North-east Food & Drink Sector Survey 2014
Foreword

Scotland’s food and drink growth sector continues to make a positive contribution to Scotland’s economy, generating £13.1 billion in turnover and £5.5 billion in Gross Value Added (GVA) in 2011. In the same year, the food and drink supply chain supported 364,000 jobs – indeed 1 in 7 people employed in Scotland work in the food and drink supply chain.

Thriving and successful food and drink businesses are essential to Scotland’s economic prosperity and the industry is recognised as a key sector in the Scottish Government’s Economic Growth Strategy. The ground breaking national food and drink policy we introduced has also helped drive this great industry forward.

Based on the results of this survey it would appear that North-east food and drink businesses are confident about their prospects for growth and also confident about their product offerings. And at a time when interest in Scotland’s food and drink has never been higher, we are in a strong position to capitalise on the opportunities that brings to us.

It should be welcomed that 65% of local food and drink businesses intend to increase their workforce over the next two years. However, the difficulties associated with recruiting reported in the survey means industry and government agencies need to work together in order to ensure that food and drink businesses encourage new entrants to the industry.

This is already an area the Scottish Government is supporting food and drink businesses on. The Food and Drink Skills Investment Plan published in 2013 identifies the strategic priorities for attracting new people into the industry. These priorities include delivering leadership skills, raising the attractiveness of the industry and supporting businesses capacity to innovate.

In the coming years, I’m confident the Food and Drink Skills Investment this plan will begin to reap results for the industry, but there are many other areas in which food and drink businesses can continue to collaborate with industry bodies and Government for the benefit of the wider Scottish economy.

We’re also actively encouraging youngsters to get involved in the industry through our Chefs@School programme which sees some of Scotland’s top chefs and cooks going into our schools and running workshops covering food provenance and the importance of healthy diet, as well as discussing career opportunities in the food, drink and hospitality industry.

Scotland’s international reputation as a land of food and drink is also growing which means our fine produce is increasingly sought after, on dining tables both at home and abroad. Food and drink is one of Scotland’s largest export sectors, which has led to an upward revision in the targets for export growth.

The industry leadership body Scotland Food & Drink has set an ambitious target of £16.5 billion turnover by 2017. We need business to look at expanding their offerings if we are to meet this target and it is pleasing that businesses in the region are looking to support this growth in exports, as demonstrated by the growth in the number of businesses exporting since the previous survey conducted in 2011.

This survey identifies that most businesses intend to offer new products or increase their range of products in order to grow. Innovation and investment within these businesses will play an important role in realising that ambition, as reflected in the survey results, and the Scottish Government continues to identify opportunities where we can support businesses to increase capacity and improve efficiency.

I have made the food and drink industry an absolute priority and this growth sector is breaking all records. There is still much more to be done with new opportunities opening up all the time and we will continue to work closely with the industry to ensure more and more people at home and abroad enjoy Scotland’s larder.
North-east Food & Drink Sector Survey

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EXECUTIVE SUMMARY

The word cloud on the right provides a clear illustration of what businesses in the region consider the strength of the North-east food and drink sector to be – QUALITY. This theme runs through this report with three quarters of businesses reporting premium products as core competitive advantages for the regional food and drink sector and around half reporting customer service and provenance.

The good news is that performance data is backing up the claims that the sector is delivering premium products and services. The sector supports around 22,000 jobs in the region and accounts for around a fifth of Scotland’s food and drink economic activity.

Seven out of ten businesses have in the last two years invested in equipment to improve productivity and six in ten invested to increase capacity, with similar numbers investing in their staff and processes.

Financially, the sector appears in good health with over three quarters expecting to grow and expand in the next two years. We also found that aggregate turnover is expected to grow by around 10% by the end of 2014 with profitability likely to increase in most cases too. In part this is being driven by diversification as well as development of new products and entry into new markets.
We have a successful exporting sector too with 37% of respondents reporting export activity, compared to 29% in 2011. We estimate that over a third of all revenue in the sector is derived from countries outside the UK, although the sector still believes there is continued potential for domestic and international growth.

People are a critical part of the industry with a high proportion of businesses (seven out of ten) being family-owned. However, the sector faces challenges in recruiting the employees it needs to deliver its challenging growth targets, particularly engineers, senior managers and sales staff. This is likely to continue to be an issue with the average sector salary falling below national averages and this is in a region with a tight labour market.

The other significant challenges facing the industry are transport costs and infrastructure, the cost of doing business and the availability of quality raw materials. Collaboration may be used more fully to help offset rising distribution costs but energy costs and the cost of meeting regulatory and legislative requirements continues to be a burden. However, for the first time this sector study has not consistently rated access to finance as a barrier to growth.

These are exciting times for the regional food and drink sector with a forecast of increased employment, turnover and profitability. This report now enables the success of the sector to be clearly monitored over the next two years.

