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North-east Food & Drink Sector Survey 2011

North-east
Food & Drink
Production
Distribution



*Robert Collier
Chief Executive, AGCC*

Foreword

Members needs are at the heart of the work of the Aberdeen & Grampian Chamber of Commerce and, as a result, we have formed a range of sector-interest groups from within our membership of more than 1,200 organisations allowing us to target specific needs with increasingly tailored services and benefits.

As part of these services, the Chamber is pleased to publish a series of surveys to provide sector specific research on businesses in North-east Scotland. The third of these covers food and drink, due to be published in summer 2012, but brought forward due to member demand.

The aim of this survey is to highlight the importance of the food and drink industry as a commercial contributor to the overall Scottish economy. In 2009, the national partnership, Scotland Food and Drink, set renewed targets as part of a refreshed strategy to attain and maintain growth for the food and drink sector. This report aims to provide a general overview of the Food & Drink Network in the region.

Our conclusion is that overall, the sector appears to be performing well in the current economic climate, although this may be attributable to caution and increased efficiency. While the overall economic environment appears to have had a harsh effect on the sector, factors that are within reasonable control of businesses appear to be better managed. Businesses have reported an increase in the level of overall investment, especially in research, product range expansion, marketing and training, however, it appears that the lack of finance and suitable government policy is affecting the ability of businesses to prosper.

In spite of relative success, the North-east's Food & Drink Network appears to be operating below capacity overall. There is an implication that the sector has the potential to increase its activities which could increase jobs, profitability and overall prosperity for the sector and for the region. However, the industry can only utilise full capacity where the resources required are available to them.



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North-east Food & Drink Sector Survey

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North-east Food & Drink Sector Survey

EXECUTIVE SUMMARY

The Key Findings

- In addition to primary production, food processing is a key activity in the North-east's food and drink sector. However, related non food and drink business is an important part of the sector's activities, and it appears that food and drink, tourism and leisure related activities are closely inter-related. This may provide the basis for more collaboration between these sectors in order to exploit potential joint opportunities as well as share some marketing, cost and resource burdens.
- The results show that the largest population of firms in food and drink is that of micro and small businesses, employing between 1 and 49 people. However, the main drivers of employment for food and drink in North-east Scotland are the few organisations with a large employee base of more than 249 employees.
- The change in employment index shows that overall employment in the sector has dropped slightly, by about 2%. It is encouraging to note that the main reason for reducing staff for most companies (nearly 65%) was because they had found more efficient ways of running the business. Nevertheless, about 19% of businesses reduced staff because they had experienced a drop in the level of demand, and about 9% did so because they needed to downsize.
- As many as 65% of businesses have reported an increase in their product range, 50% have reported an increase in research spend as well as productivity, 47% have reported an increase in investments, and another 47% have reported an increase in turnover. On balance, this is a good outcome for the region and shows that were costs to decrease, the potential for profitability and impressive growth can be realised.
- The main challenges faced by the sector are increasing costs and low confidence in the ability to manage them, access to markets, and adequate access to finance. This has resulted in a squeeze on profits which is shown in the net index of businesses reporting a change, representing a negative change of approximately 17%.
- 90% of businesses expect costs to rise further, while approximately 50% expect to increase their product range and productivity, and to see a rising demand for their product. Over 60% expect an increase in overall turnover.



- There is significant latent capacity in the sector. 50% of respondents state that current requirement is equal to (21%) or higher than (29%) of available capacity, but another 50% are not currently operating at full capacity.
- Food and drink businesses feel that investment in training has been worthwhile and has helped them. Equally, businesses value the output obtained from collaborations, research investment and new product development. This provides evidence that businesses benefit from training, collaboration and research, and that this should be encouraged as a standard premise upon which food and drink businesses pursue their strategies.
- As a group, the food and drink sector in North-east Scotland spent an average of 2.65% of their budget on training. Of these, 38% of businesses spent only as much as 1%, 49% spent above 1% but no more than 5%, and the remaining 13% spent between 5% and 10%.
- The use of social media is popular within this sector and rivals traditional advertising as a preferred means of marketing and promoting the business. In this regard Businesses in this sector seem to have kept up with this particular technological innovation and appear keen to fully exploit its potential.
- Current export rates, based on feedback obtained, are a low proportion of respondents at 29% of those who provided feedback, while over 67% say that they do not. About 4% and 10% currently plan to start exporting in the next 12 months and beyond the next 12 months respectively. It is likely that export volumes as a proportion of output are higher due to concentration of export activity amongst larger businesses.
- Businesses expect overall demand for the sector's products and services to increase, with the results showing that the preferred strategy (rated 60%) is to increase the share of the domestic market (Scotland and UK), followed by a strategy of new products/brands (rated 55%). Building upon their Scottish credentials was rated 21% while building upon environmental credentials was rated lowest at 5%.

North-east Food & Drink Sector Survey

Introduction

Background and objectives for the survey

The food and drink (F&D) sector in North-east Scotland is an important economic and commercial contributor to the overall Scottish economy. According to the Grampian Food Forum (GFF, 2011), the North-east region returns about a fifth of the total sales value of the Scottish F&D industry, significantly contributing toward national targets.

In 2009, the national partnership, Scotland Food and Drink (SFD), set renewed targets as part of a refreshed strategy to attain and maintain growth for the F&D sector. Specifically, the targets include:

- an aim to increase turnover for the whole industry to £12.5 billion by 2017;
- to increase Gross Value Added (GVA) from £4.1 to £6.1 billion;
- to increase research and development spend from 0.25% to 0.75% of GVA;
- to raise productivity to equal and then outperform UK levels for F&D processing;
- to increase the number of organisations exporting, as well as the value of exports to £5.1 billion by 2017.

While the strategic targets set above may be relatively easy to monitor and measure at a national level, it has been acknowledged that there is difficulty in directly relating clear links between regional F&D activity and national output (GFF, 2011). However, a useful means to obtain an indication of whether the national strategy has been embraced and cascades into the regional strategy is to take a measure of industry activities at the regional level. This can best be achieved by assessing current business performance against past performance, evaluating current practices relative to the national objectives, identifying barriers and opportunities impacting on

performance, and evaluating future expectations, strategic options and overall optimism for F&D within the region.

It is against this background that the Aberdeen & Grampian Chamber of Commerce has focused on the F&D sector in the third of its research series on industry sectors in North-east Scotland. This research aims to provide a general overview of the F&D sector in the region and to specifically meet the objectives mentioned by answering the questions “how is business?”, “how are you doing things?”, “what are the issues?”, “what should be done?”, “what are your expectations for the future?”, and “how do you intend to grow and remain a profitable business?”.

This report here provides a summary of findings from the survey and is exploratory in nature. In future, similar reports may be enhanced by including in-depth interviews and case studies within the research and reporting scope. Furthermore, it will be insightful to provide some intra-sector comparisons between the various business types that form this sector but this cannot be comprehensively achieved with the present sample size, and future research will require larger samples to facilitate this. Nevertheless, the interested reader may contact the Chamber to conduct intra-sector analysis where feasible.

Sector Profile

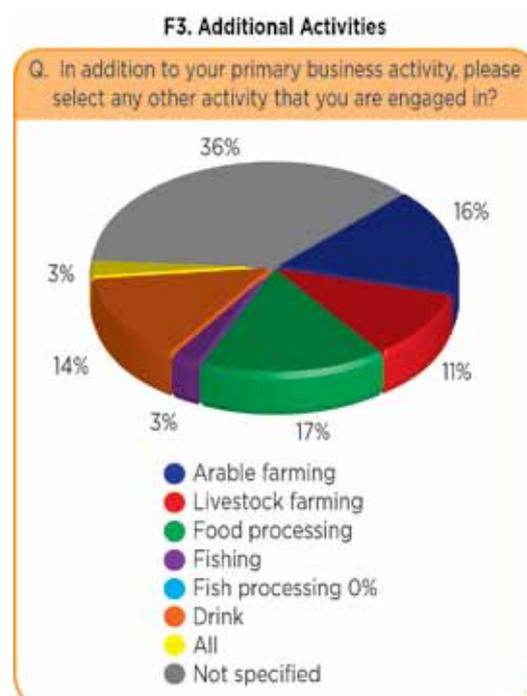
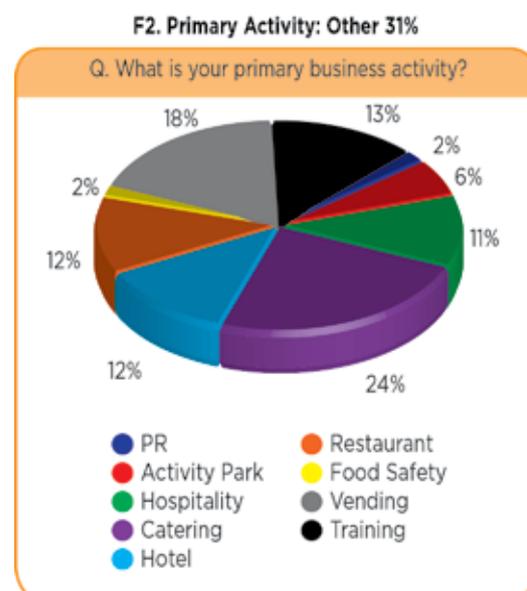
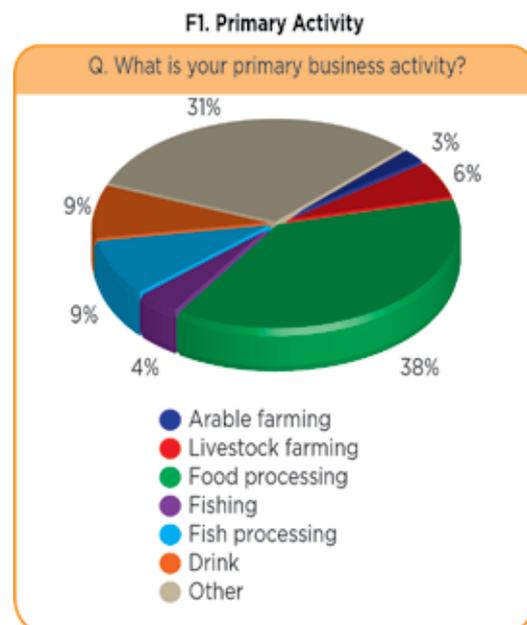
Business activity and type

