

## FOOD & DRINK ECONOMIC UPDATE

MARCH 2004

### Overview

The Highlands and Islands is renowned for its high quality food and drink products, and the industry supports significant economic activity in the area. The sector builds on the region's natural resources to produce a diverse range of food and beverage products. Markets are characterised by frequently changing consumer tastes, driven by changing lifestyles and improved consumer knowledge on issues such as healthy eating. Increased competition as a result of, for example, accession of low cost base eastern European countries into the EU will drive further change, with companies increasingly having to focus on added-value products to remain competitive. The current importance of the sector to the Highlands and Islands economy is summarised below:-

#### *Employment*

- The food and drink sector employs 7,000 people (excluding self-employed) for processing and manufacturing activities in the Highlands and Islands, the equivalent of 6,474 FTE's<sup>1</sup>.
- Approximately 1,500 people within this sector are employed distilling spirits, predominantly in Moray, Badenoch & Strathspey, Orkney, the Western Isles and Argyll & the Islands<sup>2</sup>.
- 38% of those employed in the food and drink processing and manufacturing sector are female<sup>1</sup>.
- 15% of those employed work on a part-time basis<sup>1</sup>.
- Average full-time weekly earnings in food and drink activities in Great Britain are £381, lower than the all industry average<sup>3</sup>.

#### *Units/Businesses*

- There are 301 businesses engaged in the food and drink processing sector, compared to 294 in 1999<sup>1</sup>.
- Approximately 61% of businesses employ 1-10 employees<sup>1</sup>.
- Almost 1/3 of the businesses are located in Moray, Badenoch and Strathspey<sup>1</sup>.

#### *Output*

- Distilleries in the Highlands and Islands produce 229 million ltrs of alcohol, accounting for over 40% of the Scottish production. This compares to 195 million ltrs in 1999<sup>2</sup>.
- GVA at basic prices is approximately £246million in the Highlands and Islands (compared to c. £284 million in 1999)<sup>4</sup>.
- This represents around £41,000 GVA per employee<sup>4</sup>.

#### *Product Markets/Exports*

- Food and drink (excluding whisky and fish) is the top exporting sector in the Highlands and Islands with export value reaching £134 million (2001) compared to £115 million in 1999<sup>5</sup>.
- Scotland's top 5 export markets for food and drink (excluding whisky and fish) are; France, Spain, Italy, Germany and Ireland<sup>5</sup>.
- The export value of fish from the Highlands and Islands is £39 million (2001), compared to £53 million in 1999. The export value of whisky is £925 million (2001), compared to £709 million in 1999<sup>5</sup>.
- Scotland's 5 most valuable whisky export markets are; Spain, the USA, France, South Korea & Japan<sup>5</sup>.

#### *Workforce/Skills*

- The high number of retiring workers will create further employment opportunities<sup>3</sup>.
- Many companies (such as dairy and seafood processors, bakeries, butchers, breweries and sandwich makers) are undertaking training programmes in food manufacture/operations<sup>6</sup>.

<sup>1</sup> Source: ABI 2002 pending revision (NOMIS)

<sup>2</sup> Source: The Economic Impact of the Production of Scotch Whisky, Gin and Vodka in Scotland 2001 (The Scotch Whisky Association)

Note 1 – Compiled from Local Authority areas; Highland, Argyll & Bute and Moray

<sup>3</sup> Source: Futureskills Scotland Sector Profile: Food & Drink 2002

Note 1 – Earnings data taken from New Earnings Survey 2001 (ONS)

<sup>4</sup> Source: Scottish Annual Business Statistics: Scottish Production Database 2001 (Scottish Executive & ONS)

Note 1 – Compiled from Local Authority areas; Highland, Orkney, Shetland, Western Isles, Argyll & Bute and Moray.