“94% of respondents reported having invested in their business the majority to improve productivity or increase capacity.”
Introduction

During late 2013, Aberdeen & Grampian Chamber of Commerce (AGCC) worked in partnership with Grampian Food Forum, Highlands and Islands Enterprise, Moray Council and Moray Chamber of Commerce to deliver this study of the North-east food and drink sector.

The findings represent the responses from 93 businesses across the North-east and set out baseline statistics for future monitoring purposes and comparison with national data. The survey covers the entire supply chain of the food and drink industry.

The remainder of the report provides insight into current trading performance as well as looking to the future. We review a number of areas in detail considering what makes the North-east food and drink sector a success, how family businesses are planning for the future, exporting, constraints to growth and investment & innovation.

Why do we have a prosperous sector?

We asked businesses around the North-east what they considered to be the best thing about the food and drink industry. We received a significant response to this open question and the image below reflects the findings by scaling the number of responses against the size of the words presented. The picture makes it clear that QUALITY is at the centre of the North-east food and drink sector.

Figure 1: What is the best thing about the food & drink sector in the North-east?
This word cloud also reflects what businesses in the sector considered were their main competitive advantages in our more detailed analysis.

We asked participants what their main competitive advantages were and invited them to tick as many options as they felt appropriate.

The analysis demonstrates that factors relating to QUALITY were again prevalent.

**Figure 2: What are your main competitive advantages?**

- 72% reported a premium product that they produce or sell
- 51% reported customer service levels
- 45% reported provenance as the key competitive advantage
- 42% reported a strong brand image

These results mirror research conducted by AGCC in 2011 where over 80% of respondents believed that customers bought from them due to the quality of their produce.

Perhaps surprisingly, just 17% considered their range of products as a key competitive advantage and just 11% mentioned price. However, 27% of respondents reported some type of accreditation or award as vital.

This data presents a picture of a sector delivering a high-quality, premium-price offering to the marketplace.
The economic importance of the sector

This section places the employment and economic activity of the food and drink sector in the North-east against a Scottish context. The analysis uses Standard Industrial Classification (SIC) data and focuses on a narrow definition of the food and drink sector.

The definition of the food and drink sector used by the Scottish Government includes primary producers but excludes food services business, wholesalers and retailers. This is summarised in a table below.

In practice, we have found that food and drink businesses are actually operating outside this narrow economic definition.

Our survey participants also included a wider range of businesses, although the analysis does not use survey data but helps set the context for the report.

<table>
<thead>
<tr>
<th>SIC Code</th>
<th>Description of business activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Agriculture, hunting and related services</td>
</tr>
<tr>
<td>3.1</td>
<td>Marine and freshwater fishing</td>
</tr>
<tr>
<td>3.2</td>
<td>Marine and freshwater aquaculture</td>
</tr>
</tbody>
</table>
| 10.1, 10.2, 10.3, 10.4, 10.5, 10.6, 10.7, 10.8, 10.9 | Preserved meat and meat products  
Processed and preserved fish, crustaceans, molluscs, fruit and vegetables  
Dairy products, vegetable and animal oils and fats  
Grain mill products, starches and starch products  
Bakery and farinaceous products  
Other food products  
Prepared animal feeds |
| 11.01, 11.02, 11.03, 11.04, 11.05, 11.06, 11.07 | Alcoholic beverages - spirits, wines and cider  
Alcoholic beverages - beer and malt  
Soft drinks |

1This definition excludes SIC 56.1: Restaurants and mobile food service activities, SIC 56.3: Beverage serving activities. Our analysis of economic/employment activity has not used our survey findings.
Employment


| Table 2: Employment in Scotland and the North-east (2009-2011) |
|----------------------|----------------------|----------------------|----------------------|
|                      | **North-east**       | **Scotland**         | **NE as a % of Scotland 2012** |
| Agriculture          | 12,117 | 12,310* | 11,206 | 11,306* | 66,641 | 67,700 | 67,797 | 68,400 | 17% |
| Fishing              | 1,904 | 2,447 | 1,910 | 2,386 | 4,900 | 6,000 | 4,800 | 5,900 | 40% |
| Manufacturing (food) | 6,784 | 7,519 | 7,282 | 7,194 | 32,600 | 34,700 | 34,900 | 33,200 | 22% |
| Manufacturing (drink)| 1,388 | 1,196 | 1,256 | 1,258 | 10,600 | 9,100 | 10,100 | 10,300 | 12% |
| Total                | 22,193 | 23,472 | 21,654 | 22,144 | 114,741 | 117,500 | 117,597 | 117,800 | 19% |


The table does not fully capture the diverse range of employment across the North-east. For example, we found that nearly 2,000 of the marine fishing jobs were located in Aberdeenshire with a further 2,100 within the processing and preserving of fish and crustacean & molluscs classification.

Within Aberdeen City boundaries, nearly 800 staff were employed in processing and preserving of fish, with around 200 reported to be employed in dairies and meat & poultry processors.

In Moray, over 900 jobs were within the distilling and rectifying and blending of spirits sub-sector with far more employees working in the biscuits, rusks and baking sub-sector.