A detailed profile of the 117 companies that provided usable feedback is set out in Figure 1. It shows that 38% of respondents identify food processing as their primary activity, while drinks and fish processing each account for 9%. 6% is accounted for by livestock farming, 4% by fishing and 3% by arable farming. A large proportion of respondents (31%) identified “other” activity as their primary engagement with F&D. As a result of this, a further analysis of the “other” category was made, and Figure 2 shows that other F&D businesses are mainly in the catering subsector (24%), followed by F&D vending (18%). Other categories are training (13%), restaurants (12%), hotels (12%), hospitality (11%), activity parks (6%), food safety (2%) and public relations (2%).

If the above results reflect the general F&D sector in North-east Scotland, it can be inferred that food processing is the dominant activity in the region’s F&D industry, based on the population surveyed. Furthermore, businesses involved in supporting the sector through the supply chain account for a significant proportion of activity, as evidenced in the “other” category. These findings imply that the F&D industry in North-east Scotland is oriented toward value adding, as base production only accounts for 28% of the respondents to this survey.

Other than their primary activity, over 60% of businesses are involved with one or more other F&D activity. Figure 3 shows that the main additional activity is, again, food processing (17%), followed in order by arable farming (16%), drink (14%), livestock farming (11%), while fish processing and fishing each account for 3% or secondary business activity.

As many as 36% of respondents did not indicate any involvement in an activity other than that related to their primary business, while none of the respondents declared that they were involved in all of the subsectors identified. It can be concluded that most F&D businesses in the North-east are engaged in more than their primary activity.



In addition to their core F&D activities, many businesses also offer related non F&D services and products. Figure 4 shows that as many as 50% of businesses provide retail shopping, about 37% provide a restaurant and food service and 36% provide site tours, while about 22% and 11% provide tourism merchandise and a visitor centre respectively. These results indicate that related non F&D business is an important part of the sector's activities, and show that F&D, tourism and leisure related activities are closely inter-related. This may provide the basis for more collaboration between these sectors in order to exploit potential joint opportunities as well as share some marketing, cost and resource burdens.

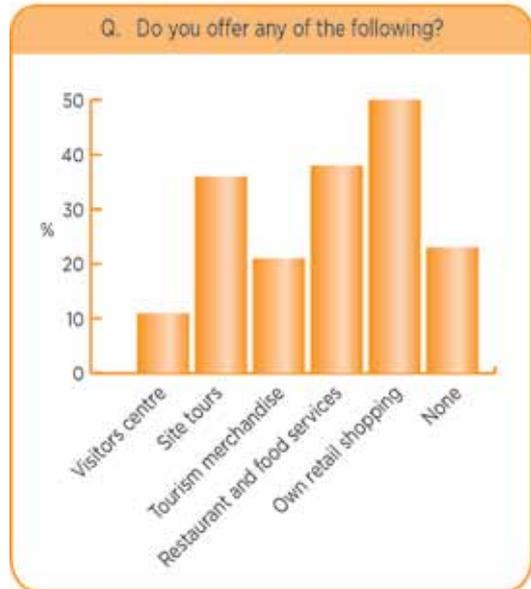
KEY FACT: *These results indicate that related non F&D business is an important part of the sector's activities, and show that F&D, tourism and leisure related activities are closely inter-related. This may provide the basis for more collaboration between these sectors in order to exploit potential joint opportunities as well as share some marketing, cost and resource burdens.*

Figure 5 reveals that the majority of F&D businesses in North-east Scotland are limited by liability (53%), another 20% are in the form of partnerships and 12% are sole trading.

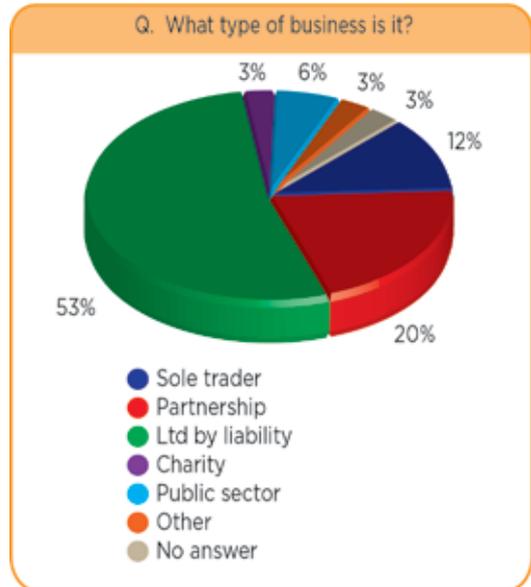
Turnover

Nearly 20% of businesses have a turnover of £50,000 or less, while overall about 53% of businesses have a turnover of £1m or less (Figure 6). The £1m mark is important because the British Bankers' Association defines small enterprises as those with a turnover of not more than £1m and applies this criterion in its decision making on financing and investment evaluation in this category. On the other hand, using the European Union (2005) classifications, about 65% of businesses in the F&D sector are micro businesses as they have a turnover of no more than £2.2m. Under the same classification, about 14% of businesses have a turnover of over £2.2m

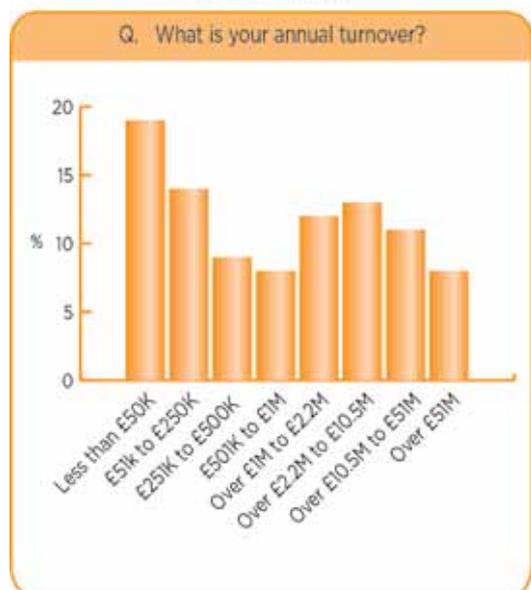
F4. Related non F&D Activities



F5. Business Type



F6. Annual Turnover



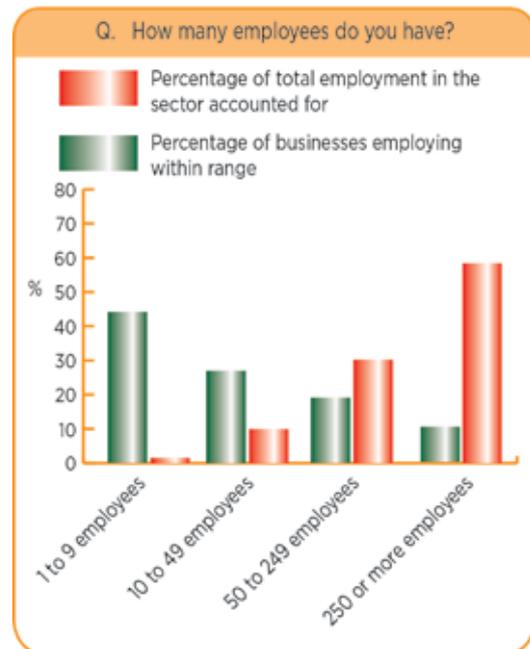
but not more than £10.5m and will be classified as belonging to the small enterprises category, about 12% have a turnover of up to £51m and will be classified as medium enterprises, while just over 8% have a turnover of more than £51m and will therefore be classified as large enterprises. From these results it would appear that the largest population of firms in F&D is that of micro and small businesses, hence, support for this sector should take account of this.

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Number of employees

On average, F&D businesses in North-east Scotland have around 65 employees per business. As Figure 7 shows, 44% of businesses in the region employ between one and nine people, accounting for 1.5% of total employment in the sector; 27% employ between ten and 49 people and account for 9.9% of total employment in the sector; 19% employ between 50 and 249 people, accounting for 30.2% of total employment in the sector; and 10.25% employ 250 or more people, accounting for over 58% of total employment within the sector. These findings reflect a higher employment dependence on large businesses in the region than as reported at the national level, although this may be due to survey techniques used. The Scottish Government (2010) reports that in 2008, organisations with more than 50 employees accounted for 45% of all employment in the sector, while 55% of employment was accounted for by businesses with less than fifty employees.