Note 2 – Based on ABI employment data which excludes self-employed

<sup>5</sup> Source: Survey of Highlands and Islands Manufacturing and Exports 2001/02 (Scottish Council for Development and Industry)

<sup>6</sup> Source: Developing Skills Group 2004 (HIE)

## SWOT Analysis

The following analysis illustrates the main issues facing the development of the food and drink sector in the Highlands and Islands.

| <b>Strengths</b>   | <b>Weaknesses</b>   |
|--|---|
| <p><b>Quality</b></p> <ul style="list-style-type: none"> <li>- Reputation for high quality food and drink products</li> <li>- High quality raw materials produced in “clean, green” environment</li> <li>- Quality assurance and product traceability increasingly adopted by primary producers</li> </ul> <p><b>Diversity</b></p> <ul style="list-style-type: none"> <li>- Sector produces a diverse portfolio of products</li> <li>- A mix of large global players, small niche businesses and new business starts</li> </ul> <p><b>Market Coverage</b></p> <ul style="list-style-type: none"> <li>- Largest export sector by value</li> <li>- SME’s have developed profitable relationships with high quality customers, e.g. Selfridges, Harvey Nichols</li> </ul> <p><b>Food science research base</b></p> <ul style="list-style-type: none"> <li>- Businesses have access to Scotland’s world class food science research base, such as the Agronomy Institute at Orkney College</li> </ul>  | <p><b>Labour constraints</b></p> <ul style="list-style-type: none"> <li>- Other sectors offer better pay, conditions and career prospects</li> <li>- Food and drink is perceived as an unattractive career</li> <li>- Recruitment difficulties in areas of low unemployment, eg, Inner Moray Firth</li> </ul> <p><b>Skill issues</b></p> <ul style="list-style-type: none"> <li>- Need for improved management/leadership and specialist skills, eg, marketing and technical skills, for the SME base</li> </ul> <p><b>Low added value activity</b></p> <ul style="list-style-type: none"> <li>- Much of the raw material leaves the region unprocessed</li> <li>- There is a limited processing infrastructure in some areas</li> </ul> <p><b>Transport / Logistics</b></p> <ul style="list-style-type: none"> <li>- Limited transport infrastructure in some areas can cause difficulty meeting customer supply requirements</li> <li>- Generally poor local distribution network</li> </ul>  |
| <b>Opportunities</b>   | <b>Threats</b>  |
| <p><b>Niche/Premium market opportunities</b></p> <ul style="list-style-type: none"> <li>- Improve market knowledge in food and drink</li> <li>- Opportunities to develop niche, foodservice and premium markets, e.g. health enhancing foods, organics, export markets</li> </ul> <p><b>Opportunities to add-value to products</b></p> <ul style="list-style-type: none"> <li>- Value-added activity could bring further economic gain</li> </ul> <p><b>Continuous product development</b></p> <ul style="list-style-type: none"> <li>- Secure competitive advantage through continuous product development in response to sophisticated/changing consumer demands</li> </ul> <p><b>Process innovation</b></p> <ul style="list-style-type: none"> <li>- Adopt new technologies to improve production efficiency and labour productivity</li> <li>- Adoption of new technologies to transform business relationships with suppliers and customers</li> </ul> <p><b>Local Food Links</b></p> <ul style="list-style-type: none"> <li>- Improve linkages between producers and local retail / foodservice outlets</li> </ul> | <p><b>Changing market environment</b></p> <ul style="list-style-type: none"> <li>- Increasing competition within Europe, particularly from 2004 accession countries which have a lower cost base</li> <li>- Rapidly changing consumer trends and tastes</li> </ul> <p><b>Increasing power of buyers</b></p> <ul style="list-style-type: none"> <li>- Consolidation in foodservice and retail markets continues – eg major multiples moving into convenience stores</li> </ul> <p><b>Availability of raw materials</b></p> <ul style="list-style-type: none"> <li>- Availability of raw materials may continue to diminish through EU legislation on fish catching/agricultural production</li> <li>- Competition for raw materials from processors outside the region</li> </ul> <p><b>Health and Safety Issues</b></p> <ul style="list-style-type: none"> <li>- Industry is subject to high levels of scrutiny by media and lobbyists – media coverage can impact on consumer confidence</li> <li>- Increase in legislation driven by potential/ actual food scares</li> </ul> |

## Priorities for Action

Factors identified for positive development of the food & drink sector in the Highlands and Islands include the following:-

- New and continuous innovation of products and processes
- Improved skills in the industry and the ability to attract new entrants
- Development and facilitation of the relationships between producers and key buyers
- Development of links between producers and local buyers
- New market entry and development of niche markets
- Engagement in product development that “adds value” to raw materials
- Encourage networks embracing all sectors to share knowledge and intelligence