THE VALUE OF WELSH FOOD & DRINK

EXECUTIVE REPORT

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FOOD AND DRINK WALES

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In June 2014 the Welsh Government published its Strategic Action Plan, 'Towards Sustainable Growth: An Action Plan for the Food and Drink Industry 2014-2020'.

An economic analysis to improve industry baseline data has highlighted the significant contribution that the agri-food sector makes to the Welsh economy.

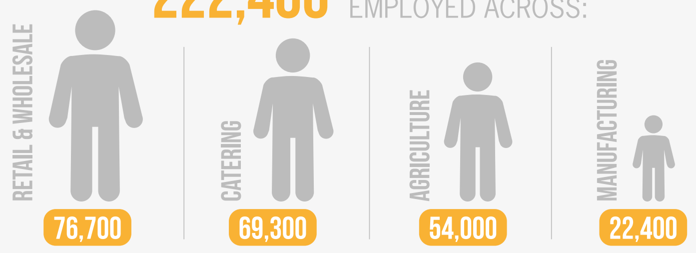
The report highlights that the Welsh industry continues to capitalise on its food heritage and provenance, new routes to market and export-led growth opportunities.

The industry needs to invest in R&D, skills, new capacity, and marketing to create up to 7,000 jobs in the Welsh economy by 2020.

£15.5BN TURNOVER

ACROSS THE WELSH FOOD & DRINK SUPPLY CHAIN

222,400 EMPLOYED ACROSS:



THE FOOD AND DRINK SUPPLY CHAIN

The Food and Drink supply chain is a major part of the Welsh economy.

It is diverse, dynamic and growing. Including primary production, food and drink manufacturing, wholesale, retail and foodservice, the sector accounts for one in five business units and 17% of the Welsh workforce.

THE FOOD AND DRINK PRIORITY SECTOR

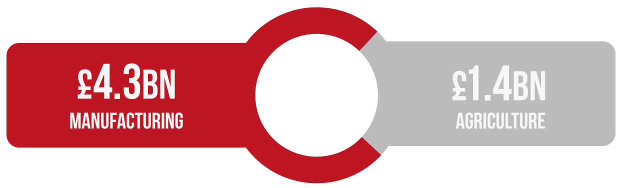
There are strong linkages between the natural environment of Wales, its climate and the food it produces.

Primary production is closely linked to food and drink manufacturing. Sub sectors such as dairy, meat, drinks, horticulture and seafood highlight these linkages. Recognising the importance of the 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 built on its strong heritage and expanded into new 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.

£5.7BN IN 2013

BASELINE TURNOVER OF THE WELSH FOOD & DRINK PRIORITY SECTOR



INDUSTRY TARGET OF £7BN

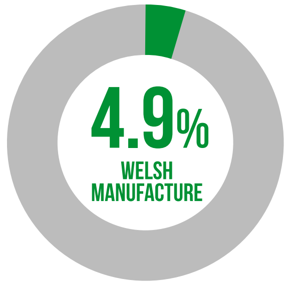
TURNOVER OF THE PRIORITY SECTOR BY 2020

THE FOOD AND DRINK MANUFACTURING SECTOR

Following the economic downturn there are positive signs of recovery in the Welsh food and drink manufacturing sector. Output fell by 30%, from a peak in 2007, to a low point in the first quarter of 2013. The index of total production is now 3.3% up on 2011, compared to the UK's 2.4% rise over that period.

TOTAL UK FOOD AND DRINK SECTOR

TOTAL UK FOOD AND DRINK MANUFACTURING TURNOVER



While Wales accounts for 3.7% of the wider UK food and drink supply chain, its food and drink manufacturing turnover is 4.9% of the UK as a whole. This highlights some specialism in food and drink manufacturing in Wales. Foodservice and wholesale are slightly less prominent in Wales than the rest of the UK.

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. Growth in growth in new business start-ups is strong, outpacing those leaving the sector, especially within the drinks sub sector. This is a similar picture to the UK as a whole.

Structurally, the food and drink manufacturing sector in Wales is relatively similar to the UK although Wales has a higher concentration of dairy business units. It is not always possible to capture all businesses in the official data – some may have diversified from primary production into processing and sectors like fisheries and horticulture may not be fully captured within the official data.

Wales has a slightly higher proportion of medium and large business (employing more than 50) than the UK food and drink manufacturing sector. This is particularly apparent in grains and starches, meat, and other foods (chocolate, confectionery, condiments, and preserves). In these sub sectors there appears to be some specialism, especially in the medium to large companies, in supplying the retail 'own label' markets. Other sub sectors such as drinks, fish processing and fruit and vegetable processing are dominated by small businesses.