F7. Size by Employees and Percentage of Employment



Hence it can be inferred from the inverse relationship that although there is a large number of businesses employing a small number of people, the main drivers of employment for F&D in North-east Scotland are the fewer organisations with a large employee base of more than 249 employees. A breakdown of employees by type is presented in the section on skills and people, along with further analysis on skills resource and availability. It should be noted here that the figures quoted for national employment are fairly out-dated and may not reflect current employment trends both at the national and regional levels. However these are the most current figures available and should be interpreted as only a guide for comparison.

KEY FACT: Hence it can be inferred from the inverse relationship that although there is a large number of businesses employing a small number of people, the main drivers of employment for F&D in North-east Scotland are the fewer organisations with a large employee base of more than 249 employees.

How's Business?

Change in key indicators over 12 months

For 47% of businesses, overall percentage performance of the key indicators measured in this research remained the same over the preceding 12 month period (Figure 8). However some 14% witnessed an increase in at least one parameter and about 11% witnessed a decrease in at least one parameter. In general, these results would suggest stability in the industry and may reflect a strategy of consolidation during a harsh economic environment. However, when examined individually, it becomes apparent that the areas that have not witnessed any change are key indicators for growth and prosperity for the industry. For example, about 60% of businesses report no change in market share, over 45% report no change in number of employees or investments, and up to 70% report no change in exports. These results can be viewed in line with expectations contained in the national F&D strategy for Scotland which has been built around businesses increasing exports, expanding market share and generating more employment. Therefore it may be of interest to note that only about 24% of respondents reported an increase in exports. However this result should be interpreted with caution, given that a large proportion of respondents were from the local supply chain and domestic related services.

Indicators showing an increase are not all positive. For instance, the highest increase change in the general costs of running the business, as more than 85% of businesses report that costs have increased. On the other hand, just over 20% of businesses have reported an increase in profits, while over 40% of businesses have witnessed a decrease in profits in the same period, 29% have reduced the number of employees, and 26% report a decrease in access to finance.

But there is good news too. As many as 65% of businesses have reported an increase in their product range, 50% have reported an increase in research spend as well as productivity, 47% have reported an increase in investments, and another 47% have reported an increase in turnover. On balance, this is a good outcome for the region and

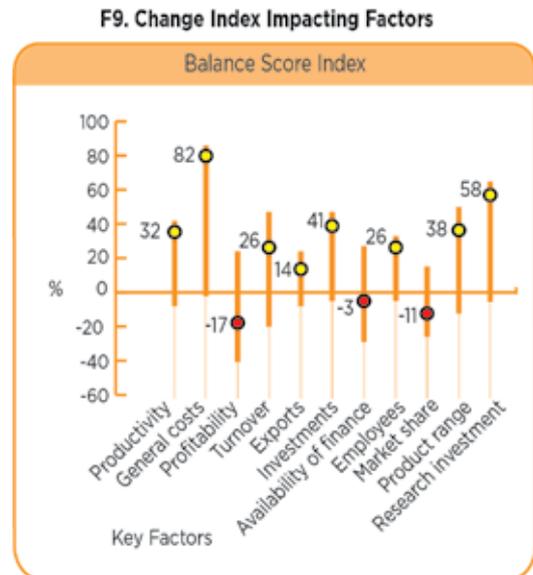
F8. Key Indicators Change Over 12 Months



KEY FACT: As many as 65% of businesses have reported an increase in their product range, 50% have reported an increase in research spend as well as productivity, 47% have reported an increase in investments, and another 47% have reported an increase in turnover. On balance, this is a good outcome for the region and shows that were costs to decrease, the potential for profitability and impressive growth can be realised.

shows that were costs to decrease, the potential for profitability and impressive growth can be realised. The results also show that in spite of rising costs and reduced profitability, the North-east's F&D sector has witnessed increased investment in business and research, and this in turn has seen a marginal increase in productivity and a sizable increase in the diversity of goods being produced. The underlying strength brought about by these developments can be realised if businesses are able to reduce costs, expand their markets and export more of their products.

To provide added perspective, the change index in Figure 9 can be examined. This index represents the difference between percentage increases and decreases for each of the categories considered above. As it shows, the widest increase-decrease gap is on general costs, which on balance has risen. There are nevertheless positive gains in productivity, turnover, investments, market share, research investment and product range. On the downside, there are negative balances for profitability, employee size, and availability of finance. This shows that overall, sector profit margins are being squeezed, and an increasing number of businesses within the sector are witnessing reduced access to finance.

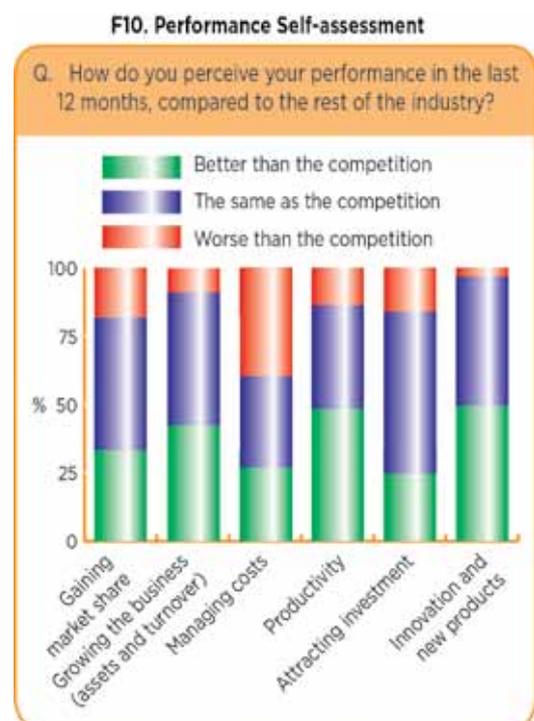


KEY FACT: Overall, sector profit margins are being squeezed, and an increasing number of businesses within the sector are witnessing reduced access to finance.

While the above indicators may be due to the overall economic conditions, it is important to know how businesses perceive their own performance through self-assessment. This measure can give an indication of overall confidence in strategy, management and prospects for the business. The average self-assessment ratings are reported in the next section in percentages across the industry but can be utilised as a benchmark by individual businesses to evaluate their own perceived performance in comparison to the perceived performance of other businesses in the sector.

Performance Self-Assessment

Figure 10 shows that in general, the majority of businesses express confidence in their performance across the criteria measured, with results showing that an average 45% feel they are performing as well as the rest of the industry, and an average 37% believe themselves to be outperforming the rest of the industry. This is especially significant



in the productivity and innovation criteria, where 48% and 47% respectively assess themselves as performing better than the competition. On the contrary, it would appear that a large percentage of organisations (39%) are not confident about their cost management ability, compared to the rest of the industry. These results mean that whereas businesses feel that they are doing well given the available opportunities and resources, a significant percentage feel they can do better. The results also show that the closer a factor appears to be within the control of business, the more businesses that assessed themselves positively on it. Clearly, support with managing costs is critical for many businesses, while support in increasing market share and attracting investment would also be beneficial to large portions of businesses.

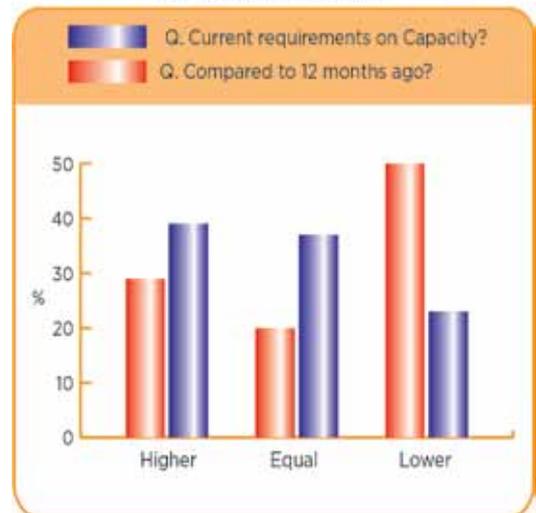
Utilising available capacity

50% of respondents state that current requirement is equal to (21%) or higher than (29%) of available capacity (Figure 11), but another 50% are not currently operating at full capacity; 39% state that current capacity use is an increase over the same period in the previous year (Figure 11) and 24% state that current demand is a decrease on demand for the same period in the previous year, giving an overall indexing increase of 15%. 37% of respondents state that the level of demand has not changed in the 12 month period. It would therefore appear that overall, year on year demand has increased or remained the same, but that there is a current problem of capacity utilisation for at least half of the businesses in the region. It is important to note here that these results may be a reflection of the seasonality of the F&D sector and not necessarily a systemic capacity utilisation problem.

It is worth considering how businesses might be able to better utilise their available capacity across all seasons, as these results, if they are a reflection of the overall region, reveal potential idle capacity by a large number of businesses. It is encouraging to note that the percentage of firms that report an increase in capacity utilisation is higher than those reporting no change or a decrease. If this trend carries through to the next year, then overall demand on available capacity should increase across more businesses.

KEY FACT: 50% of respondents state that current requirement is equal to (21%) or higher than (29%) of available capacity (figure 11), but another 50% are not currently operating at full capacity; it is worth considering how businesses might be able to better utilise their available capacity across all seasons, as these results, if they are a reflection of the overall region, reveal potential idle capacity by a large number of businesses.