Significantly, the table shows that the North-east accounts for approximately 19% of all food and drink employment in Scotland (using the Scottish Government economic definition).

The analysis demonstrates the relative importance of the North-east particularly around agriculture, fishing and food manufacturing.

This is even more marked when we consider the North-east accounts for just 11% of the population of Scotland.
**Economic output**

The table below derives an assessment of Gross Value Added (GVA) (output) assuming that North-east employees are at least as productive per head as their Scottish counterparts.

**Table 3: GVA in Scotland and the North-east**

<table>
<thead>
<tr>
<th>GVA</th>
<th>North-east</th>
<th>Scotland</th>
<th>NE as a % of Scotland 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009 £m</td>
<td>2010 £m</td>
<td>2011 £m</td>
</tr>
<tr>
<td>Agriculture</td>
<td>114</td>
<td>149</td>
<td>150</td>
</tr>
<tr>
<td>Fishing</td>
<td>73</td>
<td>111</td>
<td>113</td>
</tr>
<tr>
<td>Manufacturing (food)</td>
<td>264</td>
<td>260</td>
<td>297</td>
</tr>
<tr>
<td>Manufacturing (drink)</td>
<td>330</td>
<td>292</td>
<td>366</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>781</strong></td>
<td><strong>812</strong></td>
<td><strong>926</strong></td>
</tr>
</tbody>
</table>

Sources: AGCC (derived NE data), Scottish Government Economic Strategy Growth Sector statistics

We estimate that total GVA in 2011 for the North-east food and drink sector was £926million, accounting for around 17% of total sectoral GVA for Scotland.

The sector has grown by almost 19% between 2009 and 2011; we have assessed North-east GVA by multiplying employment by the national GVA per head data for each sub-sector.
Investment

The previous section shows that economic activity has been growing, with broadly constant levels of employment since 2009. This section begins to illustrate how this has been achieved as it is clear that over the last two years the sector has not been standing still.

Our research has highlighted that just 6% of companies reported making no investment in their business in the last two years. For the majority who have been investing in their business, there is a significant spread of spending and activity shown in the chart below.

Over two thirds of businesses reported investment to improve productivity with nearly 60% improving their processes too. Development of staff and recruitment were popular areas alongside investment in equipment to increase capacity. A recent Bank of Scotland report found similar results, with 55% of businesses looking to invest in their products to achieve growth targets.

Later in this document we analyse the importance of collaboration for marketing purposes and partnership, which is partly highlighted above with half the businesses investing in this for marketing purposes in the last two years. One in every four businesses reported investing in their business simply to meet legislative requirements.

This positive investment profile comes at a time when 2015 has just been announced as the ‘Year of Food and Drink for Scotland’ and at the beginning of the ‘Year of Homecoming 2014’. It is clear that the respondents to the survey are looking to the future.
Financial performance

Our financial analysis shows that the sector appears to be in good health.

At a high level the most encouraging finding was that over 78% of businesses expect to grow and expand with over 17% expecting to retain their existing scale.

This bright outlook is reflected across sub-sectors.

The analysis below shows sub-sectoral data which has smaller sample sizes but nevertheless presents a consistent picture.

Over three quarters of North-east food and drink businesses expect to grow and expand in the next two years.

Table 4: Business confidence by area of food and drink

<table>
<thead>
<tr>
<th></th>
<th>Grow and expand</th>
<th>Remain the same</th>
<th>Downsize or cease trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary producers</td>
<td>67%</td>
<td>33%</td>
<td>0%</td>
</tr>
<tr>
<td>Value added processors</td>
<td>85%</td>
<td>12%</td>
<td>3%</td>
</tr>
<tr>
<td>Retailers/food service</td>
<td>80%</td>
<td>11%</td>
<td>9%</td>
</tr>
<tr>
<td>Overall</td>
<td>78%</td>
<td>12%</td>
<td>5%</td>
</tr>
</tbody>
</table>

In addition to high level data we sought to delve into financial performance initially reviewing turnover expectations.
Aggregate turnover index

The survey sought to analyse the scale of turnover growth expected over the next two years. This data has been presented as an index. The last year (2012) has been set at 100 with forecast growth indexed against that historic figure.

The sector clearly expects growth, with marginally more expected in the financial year 2014 than for 2013.

This may reflect that 2013 outturn data, while not complete, has a degree of accuracy included at the time of writing.

This index paints a positive outlook for the sector over the next two years.

National sectoral reports have shown that ambitions for the food and drink industry across Scotland are similar with a recent Bank of Scotland report predicting “double digit growth” over the next five years.
**Profitability**

If there is any truth in the saying ‘turnover for vanity and profits for sanity’, our analysis suggests a strong outlook for North-east food and drink businesses, with 74% of businesses reporting net margins currently at no lower than 2%.

To understand the sector and its future position more fully we asked companies about expected changes in their margins moving forward.

