home spend. Consequently, pubs and bars are relatively more important in Wales than in GB. Changing shopper behaviour presents businesses with a number of opportunities within the market, with expanding demand for out of home food and drink beyond the traditional lunch time push. Spending by demographic shows that

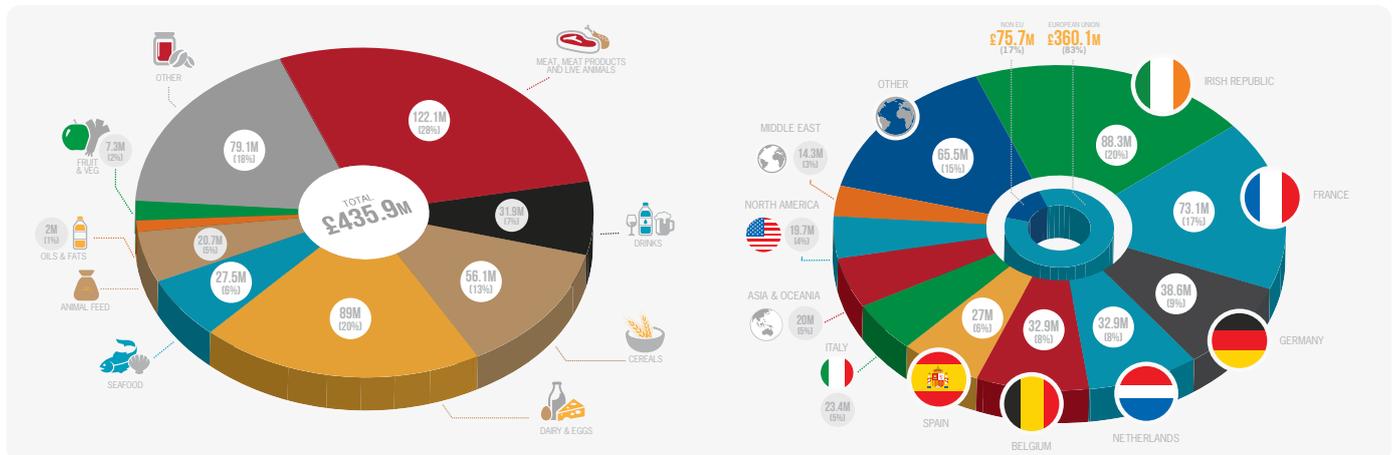
the market is particularly important for Baby Boomers (55+) in Wales, with an average annual spend of £1,290 on out of home - 44% being spent on formal meals and 19% on hot drinks.

The growth of the sector, and the increasing importance of Food to Go makes this an important and dynamic market for Welsh suppliers to target.



FOOD AND DRINK EXPORTS

Welsh Food and Drink exports were £436m in 2016, around 2% of UK. They have grown 9% over the period, with some fluctuation, against 7% growth at the UK level.⁴ Ireland remains the dominant export market.



FOOD AND DRINK CONSUMER TRENDS

The consumer market continues to evolve rapidly with the latest change being the return of inflation to food prices.

The UK economy has remained resilient despite threats around Brexit and rising consumer debt. Economic prosperity, attitudes to health by both consumers and policy makers, localisation and globalisation are all having an impact on what shoppers want. The market is looking for both indulgence products and healthy ones at the same time – in-home and on the go. Shoppers have shown that they have a high regard for food and drink from Wales. There is a real opportunity to capitalise on this but it is critical that Welsh companies continue to be responsive to the multiple and often conflicting needs of shoppers and policy makers.

the crowd is ever more difficult. Generation Z (those born after 2000) expect brands to communicate to them, and the role of personalisation within the food industry is a sign of this.

Consumer loyalty and trust has eroded, with consumers much happier to shop around, switching between brands, retailers and restaurants, looking for the best value propositions.

Social media and other technologies allow more direct communication with consumers - but being heard above

The market offers exciting opportunities for innovation in new products and marketing messages built upon provenance and traceability – and Wales has shown that it is well placed to build upon these opportunities.

CONCLUSION

Great progress has been made toward the £7bn turnover target by 2020.

However, the sector continues to be very competitive with pressure on margins and a need for continued innovation and capital investment. Businesses have increased both production and turnover with a smaller labour force, suggesting improved productivity.

convenience are impacting all segments of the market. Given the size of Wales and its finite supply of raw materials, there is a need to add as much value as possible to Welsh food and drink products, to differentiate from competitors and to do so more efficiently.

Current uncertainty from Brexit adds complexity to the competitive market – with businesses considering the potential impact of Brexit on the domestic and international markets, as well as input costs and the supply of labour. In the short term, however, Brexit has brought a welcome boost to export competitiveness.

There is a continuing need to:

- Invest capital in production facilities to grow productivity
- To invest in workers to give them the skills they need to support business growth
- To gain the accreditations and skills necessary to supply different markets and manage customer relationships
- Innovate in marketing to clearly communicate Welsh propositions
- Target growing market channels such as Out of Home

There are many opportunities for Welsh businesses. Strengthening global demand and an active international trade programme is driving export demand. On the domestic market, there is strong growth in out of home markets. Own label supply is an important route to target if accompanied by reassurance messages around provenance. Consumers have a high regard for food and drink from Wales. Major trends around health and

Welsh food and drink production is growing beyond expectation and its reputation and provenance gives a strong platform for further growth that will benefit many of the most remote and rural parts of Wales with quality jobs.

⁴ HMRC has changed and improved its methodology to capture Welsh exports more accurately from 2013. This has led to an absolute increase in the value of exports from Wales.