F11. Capacity Requirement versus Available Capacity



Impacting Factors

Costs

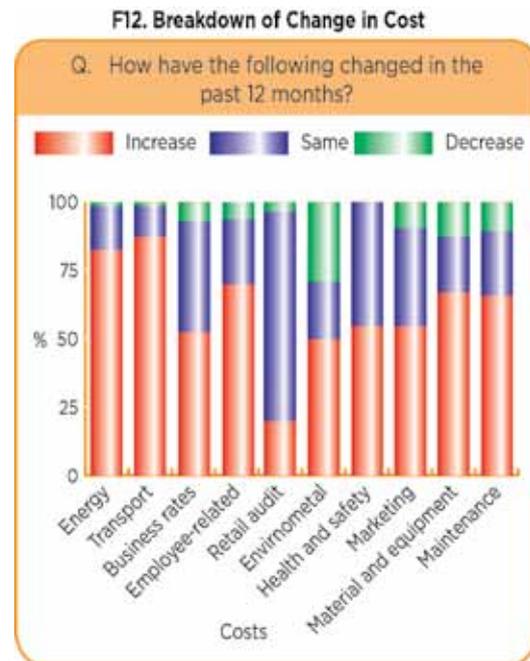
In the previous section, the costs associated with running the business were identified as the indicator that had witnessed the most increase from the previous year. Hence cost can be considered as one of the most impacting factors on businesses in North-east Scotland, and this warrants a breakdown of cost items in order to identify which costs are the most severe. Table 12 shows that in general, costs have increased for the majority of firms in all categories with an exception in the costs associated with retailer audits, where costs have remained the same for a large percentage of respondents.

Not surprisingly, the highest percentage of firms has witnessed a rise in energy and transport costs (83% and 88% respectively), as suppliers continue to pass fuel costs onto the businesses. Considering that the F&D industry significantly depends on the transport and energy infrastructure, this continued rise in their costs is concerning for businesses within the sector.

70% of businesses report a rise in employee related costs. Given that current unemployment rates for North-east Scotland average nearly 5% below the Scottish national level (see Office of National Statistics, 2011), this rise may be due to a trend-bucking upward pressure on wages as well as other costs associated with retaining employees in the region. It is also possible that regulatory burden associated with taking on and laying off staff accounts for some of the rises witnessed in this category.

Over 50% of businesses have witnessed a rise in business rates, cost of implementing environmental requirements, cost associated with health and safety requirements, and costs relating to marketing. Furthermore, over 60% have witnessed increases in costs associated with material and equipment as well as maintenance.

On a positive note, nearly 76% of businesses have witnessed no change in costs associated with retailer audits, 44% have seen no change in health and safety costs, and about 40% have seen no



change in their business rates. Furthermore, over 28% of businesses report that there has been a decrease in the cost associated with implementing environmental requirements, while some 12% have also made savings in the material and equipment costs.

Other impacting factors

Other than costs, there are other factors that were identified as impacting upon businesses in the previous 12 months (see Figure 13). While some of these factors were generic to business in this sector, other factors become more prominent and instrumental as a result of developments in government policy, changing economic conditions and strategic realignment by businesses. Some factors had a positive impact on business, in the sense that their occurrence or availability helped the business perform better or avoid performing worse. Other factors impacted negatively on the business, in the sense that their existence or occurrence did not contribute to the business's growth but potentially impacted upon its ability to prosper. Figure 13 shows how businesses in North-east Scotland rated the key factors identified during the interview stages and from secondary research. The factors with the highest net positive effect on businesses in the region (highlighted in green) were training, collaboration, and research and new product development. Clearly, businesses feel that investment in training has been worthwhile and has helped them. Equally, businesses value the output obtained from collaborations, research investment and new product development. The positive verdict for these factors is an important outcome of this research as it provides evidence that businesses benefit from training, collaboration and research, and that this should be encouraged as a standard premise upon which F&D businesses pursue their strategies. Other factors that were highly rated as having a net positive effect are membership of trade and business networks, and marketing.

Not surprisingly, business rates and costs were rated as having the highest negative effect on businesses, only performing slightly worse than the negative impact of EU policies. The national and international economic environments, access to finance, grants and subsidies, and immigration

F13. Factors Impacting Business



KEY FACT: *Businesses feel that investment in training has been worthwhile and has helped them. Equally, businesses value the output obtained from collaborations, research investment and new product development. The positive verdict for these factors is an important outcome of this research, as it provides evidence that businesses benefit from training, collaboration and research, and that this should be encouraged as a standard premise upon which F&D businesses pursue their strategies.*

policy also had a significant negative impact on businesses in the period reviewed (all highlighted in red). These results show that factors that are outside the relative control of individual businesses appear to be having a more pronounced negative effect than factors that the businesses are able to control or manipulate. The conclusion from this result is that in spite of the climate of economic difficulty surrounding them, F&D businesses in the North-east are doing their best to be effective and efficient in utilising the resources available to them. Hence, it would appear that given the high impact of with external factors, more lobbying is required to ensure favourable policies that will benefit the F&D sector in the region.

KEY FACT: *The conclusion from this result is that in spite of the climate of economic difficulty surrounding them, F&D businesses in the North-east are doing their best to be effective and efficient in utilising the resources available to them. Hence, it would appear that given the low level of satisfaction with external factors, more lobbying is required to ensure favourable policies that will benefit the F&D sector in the region.*

Table 1 summarises the net ratings for each factor and uses a traffic light method to categorise factors according to net positive impact (green), relatively neutral impact (amber) and net negative impact (red). The scores are based on a converted scale of -50 to +50. The most significant positive factors are therefore research and product development, collaboration, training and marketing. On the other hand, the most severe negative factors have been EU policy, business costs/rates, national and international economic environment, access to finance and grants/subsidies, and immigration.

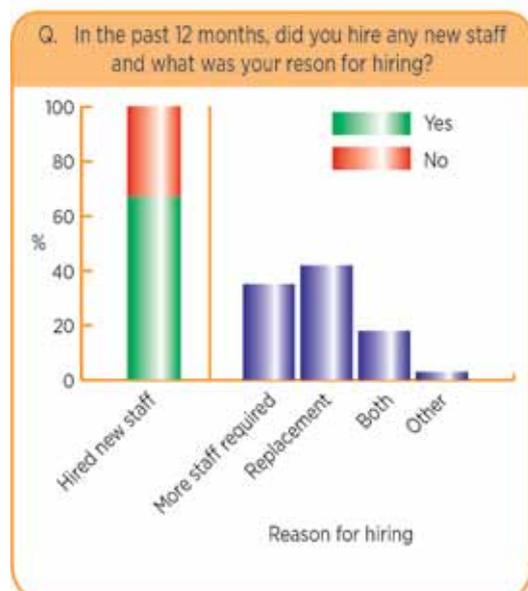
Skills and people

During the preliminary interviews with stakeholders, one of the key aspects of business strategies and operations in the F&D sector was identified as availability of skills and human resource. Following from this, the research survey sought to explore in depth the experience of businesses in finding, hiring and retaining suitable people. Figure 14 shows that of those who provided feedback, as many as 68% had recruited new staff in the past 12 months, although in Figure 14, we can see that most companies (43%) recruited new staff because they needed to make a replacement. 35% of businesses recruited new staff because they required more staff, while 19% recruited for both reasons. It would appear therefore that while recruitment may be as a result of expansion and growth for some businesses, a significant portion of businesses appears to be experiencing staff churn. This, again, may be attributable to the relatively low levels of unemployment in the region, or competition for skilled staff.

Table 1. RAG Analysis for the Factors Impacting Business (index)

Research / product development	●●●	28.5
Collaboration with others businesses	●●●	24.1
Training	●●●	23.5
Promotions and Marketing	●●●	17.7
Membership of business / trade networks	●●●	16.1
Staffing and recruitment	●●●	9.6
The NES economic environment	●●●	7.4
Renewable energy policy / use	●●●	3.3
Environmental requirements	●●●	2.2
Scottish government policy	●●●	-2.1
Support from government / public agencies	●●●	-2.4
Changes in exchange rates	●●●	-5
Immigration policy	●●●	-9
Access to grants and subsidies	●●●	-10.1
Access to finance	●●●	-11.5
National / international economic environment	●●●	-17.3
Business costs and rates	●●●	-26.4
EU Policy	●●●	-26.4

F14. Hired New Staff



On the other hand, this result may simply reflect the seasonality that has already been referred to as common within this industry. For some businesses, it is simply more economical and prudent to have high rates of staff turnover as a result of seasonal hiring, casualisation and contracting.

Businesses were then asked to say the level of ease or difficulty they had experienced in finding and hiring staff. Figure 15 shows that over 20% of businesses felt they had found it either easy or very easy to recruit new staff, while 35% did not consider it either easy or difficult. However, a considerable percentage of businesses expressed difficulty in recruiting new staff (about 34%), while a smaller number (representing about 10%) said that it was very difficult to do so.

Consequently, businesses were asked about the availability and adequacy of skills, experience, training and recruitment opportunities in North-east Scotland (Figure 16). About 38% of respondents considered the skills and experience available in the region as adequate for their needs, 44% considered these to be inadequate while approximately 18% were uncertain about their adequacy. However, the picture was clearer in relation to availability of training and development opportunities. More than 55% of respondents considered available training opportunities to meet their needs, but about 24% felt otherwise and about 21% were uncertain. Finally, about 54% of businesses felt there were adequate recruitment avenues in the region, nearly 15% felt this was not the case, and just over 30% were uncertain.