**Figure 5: Current and forecast financial performance**

<table>
<thead>
<tr>
<th>Forecast margins</th>
<th>Current financial performance</th>
<th>High performing (margins above 31%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Financial loss / break-even</td>
<td></td>
</tr>
<tr>
<td>Increase a lot</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Increase a little</td>
<td>14%</td>
<td>13%</td>
</tr>
<tr>
<td>No change</td>
<td>1%</td>
<td>3%</td>
</tr>
<tr>
<td>Decrease a little</td>
<td>3%</td>
<td>4%</td>
</tr>
<tr>
<td>Decrease a lot</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Our analysis paints a positive outlook for many businesses.

We estimate that around 65% of business have both healthy margins and are growing or do not expect significant change from their current position.

We consider around 29% are less healthy, although of those nearly two thirds are expecting an improvement in their profitability.

This leaves around 6% of businesses that have an outlook that has both slim current margins and an expectation that this position will not improve.

Our final question in this section looked to understand whether business might look to relocate, but just one respondent suggested this was likely.
Trading outside the region

We were keen to understand how businesses expected to increase sales and grow, particularly by looking at both existing and future marketplaces.

The majority of businesses in our sample reported that they did not trade outside the North-east (64%). However, an increasing number reported that they currently export overseas.

This propensity to export varies significantly by sub-sector. Reviewing the data in more detail, 47% of businesses who categorised themselves as being processors or primary producers were currently exporting their goods or services.

These headline measures are useful but do not take account of the scale of export activity and sales. Therefore we asked if companies would be willing to report turnover and a breakdown of where that revenue was generated.

Unsurprisingly, the data varied significantly by company size and sub-sector. The range of data and activity means that we have analysed the responses and have presented three scenarios for export activity by revenue, which are shown below.

### Table 5: Export activity assessment

<table>
<thead>
<tr>
<th>Total % of revenue by market</th>
<th>North-east only</th>
<th>Rest of Scotland</th>
<th>Rest of UK</th>
<th>The EU</th>
<th>Outside the EU</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Low ‘export’ scenario</strong></td>
<td>7%</td>
<td>6%</td>
<td>61%</td>
<td>11%</td>
<td>15%</td>
</tr>
<tr>
<td><strong>Mid ‘export’ scenario</strong></td>
<td>6%</td>
<td>6%</td>
<td>50%</td>
<td>13%</td>
<td>25%</td>
</tr>
<tr>
<td><strong>High ‘export’ scenario</strong></td>
<td>5%</td>
<td>7%</td>
<td>39%</td>
<td>15%</td>
<td>34%</td>
</tr>
</tbody>
</table>

Based on our analysis, we estimate that around a quarter of total revenue for the food and drink sector is generated through export activity (around 38%). The majority of businesses reporting data under these questions were either producers or processing businesses.

While export markets are important, it is interesting to note that around 50% of revenue is generated in regions in the UK but outside Scotland. We found that most companies consider there is still scope for further growth in domestic markets. We asked which markets would form key growth regions, with the North-east and the rest of Scotland and the UK being most commonly reported.
However, exporting is likely to be increasingly important for most producer and processing businesses.

**Figure 6: Key growth markets**

<table>
<thead>
<tr>
<th>Market</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within the North-east</td>
<td>49%</td>
</tr>
<tr>
<td>Rest of the UK</td>
<td>45%</td>
</tr>
<tr>
<td>Rest of Scotland</td>
<td>41%</td>
</tr>
<tr>
<td>Outside of the EU</td>
<td>38%</td>
</tr>
<tr>
<td>EU</td>
<td>22%</td>
</tr>
</tbody>
</table>

Whisky has traditionally been a major export product for Scotland, and it is believed that sales account for 36 bottles every second\textsuperscript{iii}. It is therefore not surprising that respondents’ export behaviours reflects this with alcoholic beverages being the second most frequently exported item.

Seafood was the most frequently exported item, and this mirrors national trends with figures released by HM Revenue and Customs showing fish and seafood exports from Scotland increasing, and being the highest value food export\textsuperscript{iv}.

24% of respondents will be looking to export for the first time in the next two years.
We asked if participants already exporting would be seeking to enter new overseas markets and 58% of respondents responded positively. This is higher than the figures reported by Scotland Food & Drink (40%). We then asked where respondents felt their key export growth markets would be.

Our results provide a good fit with export market data released by Scottish Development International (SDI). The SDI analysis shows the USA is now the top export destination for Scotland, overtaking France in 2012.

The SDI figures also show that exports to Far East markets such as Singapore are increasing, particularly whisky exports. It is encouraging to see that businesses in the North-east are considering these markets in their future strategy and no doubt significantly influenced these SDI findings.
People

Skills shortages across the North-east of Scotland are well reported, as is the ‘tight’ labour market demonstrated through high levels of employment. We sought to delve more deeply into the sector to understand if these wider trends were impacting on the food and drink sector in the North-east.