UK food and drink manufacturers spent £425m on R&D in 2013, with Wales spending only £4m, down from £7m in 2011. These figures run counter to the UK trend and suggest Wales underspends on R&D by £17m.

£4M SPENT ON R&D

BY WELSH FOOD & DRINK BUSINESSES

The majority of employment within the food manufacturing sector is full time, though median wages of £17,900 (2013) are below the wider economy figure of £24,400. Wages within Wales are lower than the UK economy in general, and this is also true of food manufacturing.

The sector skills council highlights a need for 19,000 trainees in the food and drink supply chain by 2022. To meet the turnover target of £7bn will require an additional 6,700 staff in manufacturing alone before the effect of any productivity improvements on the sector.

Food and drink manufacturing productivity is generally lower than other sectors across the UK. However, Wales enjoys marginally higher food and drink productivity than the UK, with GVA per employee in 2012 estimated at £56,700 compared to £55,100 in the UK.

FOOD AND DRINK MARKETS

The three main markets for Welsh manufactured food and drink output are Retail, Foodservice and Export.

RETAIL

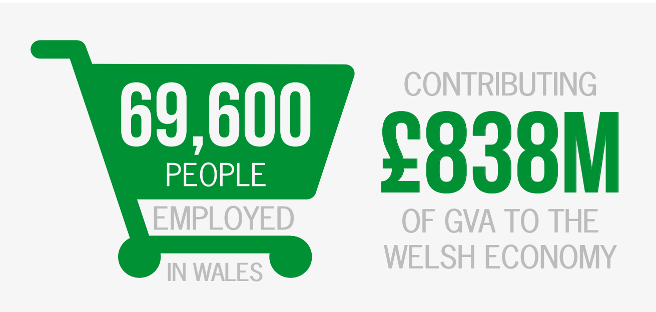
FOODSERVICE

EXPORT

FOOD AND DRINK RETAIL

The Welsh food and drink retail market captures £5.5bn of consumer spending, employing 69,600 people within Wales, many in part time roles. It contributes £838m of GVA to the Welsh economy.

A strong Welsh theme runs through a number of products across bakery, dairy, meat, drinks and vegetables. The top 25 Welsh brands are worth £128m in GB 2015 and while GB sales are up on 2014, sales have actually fallen in Wales by 6%. With the total market for branded products within Welsh retail valued at £3bn, there is very significant scope for Wales to enhance performance here.



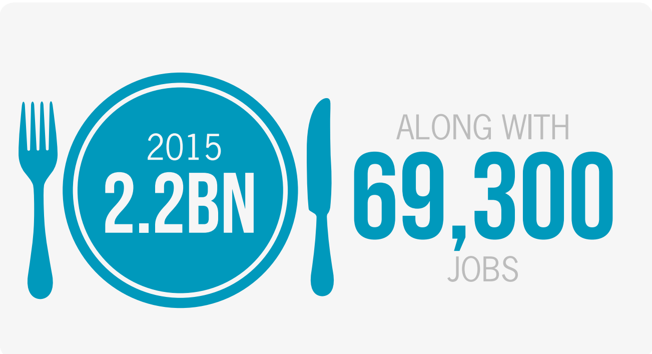
There are major competitive pressures impacting the multiple retail market from the discounters. Having faced a period of falling consumer spending during the recession, consumers have remained modest in their food and drink spending as economic conditions have improved. Marginal volume growth and a decline in sales value have affected profit margins. The resultant emphasis on price and efficiency savings is leading multiple retailers to reduce the number of product lines and to move out of the 'squeezed middle'. Innovative products with strong attributes that secure consumer loyalty are critical.

Welsh manufacturers have shown their capabilities in supplying the own label market. Often overlooked, own 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

Welsh foodservice spend is estimated at £2.2bn in 2015, accounting for 4.5% of GB and 69,300 jobs. One of the first sectors of the economy to show economic recovery, in the year to March 2015, sector spend grew by 5.1%; significantly greater than GB at 1.5%.



Across GB, growth is being driven by the rise of small and major brands, with the long term dominant role of independent outlets declining. The key factor behind this is consumers being value driven - with meal deals playing a crucial part in influencing consumer choice and driving growth. Wales has seen rises in snacking and lunch while GB as a whole has seen growth from increased 'dinner' visits.