Given the rising costs (including employee costs) as previously reported, businesses were asked whether they had reduced staff numbers in the previous 12 months. As Figure 17 shows, more than half of businesses (62%) did not find it necessary to reduce staff, implying that for the majority of businesses, economic conditions did not lead to staff reduction.

However, as many as 38% of businesses providing feedback stated that they had reduced staff in the previous 12 months, and while this result may provide reason for concern, it is encouraging to note that the main reason for reducing staff for most companies (nearly 65%) was because they

F15. Ease / Difficulty in Recruiting



F16. Availability of Skills, Experience, Training and Recruitment



KEY FACT: The main reason for reducing staff for most companies (nearly 65%) was because they had found more efficient ways of running the business

had found more efficient ways of running the business (Figure 17). Nevertheless, about 19% of businesses reduced staff because they had experienced a drop in the level of demand, and about 9% did so because they needed to downsize the business.

Training and development

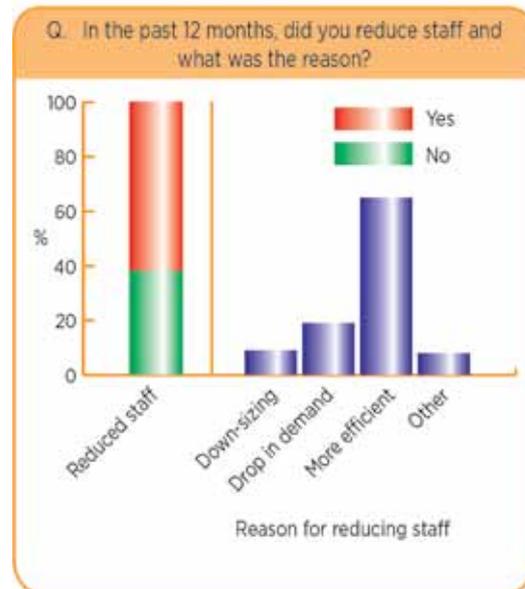
Given the importance of skills and the impact which businesses feel that training has had on their prosperity, it is important to determine what percentage of organisations provides training and access to career development in F&D. To do this, businesses were asked about their provision of training in the past 12 months. Figure 18 shows that 76% of businesses invested in training and development while 24% did not. For 35% of businesses the main reason for not investing in training was a lack of requirement for training, while 24% stated that they did not have available funds to provide training.

In addition, 44% of businesses organised school trips as part of an educational awareness program while the majority (56%) did not.

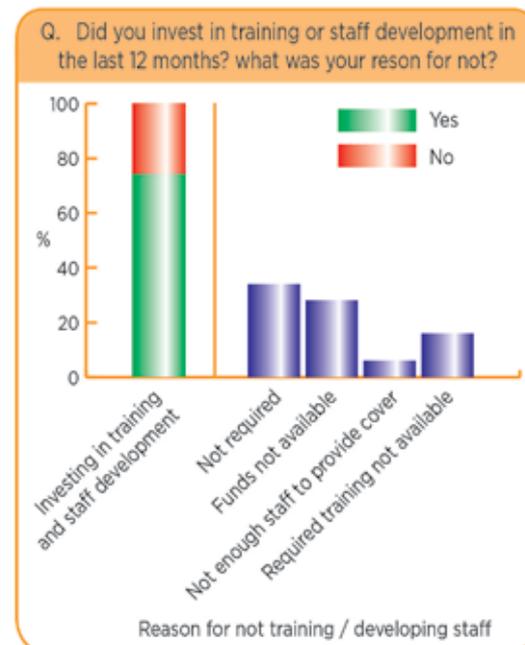
Considering the importance that businesses attach to training as confirmed by the results discussed here, it was important to profile the practices of F&D businesses in North-east Scotland as related to their training investment. Specifically, businesses were asked about how much they currently invest in this category as a percentage of their overall budget. Figure 19 shows the average percentage spent as a group by F&D businesses as well as the percentage of businesses per spending band. The spending bands are derived from the minimum and maximum percentages obtained from respondents' feedback.

As Figure 19 shows, as a group, the F&D sector in North-east Scotland spent an average of 2.65% of their budget on training. Of these, 38% of businesses spent only as much as 1%, 49% spent above 1% but no more than 5%, and the remaining 13% spent between 5% and 10%.

F17. Reduce Staff



F18. Invested in Staff Training and Development



F19. Training as a Percentage of Budget

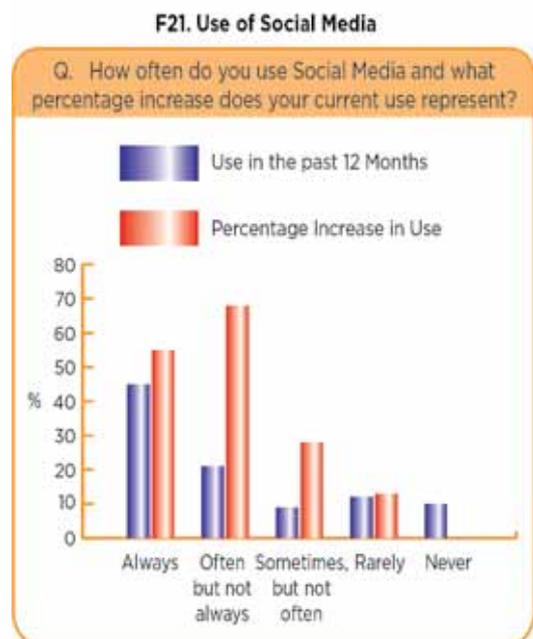
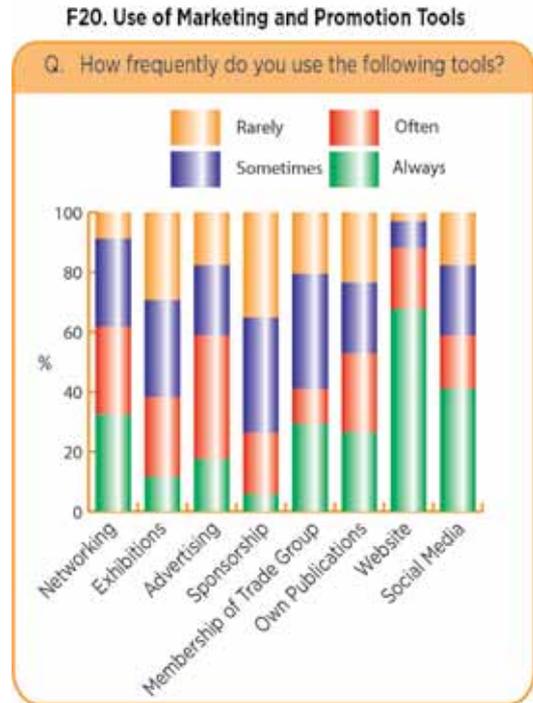


Marketing and markets

During the research interview stages and secondary review, it became apparent that marketing and branding was a key concern for the F&D sector. For example, some stakeholders were of the opinion that the sector had not done enough to promote provenance, while others were not convinced that consumers cared so much about provenance and geographic origins of produce. Following these differing opinions, the research sought to establish averages across marketing practices within the F&D sector, in order to (i) compare what the most popular marketing strategies and tools were, (ii) evaluate the perceptions of businesses regarding their customers' primary reasons for patronage, and (iii) provide an overview of current export profile.

As Figure 20 shows, a website is the most frequently used tool for marketing and promotion by the majority of businesses (about 68%). This is followed by over 41% who say that they use social media always, and about 32% who rely mainly on networking. It is interesting to note that social media use surpasses advertising in popularity among respondents, as although about 41% also use advertising, this is rated as being used often, but not always. It would appear that the least popular tools for promoting and marketing the business are sponsorships (35%) and exhibitions (29%).

KEY FACT: *The use of social media is popular and rivals traditional advertising as a preferred means of marketing and promoting the business. In this regard, businesses in this sector seem to have kept up with this particular technological innovation and appeared keen to fully exploit its potential.*

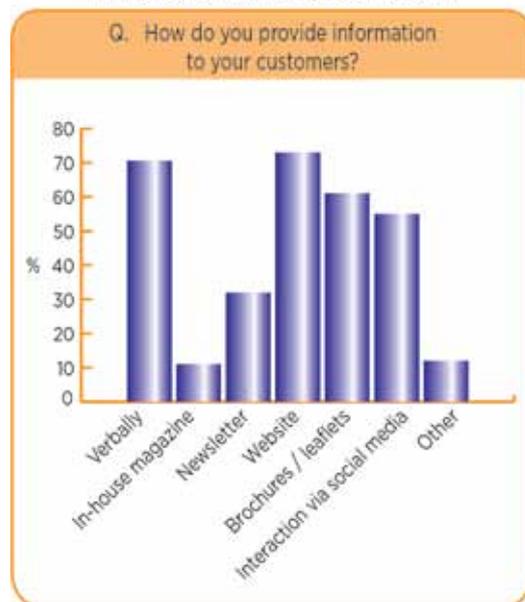


technological innovation and appeared keen to fully exploit its potential. Businesses were asked about how frequently they estimated they had used social media in the past 12 months to promote their business (Figure 21). About 46% stated that they had used it always, and that current use represented an increase in their overall usage from the previous year of about 55%; nearly 22% stated that they used it often but not always, and that current use represented a 68% increase in use over the same period; however about 22% of respondents did not use social media or rarely used it for marketing and promotion. Social media has also become popular as a means of disseminating information to customers. As many as 55% of respondents stated that they now provide information to customers through social media interaction, although the most used methods for doing so remain verbal and website communications (Figure 22). Several organisations (61%) also make use of brochures and leaflets to provide information to customers.