Initially we reviewed the nature of employment within the sector. Our survey achieved responses from businesses representing 8,253 employees in the North-east. The majority of businesses that responded were SMEs (53%) with 10% of responses from large organisations and 37% being micro businesses with less than 10 employees.

The forecast of staffing levels provides a useful insight into business optimism, with recent figures released by Scotland food and drink reporting that two thirds of companies expect to increase their workforce in the next five years.

Our results found very similar results with 65% of respondents looking to increase their workforce within the next two years. Sixteen percent believe they will have to reduce staff numbers with the remaining 19% predicting no change in their workforce. Overall the sector expects to increase its workforce by between 7% and 9% in the next two years.

We found the sector had a relatively low average salary level compared to the national average; £20,344 vs. £25,690 for Scotland as a whole.

We also reviewed challenges the sector was facing with respect to recruitment of staff, with the results presented below.

Figure 9: Ease of recruitment

<table>
<thead>
<tr>
<th></th>
<th>Very difficult</th>
<th>Difficult</th>
<th>Neutral</th>
<th>Easy</th>
<th>Very easy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engineers/maintenance</td>
<td>19%</td>
<td>40%</td>
<td>24%</td>
<td>12%</td>
<td>5%</td>
</tr>
<tr>
<td>Senior Management</td>
<td>17%</td>
<td>43%</td>
<td>24%</td>
<td>11%</td>
<td>4%</td>
</tr>
<tr>
<td>Production Staff</td>
<td>13%</td>
<td>38%</td>
<td>25%</td>
<td>70%</td>
<td>8%</td>
</tr>
<tr>
<td>Marketing</td>
<td>10%</td>
<td>24%</td>
<td>43%</td>
<td>21%</td>
<td>2%</td>
</tr>
<tr>
<td>Sales</td>
<td>7%</td>
<td>56%</td>
<td>21%</td>
<td>14%</td>
<td>2%</td>
</tr>
<tr>
<td>Couriers/drivers</td>
<td>6%</td>
<td>9%</td>
<td>25%</td>
<td>53%</td>
<td>6%</td>
</tr>
<tr>
<td>HR</td>
<td>3%</td>
<td>17%</td>
<td>50%</td>
<td>22%</td>
<td>3%</td>
</tr>
<tr>
<td>Customer Service</td>
<td>40%</td>
<td>44%</td>
<td>13%</td>
<td>4%</td>
<td></td>
</tr>
</tbody>
</table>
The chart suggests that engineering, sales and senior management roles are the most difficult to fill.

Historically, engineering and senior management roles have been difficult to fill within the oil and gas sector in the region. Aberdeen & Grampian Chamber of Commerce has been collecting data on this since 2004\textsuperscript{vi}.

The North-east Business Week research that was conducted in 2013 showed a similar picture, with 26% of respondents reporting that senior managers were ‘very or extremely difficult to recruit’\textsuperscript{viii}.

Challenges recruiting into sales roles whilst not often cited locally in other sectors (perhaps given other recruitment constraints) is replicated across the UK. In the annual Manpower Talent Shortage Survey\textsuperscript{x} (2012) sales representatives were the third most difficult position to fill after engineers and chefs.

The food and drink sector in the North-east has ambitious growth targets in the years ahead and minimising these recruitment challenges to sales roles will be vital to meet these targets.

The level of difficulty experienced by respondents with respect to recruitment was also apparent when participants were asked ‘if you could change one thing about the food and drink industry, what would this be?’. Some of the comments are shown below:

\begin{quote}
\textit{Food industry needs help to raise its profile to recruit new talent into the industry, and help from local further education institutions to develop courses which will bring people into industry with the right skill set}
\end{quote}

\begin{quote}
\textit{The oil industry causing inflated wages making it difficult to recruit}
\end{quote}

\textbf{Case Study: Dean’s of Huntly}

Dean’s of Huntly is a family run business originally established in 1975 and based in the small Aberdeenshire town of Huntly. They pride themselves on crafting high quality shortbread and have been long recognised as one of the leading local providers. Dean’s are not however just known locally for their produce, but also for their staff development programme.

In 2013 Dean’s won an award from Skills Development Scotland for the considerable work they have done in developing their workforce across all levels. The award gives recognition to businesses that have shown the greatest achievement in raising the skills of their workforce which have knock on effects in the business such as increased productivity, staff retention and motivation.

Bill Dean, managing director of Dean’s said: “In order to develop the business and achieve our ambitious targets for growth we have recognised that a strong focus on our workforce is necessary. Investing in training and development is fundamental to this as is conducting regular staff feedback surveys and ensuring we cater to a diverse workforce.”
Family is important

At national level, it is reported that 80% of food and drink businesses within Scotland are family-run. We found a strong correlation with this in our study with 68% of respondents reporting that their business was family-run.

We were keen to understand what impact this high percentage of family-run businesses may have on the sector and asked about succession planning.