With the growth in casual dining, international cuisine and street food, it is likely that Welsh foodservice will become increasing influenced by both major and niche branded outlets.

FOOD AND DRINK CONSUMER TRENDS

The consumer market is rapidly evolving and businesses need to respond to remain competitive.

Factors such as the economic recovery, ageing population, health, social media, the rise of generation 'Z' (those born after 2000), and globalisation are all having a major impact on the consumer market. For example the market for 'free from' is increasing year on year by 19% highlighting a high growth market opportunity.

Social media and multi-platform communication allow more direct communication with consumers - but being heard above the crowd is ever more difficult. Generation Z expect brands to communicate to them, and the role of personalisation within the food industry a sign of this.

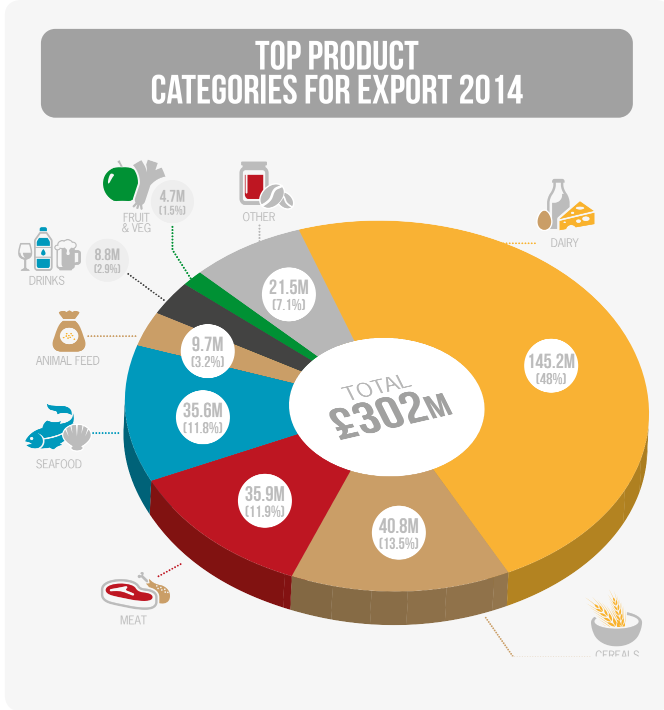
Consumer loyalty and trust has eroded, with consumers much happier to shop around, switching between brands, retailers and restaurants, looking for the best value propositions.

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

FOOD AND DRINK EXPORTS

Food and Drink exports from VAT registered Welsh businesses were £302m in 2014, around 2% of GB. While the data may not capture all exports, this is lower than the Welsh contribution to total GB exports of 5%. Welsh dairy exports accounted for 17% of total GB dairy exports. Much of Welsh milk is processed into cheddar cheese, a major global commodity market. The other three main export groups were cereals, meat and meat products, fish and shellfish with a combined export value of £112m.

Only 2% of total Welsh export value is derived from food, compared with 4% of GB, and 6% in Scotland. If drinks are included, Scotland jumps to 30% reflecting the dominance of Scotch Whisky.



TOTAL EXPORTS SPLIT BY EU/NON-EU 2014 VALUE (£M)

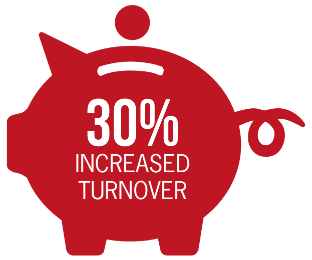
EUROPEAN UNION
£274.2M
(90.7%)

NON EU
£28.1M
(9.3%)

TOTAL
£302.3M

CONCLUSION

With a 2020 target of increasing turnover by 30%, Wales has great potential to grow and a diverse consumer market in the UK and abroad to sell to.



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 and to differentiate from competitors.

The provenance of Wales and its reputation gives a strong platform for growth. Growth in food and drink manufacturing will also benefit Welsh primary production and remote rural areas where the food and drink sector has a greater presence than other sectors.

There is a need to:

- Increase investment in R&D which is low
- Invest in skills to meet identified skills gaps
- Invest capital in facilities to grow productivity
- Innovate in marketing to clearly communicate Welsh propositions.

At the consumer level, the retail performance of Welsh brands in Wales has great potential to increase as does the export market. There is a need to develop products that avoid the 'squeezed middle' and the risk of de-listing from multiples. Own label supply is an important route to target if accompanied by reassurance messages around provenance.

With commitment and hard work there is real scope to sustainably grow the industry value by 2020 – becoming a leading food and drink nation.