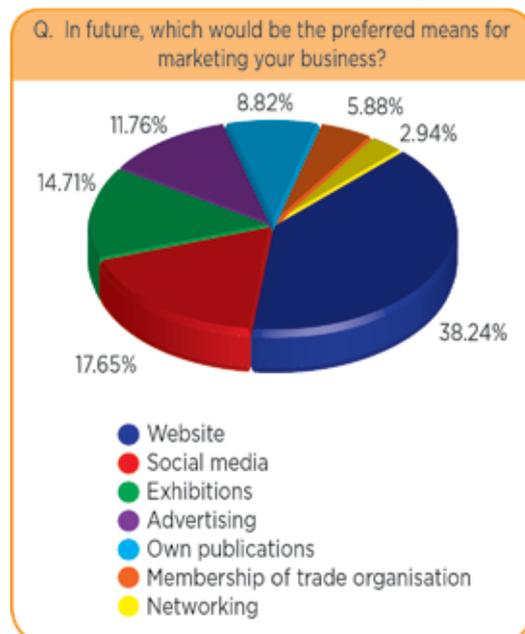
Asked about their preferred tool for marketing in the future (Figure 23), over 38% stated that they would prefer to market on the website and about 18% would prefer to market via the social media. While only about 12% state that they would prefer to advertise, about 15% state that they would prefer to market and promote their business at exhibitions. Perhaps websites have become enormously popular because F&D businesses find that they can provide information and marketing collateral at lower costs, while the rising use of social media has no doubt registered with business owners. Nevertheless, it is apparent that for future preferences, there is still some hesitation about the use of social media and this may be attributable to lack of knowledge and expertise in its usage. The support agencies may need to create more awareness for opportunities in new media.

Businesses were asked to say what, in their opinion, motivated their customers to buy from them. As Figure 24 shows, over 85% of businesses consider quality to be the main consumer appeal in their products while over 61% considered image and brand to be the main reason for patronage. Furthermore about 29% referred to their history, and 26% felt that their Scottish origin/provenance

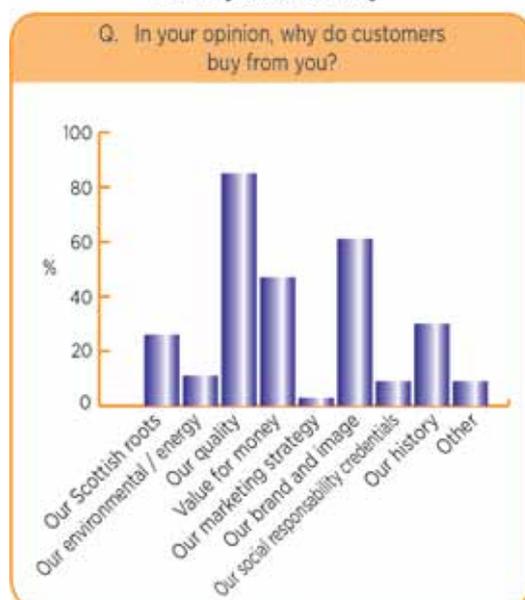
F22. Providing Information to Customers



F23. Preferred Tool for Marketing



F24. Why Customers Buy



provided customer appeal for their products. But when asked about their key branding messages, the results in Figure 25 show that brand messaging is not entirely in line with what businesses perceive to be the most important reasons for customer patronage. Although as many as 82% brand themselves on superior quality (and therefore in line with the assumption about customer perception), about 53% also brand themselves on the basis of Scottish origin and provenance. This is not a contradiction *per se*, but may simply reflect a branding strategy that aims to link quality and provenance.

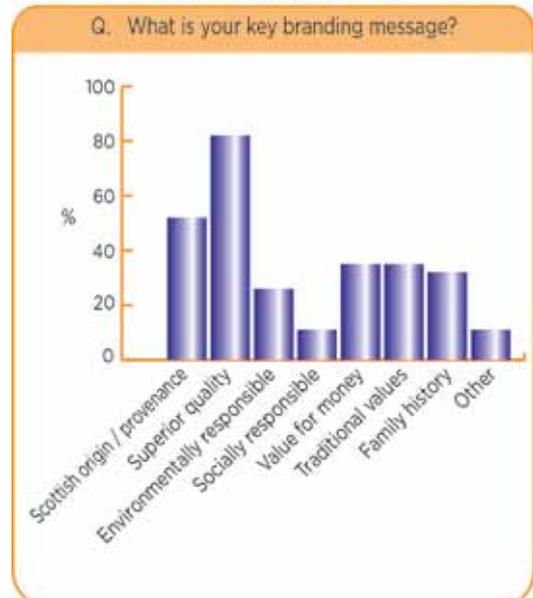
59% of businesses say that they have a formal marketing budget (Figure 26) while surprisingly, as many as 41% say that they have none. This result may merely be a reflection of the micro and small nature of businesses within the sector, but it could also represent a more serious issue relating to lack of awareness for the importance of formal budgeting. In addition, businesses were asked about membership of trade and business organisations, and as many as 76% of businesses belong to a trade or business organisation, but 24% do not.

Figure 27 profiles average spending on marketing for industry and the spending band percentages. 58% of businesses estimate that they spend between 5% and 10% of their budget on marketing, 31% spend between 10% to 15%, and 11% estimate they spend between 15% and 20%. The group average for marketing spend is 5.34% of budget.

KEY FACT: Only 29% of those who provided feedback actually export, while over 67% say that they do not currently export. As Figure 28 shows, only about 4% and 10% currently plan to start exporting in the next 12 months and beyond the next 12 months respectively.

Finally, businesses were asked about whether they also sold into the export market. In Figure 28, the results are profiled and show that only 29% of those who provided feedback actually export, while more than 67% say that they do not

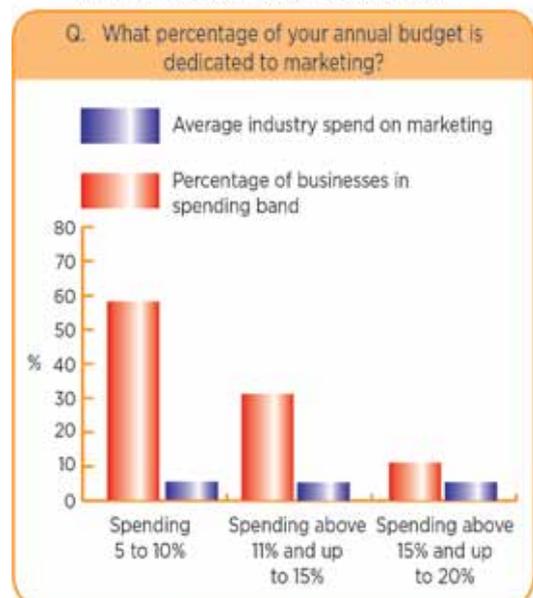
F25. Key Branding Message



F26. Marketing Budget and Membership of Trade / Business Organisation



F27. Training as a Percentage of Budget



currently export. As Figure 28 shows, only about 4% and 10% currently plan to start exporting in the next 12 months and beyond the next 12 months respectively. While the present research does not extend to include an analysis of factors affecting the ability or willingness of F&D businesses to export, this is an important issue that requires stakeholder attention and should be considered for further exploration. In order for the region to deliver its share of the national targets, exports must surely feature prominently as part of the market mix. However, it should be noted that these results may be biased due to the large response rate from support and supply chain based businesses.



The Future

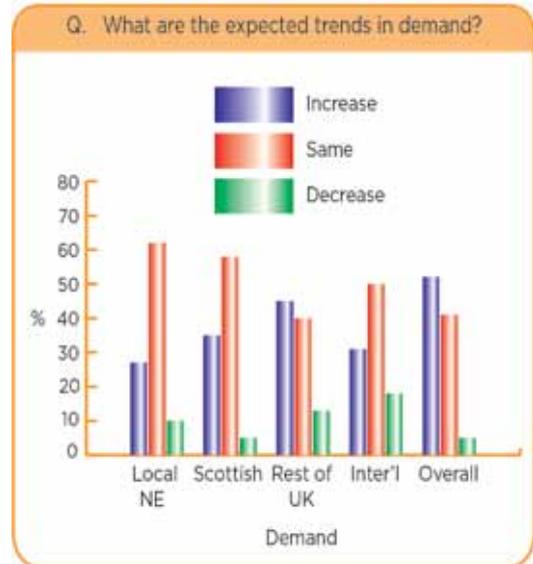
Future expectations and concerns

Business expectations were measured, in order to assess the level of optimism and expectation in the industry, and to identify strategies that businesses plan to utilise in coping with expected developments. Figure 29 shows expectations in overall change for the industry's market demand. The key highlights are that overall demand is expected to increase (58% of respondents) and that this demand will be mainly fuelled by the UK market outside of Scotland (45% of respondents). Majority of businesses expect local North-east and overall Scottish demand to remain the same, while the highest expectations for a decrease (about 19% of businesses) is for international demand.