Issues reported could be categorised under a broad theme of ‘recruitment’. More specifically, encouraging family members to work in the business when wages are higher in the oil industry. Aspirations for growth are high and the other factor that family businesses need support with to achieve these targets is ‘sales and marketing’ support.

As in any family business, identifying suitable successors and finding the balance between business needs and family needs in terms of developing a long term succession and growth strategy

The biggest issue being not enough income compared to the oil industry where our children are making a good income; but they would prefer to be working on the farm

How to move from a business run by family members in partnership, to one employing people

Market trends

Marketing and expanding to a market outside the North-east
A diversified industry

Our research has highlighted that the industry is already highly diversified and that this is expected to continue. We asked companies about their main business activity, where their turnover was generated and what other activities they undertake.

As well as their main business activity, food and drink companies are working in an average of two further areas. These areas span right across the supply chain with business previously operating solely as producers diversifying into retail, food outlets etc.

The data shows a diverse industry with companies operating within business-to-business, business-to-consumer and export markets. The respondents also consider themselves to have multiple business units acting across the economically-defined sectors which Government data presents. In particular, the data suggests that food and drink businesses also operate within the following sub-sectors:

SIC 46 including wholesaling
SIC 47 including direct retailing
SIC 56.1: Restaurants and mobile food service activities
SIC 56.3: Beverage serving activities
SIC 55.2: Holiday and other short-stay accommodation
SIC 91.03: Operation of historical sites and buildings and similar visitor attractions

This is in addition to some respondents who are also now delivering revenue from activities as diverse as consultancy to generating energy.

The survey also shows that further diversification is expected, reflected in the chart below.

Figure 10: Areas for future diversification

<table>
<thead>
<tr>
<th>New product offerings/increase range</th>
<th>Extremely unlikely</th>
<th>Unlikely</th>
<th>Not sure/NA</th>
<th>Likely</th>
<th>Extremely likely</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selling to general public (online)</td>
<td>11%</td>
<td>2%</td>
<td>17%</td>
<td>24%</td>
<td>46%</td>
</tr>
<tr>
<td>Selling to general public (via own retail outlet)</td>
<td>19%</td>
<td>12%</td>
<td>36%</td>
<td>12%</td>
<td>21%</td>
</tr>
<tr>
<td>Tourism/leisure</td>
<td>24%</td>
<td>16%</td>
<td>36%</td>
<td>11%</td>
<td>13%</td>
</tr>
<tr>
<td>Renewables/energy</td>
<td>32%</td>
<td>13%</td>
<td>37%</td>
<td>7%</td>
<td>11%</td>
</tr>
<tr>
<td>Exporting for the first time</td>
<td>31%</td>
<td>6%</td>
<td>50%</td>
<td>4%</td>
<td>10%</td>
</tr>
</tbody>
</table>
The majority of businesses (76%) expect to diversify within the industry by increasing the range of their products.

Half of all businesses expect to deal directly with the general public either online or via their own retail outlet.

Over a quarter of respondents expected to diversify into renewables or other energy activities and 30% expected some future involvement in the tourism industry.

The main reason for diversification was a need to grow and expand the business as well as a desire to keep pace with a changing operating environment. Again, this sentiment was reflected in a number of verbatim comments:

“…business is going well in the North-east of Scotland but there will come a time where business levels decrease this may be due to competition or simply changes in trends. Before this time comes I would like to think we would have already looked into new markets to keep business levels healthy.”

“Our particular market has changed in that more businesses are now offering the same product(s) as we are. Our intention is to change our offering thereby re-establishing our unique selling proposition”

“We currently trade in a very competitive food sector at present where additional future growth is difficult to achieve therefore we have taken the decision to diversify and use our brand to expand into new food categories where we can gain market share & growth”

“If we don’t diversify we will not have a business left”
Competition or collaboration?

We found that just 26% of companies had utilised external support to improve profitability or to grow their business. Of those who did use third party support, we found most had used multiple sources of support with almost all using public sector support and three quarters having used support from trade organisations.

We found that collaboration was an important tool for some (but not the majority of) companies in improving their profitability or growing their business. Table 6 below shows how the different areas of the industry are working together to deliver their shared objectives. Value-added processors tend to be the most likely to collaborate across a variety of areas. We found it is retailers who are more likely to undertake collaborative marketing activities.

Table 6: Comparison of collaboration efforts by sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>Collaborated for marketing efforts</th>
<th>Collaborated to share transport and distribution costs</th>
<th>Collaborated to share supply chain costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary producers</td>
<td>25%</td>
<td>33%</td>
<td>8%</td>
</tr>
<tr>
<td>Value-added processors</td>
<td>38%</td>
<td>31%</td>
<td>41%</td>
</tr>
<tr>
<td>Retailers/food services</td>
<td>40%</td>
<td>17%</td>
<td>11%</td>
</tr>
</tbody>
</table>
The data highlights that partnership within the industry is possible but that it is not always the norm. However, our later analysis suggests collaboration may have to play an increasingly important role to resolve some of the challenges that businesses report could impede them meeting their growth aspirations.