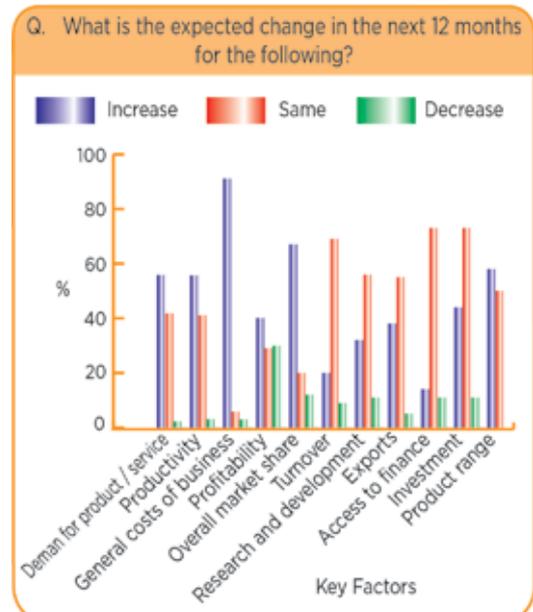
Businesses were asked about how they expected changes in demand and markets to change important factors affecting their individual performance. Figure 30 shows that over 90% of businesses expect costs to rise further, approximately 50% expect to increase their product range and productivity, and to see a rising demand for their product, and over 60% expect an increase in overall turnover; however the number of businesses expecting profits to rise (40%), is counteracted by those expecting profits to fall (31%).

Asked about which factors were of the most concern and how likely they were to negatively

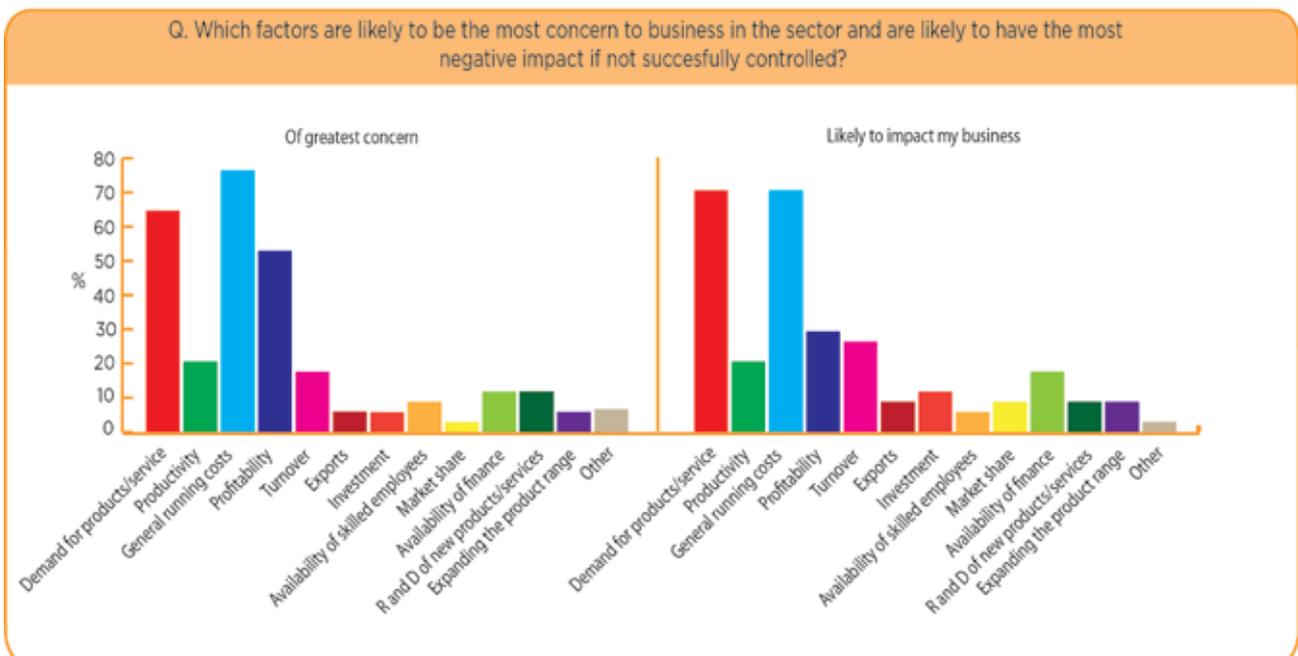
F29. Change in Demand



F30. Expected change in Key Factors



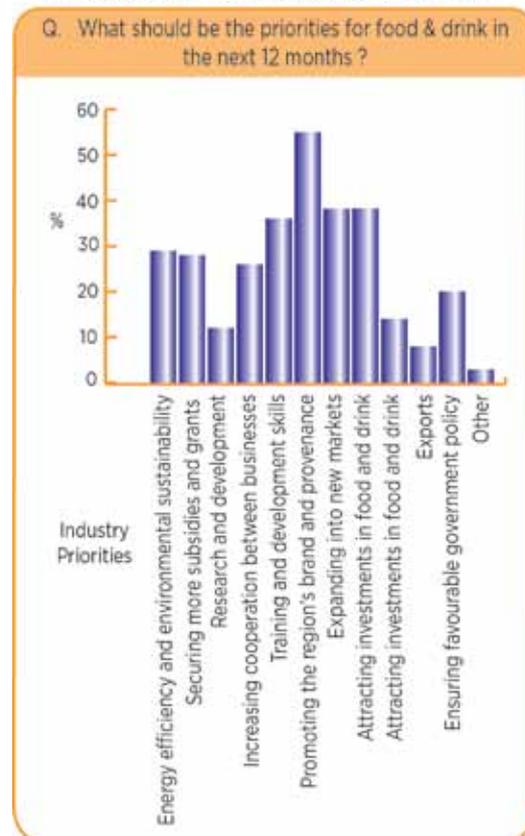
F31. Concern and Likely Impact



impact on their overall success if not positively controlled (Figure 31), businesses rated cost (76%), demand for product (64%) and making a profit (53%) as of the highest concern. However, regarding the potential for negative impact if not successfully controlled, business rated costs (71%) and demand (72%) as potentially impacting negatively on their success.

KEY FACT: *It would appear that businesses in the North-east are not persuaded by the urgency to increase exports as part of the national strategy. This may be due to a lack of exposure or awareness relating to this, which calls into question the amount of orientation and education that has been invested in this direction. If the North-east is to be part of the export drive by the SFF, more needs to be done to frame this argument to businesses in the region.*

F32. Industry Priorities for the Next 12 Months



Priorities and strategy

Businesses were asked to rate a number of pre-identified priorities for the F&D industry, in order to ensure growth and sustainable prosperity for the future. Figure 32 shows the highest rating of 56% for promoting the region's F&D potential, followed by a rating of 38% for going into new markets and attracting investments, and 37% for training. Exports received a rating of only 8%. It would appear that businesses in the North-east are not persuaded by the urgency to increase exports as part of the national strategy. If the North-east is to be part of the export drive by the SFF, more needs to be done to frame this argument to businesses in the region.

Given that businesses had been asked about expectations, concerns and priorities, they were also asked to share their strategy in the light of these. Figure 33 shows the index ratings for various strategic preferences for the next 12 months, as rated by businesses. It would appear from these results that the preferred strategy is to increase

F33. Factors Impacting Business



the share of the domestic markets (Scotland and UK) (rated 60%), followed by a strategy of new products/brands (rated 55%). Building upon their Scottish credentials was rated 21% while building upon environmental credentials was rated lowest at 5%.

Key Business Plans: training and marketing

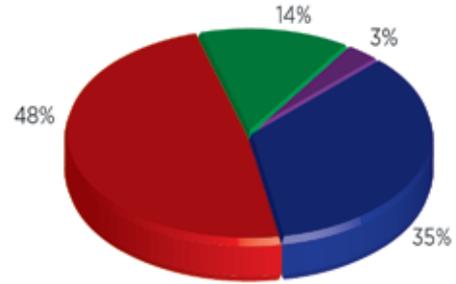
Asked about plans for the following 12 months, as many as 35% of businesses say that they intend to increase their training budget, 48% plan to retain the same level of budget, and 14% plan to reduce current spend on training (Figure 34)

However, more businesses plan to increase their marketing spend. As Figure 35 shows, 42% of respondents plan to increase their marketing budget for the following 12 months, 50% plan to retain the same budget, and 6% plan to reduce their budget for marketing.



F34. Change in Training Budget

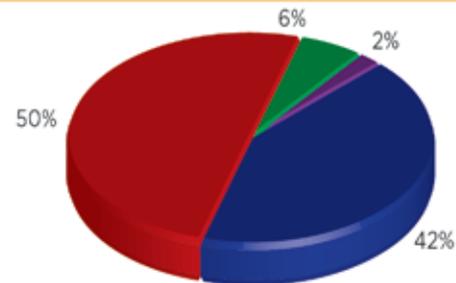
Q. How do you expect your spending on training to change?



- I plan to increase my training
- I plan to retain the same levels of training
- I plan to reduce my training
- I have no plans to do any training

F35. Change in Marketing Budget

Q. How do you expect your spending on marketing and promotion to change?



- I plan to increase my spend
- I plan to retain the same levels of spend
- I plan to reduce my spend
- I have no plans

Respondents' comments

Question: What ideas and/or concerns do you have about growing the Food and Drink industry in North-east Scotland?