**Case Study: Marcliffe**

“All too often “quality” is used to describe something that is merely cosmetic – something that LOOKS good. This is not what “quality” means to the Marcliffe. Thanks to the high media profile of cookery and food, the general public has never been better informed than today. People rightfully demand quality and that is what the Marcliffe strives to provide.

There is no finer larder than the Grampian region where the Marcliffe sources most of its ingredients from.

Gordon Penny, one of the last three fishermen landing their catches in Aberdeen, provides them with lobster and crab. The smoked salmon comes from John Ross Jnr in the city too, while all fresh fish is supplied by Kings Foods of Peterhead. Ian Davidson, awarded UK Pig Farmer of 2013, supplies pork from Mossies of Oldmeldrum. Scotch Beef comes from McIntosh of Portlethen while the Wagyu beef featured on the menu is produced by Christopher Leith of Tillyeve. All the cream, milk and oatcakes comes from Mitchell’s Dairies of Inverurie.

Thanks to these local producers the Marcliffe has been able to establish its brand; one that is synonymous with quality.”

**Stewart Spence**

*Owner*

*The Marcliffe*
Constraints to growth

The image below gives a flavour of what respondents said they would change about the North-east food and drink sector. Many respondents highlighted transport, roads (specifically the A96 and A9) as factors they would want to see improved. Business rates were highlighted as an issue, something which we have found consistently across many sector studies we have undertaken. We consider some of these verbatim comments in more detail later but this provides a useful introduction to one of the main constraints to growth reported by businesses – transport and logistics.

Figure 12: Changes for the sector

In order to give the full flavour of this word cloud some of the open answers received have been given below.

“Accessibility to markets through difficulties getting around/through Aberdeen - lack of bypass is really limiting business expansion”

“Cost of distribution to Central belt”

“Huge rates and taxes killing the business”

“Roads, Broadband, ... and build on a local food charter to encourage local businesses and public sector to source locally”

Drawing out the some of the main challenges our next sub-section focuses on transport and infrastructure.
Transport and infrastructure

The chart below shows the views of respondents on whether factors will have a positive or negative impact on their business in the next two years.

Figure 13 below illustrates that fuel and distribution costs are a major concern for businesses. The status of roads is also a concern with the percentage responding that the A9 is a constraint higher for Moray businesses (39%) than for all respondents.

![Figure 13: Transport and infrastructure constraints to growth](image)

Businesses appear to believe that investment in broadband will bear fruit within the next two years. A similar amount expect it will have a positive impact to those reporting an expected negative impact. We also asked businesses about a series of inputs to their business. We found some fairly stark results with respect to future impacts of energy costs, cost of raw materials and the cost of doing business.

Business Inputs

![Figure 14: Business inputs constraints to growth](image)

The data clearly demonstrates significant concerns around business inputs and input costs which suggest Government and policy makers should focus their attentions in these areas.
External and competitive influences

Finally we asked businesses about external and competitive influences on their business.

Figure 15: External and competitive constraints to growth

Competition and Government policy are seen as having a negative influence in the future, although a strong critical mass may actually be beneficial for the sector in reducing costs through distribution collaboration, given the constraints noted earlier on distribution and fuel costs.

Interestingly, the impact of collaboration appears to be reflected in the positive impact businesses expect regional marketing campaigns to have on their business alongside changes in productivity.

For the first time in a recent sector survey, we have seen availability of finance having a small positive balance in the future. Improving access to finance was a key recommendation in the 2011 regional food and drink sector surveyi.

Case Study: Mitchells

Delivering local milk and cream to their Aberdeen City customers over the last 20 years has seen Mitchell’s of Inverurie significantly expand the business from their traditional doorstep hinterland of rural Aberdeenshire, where they began back in 1928. Servicing customers daily and on time when there is the added complication of heavy traffic and busy streets has been a challenge compared with more rural roads with the odd tractor in the past! People do have an increasing affinity for where their food and drink is coming from and their desire to support local businesses is growing but so too are the problems of actually getting it to them.

“The traffic congestion issues which are increasing in Aberdeen and how to actually get to and be able to stop at customer premises, whether that is a school, shop, hotel or office, pose a constant issue for our team of drivers,” commented Keith Whyte, partner in Mitchells. “Service is key for us which really means the only way we can manage deliveries and limit any traffic problems are to deliver throughout the night. When you have 500 customers to deliver to, being delayed or not being allowed to stop is the last thing we can afford to happen!”

The city periphery road cannot come quickly enough for Mitchells which will allow for expansion further south. The amount of “dead time” sitting in traffic trying to get through Aberdeen has meant that drivers literally run out of their legal working hours. A huge volume of traffic is looking to just travel south from Aberdeenshire so helping them to do just that will only assist in making Aberdeen a better place to work in for all businesses.
Online capability

We found that 92% of businesses surveyed have an online presence. Thirty-one percent use their website for e-commerce, with 45% using this presence as an online advertising tool only. This compares favourably to a recent AGCC retail study where 76% of businesses have an online presence with 21% having an ecommerce capability.

Year on year, the value of online retail sales increases, with figures released by IGD suggesting that the UK’s food, grocery and drinks sector’s online sales will more than double in value in the next five years. We again found a number of respondents in the North-east operating in this space already.

Figure 16: Do you have an online capability?

Presence on social media channels is also high within the sector, with Facebook and Twitter being the most utilised tools.

Figure 17: Do you have a social media presence?
Concluding remarks

One of the aims outlined at the start of this report was to create baseline data for the sector. The table below summarises the key findings that can be used to this end.

<table>
<thead>
<tr>
<th>Table 7: Sector benchmarks 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Family businesses</td>
</tr>
<tr>
<td>Business exporting</td>
</tr>
<tr>
<td>Revenue from overseas activity</td>
</tr>
<tr>
<td>Businesses looking to diversify in the future</td>
</tr>
<tr>
<td>Businesses with margins no lower than 2%</td>
</tr>
<tr>
<td>Businesses looking to grow and expand (next 2 years)</td>
</tr>
<tr>
<td>Businesses looking to take on additional staff</td>
</tr>
<tr>
<td>Businesses with an online presence</td>
</tr>
</tbody>
</table>

When asked what businesses would change about the industry, many comments reflect the constraints to growth or factors which might negatively impact on the sector over the next two years. In many respects these comments reflect the concern that growth aspirations may be constrained. As an illustration, we have provided some verbatim comments which provide recommendations which could deliver positive outcomes.

“I would like to see people become real masters in their craft. When you visit other countries this is what happens whereas I think we get to a certain standard but then stay at that standard. The telling sign is that we don’t have any Michelin star restaurants etc. in the region yet we have such amazing produce.”

“Improve customer care”

“Increased promotion of the region’s brands and expertise outwith the region i.e. promote what a strong food & drink production skill base we have.”

“More top end establishments selling and championing the quality produce available from the region.”

“Understanding in the schools/hospitals from staff on fruit and veg on how it can improve life.”

Reviewing these comments and common themes through the research we have identified six key areas where all parties need to work hard to ensure the economic contribution of the North-east food and drink sector is being maximised.

These areas are:

- **Exporting** – it is clear that businesses have ambitions to grow internationally and that ambitions are within key growth regions but realising these ambitions will require continued support and collaboration
• **Collaborating to reduce transport / distribution costs** – a minority of businesses are already collaborating and seeing the benefits of this. It appears that collaboration to deliver more cost effective and efficient means of distributing goods and marketing will be critical to the sector’s competitiveness.

• **Collaboration on marketing / quality** – it is clear that the sector is growing because of a premium set of products and services, the continued collaborative marketing regionally and nationally will help drive continued success. This is already the main area where businesses have engaged with collaborative efforts.

• **Delivering infrastructure improvements** – the good news is that plans are being made to improve infrastructure. It is now important that these are delivered on time to support the growth of our region's food and drink sector.

• **People** – without people, the sector cannot deliver its own ambitious targets. In a region with low unemployment, securing talented staff will be difficult. This is an issue facing multiple sectors in the North-east, particularly in engineering disciplines.

• **Reducing the cost of doing business**
  - **Regulatory and legislative costs/policies** – The majority of businesses in the region are micro and SME in terms of employment. These small growing companies and our larger companies that are already exporting must not face continued increasing cost burdens due to new regulations and legislative changes.
  - **Other input costs** – input costs such as business rates and energy costs have been reported as having a negative impact on business. Stability and a pro-business outlook will help the sector generate employment and wealth which will benefit the wider communities these family businesses operate within.

**Appendix**

1. AGCC Food and Drink survey, 2011 www.agcc.co.uk/research/#sector-reports
7. Aberdeen & Grampian Chamber of Commerce, Oil and Gas survey. www.agcc.co.uk/research/#oil-amp-gas-survey
8. NEBW, People Driving Growth, 2013. www.agcc.co.uk/research/#north-east-business-week
9. Manpower Talent Shortage Survey 2012. candidate.manpower.com/wps/wcm/connect/93de5b004b6f33c0ab3cbf4952b5bce9/2012+Talent+Shortage+Survey+Results_A4_FINAL.pdf?MOD=AJPERES
10. Scotland Food & drink
11. AGCC Retail Survey, 2013 www.agcc.co.uk/research/#sector-reports
12. www.theguardian.com/business/2013/sep/12/uk-online-grocery-sales-forecast-to-double-retail-shakeup
About AGCC research unit
The commercial research unit within AGCC undertakes a variety of business-focused research commissions. These bespoke commissions are delivered directly in response to business requests from the North-east, Scotland and the rest of the UK. Research varies from staff and customer surveys to more complex economic studies. The team also undertakes sponsored sector surveys and research such as this to support the regional economy and help build an evidence base for policy makers.

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North-east Food & Drink Production Distribution