“Difficult for Food and Drink companies to compete with oil companies to get staff because of high pay oil companies seem to afford.”

“Sustainability will be the key. Developing a brand and moving from ‘tartan shortcake tins’ to modern, quality produce - something we have an abundance of.”

“Concerns are distribution costs and time. Brand locally - we have lots of premium primary producers and processors - need more of a local identity.”

“I am concerned about the financial strength of some players and also the level of support which is currently available from public bodies for the industry.”

“More links need to be made between businesses. Provenance of food products should be stressed. Funding for marketing should be made available to businesses that make these strategic links and that promote the provenance and quality of the food products available in the North-east.”

“I fear that we are not fully recognised for the food and drink we can and do produce in the North-east of Scotland and this needs to be addressed.”

“Main concern would be re local planning and road safety policies.”

“To continue progressing and developing the North East of Scotland as the premier location for the premier foods in the UK.”

“Cost of transport”

“Growing costs and overheads are the major stumbling blocks.”

“Too many organisations involved in strategy etc”

“Generally the area is too inward looking. With the oil money available we have become too self-satisfied. Quality of service and value for money is very poor in cafe/ restaurant business by comparison with say Edinburgh/ Newcastle/ Glasgow. Provision for visitors at our gateways is very poor. Airport is not even properly signposted from Kirkhill distributor road; bus station vehicle access non-existent. Pedestrian and taxi links from Stations/ Union Square to Union Street and beyond are poor. An incoming potential investor with wife and family in tow would have few places to deposit them for a few hours pleasant R&R. The family experience matters to most investors. What facilities there are individually of low quality and too spread out. E.g. the beach area is tacky and no integrated design. No integrated design anywhere. Should keep the Union Terrace Gardens but provide imaginative access e.g. a miniature railway that goes around and down into them with stops at each corner and high profile pedestrian links to a public square where St Nicholas House is currently positioned and Union Square.”

“Cost of premises”

“More collaborative events showcasing food and drink businesses to whole of Scotland and UK, using professional networks for support (e.g. IFST). Support training initiatives, encourage expansion and recruitment. Road shows and a similar group such as the Cross party working group on food, but at a local level.”

“Continuing to work with government and collaboratively can enhance the knowledge and reputation of products and in turn can contribute to growth of the sector.”

“Training is needed in customer care especially in customer facing situations to match the high quality products in the North East.”

“We have no protection against the global increase in commodity energy and ingredient costs.”

“Cheap food and frozen stuff coming in from English companies who have large share and subsidies to Scotland to force out Scottish companies. Also Government sector helping local companies and then giving contracts to companies out of Scotland and using the EU as an excuse without using their imagination. Unfortunately provenance and local value has moved out of the buying policy for a lot of our customers who we see being quieter. Price, price and price are key now - cheapest supplier gets the business when times are tough!”

“A lot more noise needs to be made in the correct way by the right people to attract more foodie people to the area and re-ignite the spark in the local food buying public about what is actually available to them from their INDEPENDENT shops and not supermarkets on their own doorstep. This is Scotland's Premium Larder in Aberdeenshire where abundance of local producers is as strong as the energy sector but not promoted well enough due to costs and support.”

Conclusions & Key Recommendations

Conclusions

This report has presented the findings from the F&D sector research undertaken by Aberdeen & Grampian Chamber of Commerce as part of its Knowledge Transfer Partnership with the Robert Gordon University. The report has provided an indication of the nature and profile of the F&D sector in North-east Scotland, based on the responses from 117 businesses that provided feedback. It should be borne in mind that the highest response rates were from the food processing and the support/supply chain subgroups, and therefore these results may reflect some bias toward these subgroups.

The report shows that there is a large number of micro and small businesses operating within this sector, based on turnover and number of employees. These constitute about 79% of the sector size, employ a significant percentage of the workforce and operate with turnovers of up to £10.5m. However the largest percentage of jobs in the sector appears to be within the medium and large businesses who account for over 80% of overall employment.

Overall, the sector appears to be performing well in the current economic climate, although this may be attributable to prudence and increased efficiency on the part of businesses in the sector, rather than the economic climate. While the overall economic environment and externalities appear to have had a harsh effect on the sector, factors that are within reasonable control of businesses appear to be better managed. Nevertheless, the majority of businesses have struggled with rising costs and do not feel confident about their ability to control or manage their costs. In spite of this, businesses have reported an increase in the level of overall investment, especially for investments in research, product range expansion, marketing and training. One of the key marketing tools that businesses appear to have invested well in is social media marketing.



In addition to collaboration, businesses rate training, research and marketing as having the highest positives on their overall performance for the period reviewed. On the other hand, it would appear that the lack of finance and suitable government policy is affecting the ability of businesses in this sector to prosper.

A priority for support agencies will be to persuade F&D companies to grow export activity.

Employment within the sector appears to be stable despite difficult economic conditions. Although a number of businesses reduced staff due to resizing, drop in demand and rationalisation, the majority of businesses hired new staff, with a significant proportion of these stating that they hired in order to increase staff numbers. Considering this result against current capacity utilisation, it is clear that the F&D sector has the potential to increase employment in the region if idle capacity is brought into use.

As many as 50% of businesses reported capacity under-utilisation, which may be as a result of lack of resources (for example, finance) and limited market share. Increasing access to finance and markets (for example, through exports) may unlock this potential and its associated opportunities.

For the future, businesses expect costs to remain the most pressing concern, followed by market demand for their product/service. These two factors are estimated to have the most negative impact if not successfully managed. Consequently, businesses have given the highest ratings to activities that are aimed at increasing the overall size of market for the sector, and a significant number plan to support this with an increase in their marketing budget. For example the highest priority rating is for promoting and marketing the region's food and drink credentials.

In addition, individual businesses also rate increasing domestic market share and product range expansion as their most likely strategies for the next 12 months, while improving cost management is also rated as a key strategy.



Surprisingly, improving energy efficiency does not feature prominently in expected strategy for the next 12 months, and this suggests that either businesses are not certain of savings that may result from an energy efficiency strategy, the cost of implementing such a strategy far outweighs its benefits, or they were already involved in this area.



Key Recommendations

1. We recommend that collaboration and cooperation activity continues to be promoted by the relevant public-private partnerships to micro and small businesses, and that more effort is put into improving business awareness of the benefits of working together by public agencies.
2. Medium and large organisations account for the majority of employment in the sector, and these may require a different form of support and encouragement. We recommend that policies aimed at minimising employee-associated costs are implemented to help these organisations maintain and increase their current levels of employment. These organisations are likely to be at the heart of any export drive.
3. Given the impact that successful cost management can have on overall business performance, we recommend that measures aimed at supporting businesses with cost management be identified and implemented by public agencies.
4. We recommend that public agencies and support networks redouble efforts to create awareness of the opportunities for exports. Businesses that should be not currently exporting should be targeted.
5. Although training has been identified as an important factor for business performance, it would appear that more could be done to provide training in the sector. We suggest that a more in-depth evaluation of the training requirements of businesses in the sector be made in order to identify and address potential gaps. Non-statutory training may be the priority.



6. The sector has the potential to increase its activities by utilising latent capacity. This could increase jobs, profitability and overall prosperity for the sector and for the region. We recommend that access to finance is addressed as a critical factor and that publicised government incentives to this end should be made a reality.
7. Businesses are not convinced about the potential to save costs through initiatives to address energy efficiency. We suggest that further analysis of issues associated with energy use and energy efficiency in the F&D sector should be undertaken to save businesses money.

Research Methods

Data Collection, Sample and Generalisation

The data for the 2011 food and drink (F&D) survey was collected using an online survey questionnaire, which was developed following interviews with business leaders and other stakeholders within the sector. Email invitations to complete the online questionnaire were sent to 640 eligible companies as recorded on the databases maintained by Aberdeen & Grampian Chamber of Commerce and the Grampian Food Forum. Following the Scottish Government (2010) definition, we considered the F&D industry/sector to include primary producers, processors, retailers and the rest of the supply chain.

After a collection period of three weeks in which two email reminders were sent, 132 responses were recorded, representing a response rate of 20.6%. Once a small number of invalid data was removed, a total of 117 useful responses remained, and this analysis is based upon this number.

Responses were received from Aberdeenshire and Moray. The response rate of 20% obtained is typical of surveys that are based on a census of the overall interest population, and while the analyses in this report are of organisations and companies that provided feedback, it is possible and appropriate to generalise these findings to represent findings on the overall F&D sector in North-east Scotland.

The report reflects the four themes of (1) sector profile, (2) current business performance, (3) issues and impacting factors, (4) future expectations and strategy.

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Energy Network Sector Survey Report Supported by :

Limitations and future research

The results and conclusions in this report should be interpreted bearing the following in mind. The research sample frame was from databases that are based on voluntary subscription by businesses. Not all businesses in the sector subscribe to these databases. Secondly, the sample was not randomly selected, and the statistical shortcomings of a census approach are acknowledged, as these may have introduced bias in some of the outcomes obtained. Finally, the survey was used as an exploratory tool. A more comprehensive and in depth research approach may have provided a stronger basis for reaching the conclusions that were made. Future research should utilise tools such as in depth interviews and panels to expand the perspective on the issues discussed.

Further Reading

British Bankers Association

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Scotland Food and Drink

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North-east
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