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SCOTTISH FOOD & DRINK FIRMS TARGETING INTERNATIONAL EXPANSION

- Six out of 10 (61 per cent) food and drink firms are pursuing new international customers
- But complexity of logistics and UK political uncertainty are acting as barriers to international trade
- Sector's growth plans remain steady year-on-year at 21 per cent of current turnover
- Half of firms plan to create jobs in the next five years

Scottish food and drink firms are targeting new international customers outside of the European Union (EU), according to a new report by Bank of Scotland.

The Bank of Scotland Food and Drink Report 2017 found that six out of 10 firms (61 per cent) were investing or planning to secure new international customers in the next five years.

A fifth (21 per cent) of Scottish firms said they planned to export for the first time in the next five years and this rises to 31 per cent among small and medium-sized enterprises (SMEs - firms with a turnover of less than £25m).

Western Europe remains a main target (61 per cent of firms plan to target the region in 2017, up from 48 per cent in 2016) but there has been an increase in all areas, with South America in particular almost doubling from 32 per cent to 57 per cent, followed by the Middle East (up from 31 per cent to 44 per cent).

Sector challenges

Rising labour costs were flagged by two fifths of firms (44 per cent) as the biggest challenge to the industry in the next five years, growing from 28 per cent last year and leapfrogging concerns about leaving the EU (42 per cent) to become the sector's primary challenge.

The number of firms citing a lack of skilled labour as a challenge also grew year-on-year from a quarter (25 per cent) to a third (33 per cent).

Meanwhile, firms flagged a number of barriers to international trade. Complexity of logistics and UK political uncertainty (both 64 per cent) are the main challenges for firms looking to export, followed by cash flow (50 per cent), and domestic regulation (50 per cent).

Going for growth

Bank of Scotland found firms' growth forecasts were down slightly year-on-year from 24 per cent to 21 per cent, but were up on the 19 per cent forecast in 2015.

Investment plans remained strong with firms saying they planned to invest 59 per cent of their current annual turnover into the business over the next five years.

Entering new markets in the UK remains the most popular route to growth (up from 49 per cent last year to 68 per cent), followed by job creation (up from 36 per cent to 54 per cent) and new product development (up from 45 per cent to 54 per cent).

Plans to drive growth through the development of existing products have also grown (up from 34 per cent to 46 per cent), as has investment in infrastructure (from 29 per cent to 38 per cent).

The most popular ways to fund growth are by making efficiencies through cost savings (54 per cent), cash flow/working capital finance (46 per cent) and cash reserves (41 per cent).

Employment: challenge and opportunity

Britain's exit from the EU is impacting the industry's recruitment plans. When asked if recruitment plans had been affected by the planned exit from the EU, 67 per cent said yes.

While rising labour costs and access to skilled labour remain a challenge, 54 per cent of all companies still plan to create jobs over the next five years, up from 36 per cent last year.

The sector said that it plans to create 18,000 new jobs over the next five years, up from the 14,300 predicted this time last year.

And firms said they are still investing in their staff. The number of companies investing in staff training grew from 31 per cent in 2016 to 45 per cent this year.

Jane Clark-Hutchison, regional director, Bank of Scotland, said: "Scotland's food and drink sector defines us as a nation – it is a key part of our economy, our culture and our heritage, and this report shows that it remains robust in the face of economic and political uncertainty."

“With a global reputation for quality, the sector enjoyed a record year for exports last year and, buoyed by the depressed pound, many are now planning to grow not just in Europe but across a number of overseas markets.

“Meanwhile, despite facing headwinds around the availability of skilled labour at home, the sector expects to create more than 18,000 new jobs over the next five years and is investing in the skills and development of existing staff to make their businesses more productive.

“One of the ways they intend to meet these challenges is by making greater use of working capital finance to fund growth.

“Our longstanding support for the sector is a point of pride for Bank of Scotland and we are determined to back them with the support they need at home and abroad.”

James Withers, chief executive, Scotland Food and Drink, said: "In the last 10 years, food exports have doubled and sales of Scottish brands in the UK have risen by nearly 40 per cent. Through a focus on quality and provenance, Scotland's reputation as a land of food and drink has been transformed.

"However, a lot of work is still required to unlock the full potential of our high-quality produce at home and overseas.

"It is great to see in this report that our Scottish food and drink businesses remain hugely ambitious, with 61 per cent of businesses looking to develop in new markets.

"In order to do this, we must continue to invest in skills, our supply chains and embrace world-class innovation.”

Supply chain

Leaving the EU remains the biggest threat to ingredient/supply security cited by 44 per cent of firms.

And half (50 per cent) of Scottish food and drink firms said the UK's planned exit from the EU had already caused them to import less raw materials.

But this could help to boost the Scottish supply chain as 62 per cent of firms said they would be prepared to pay a higher price to primary producers in the UK to guarantee security of supply and maintain the provenance of their products.

Press Release



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Notes to editors

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About the research

Field research for this report was undertaken in July 2017 by Coleman Parkes Research.

To gather representative data from this diverse industry, a broad cross-section of 100 food and drink manufacturers in Scotland were interviewed from companies ranging in size, from less than £25m, £25-£750m and more than £750m annual turnover.

Business owners, managers, senior managers, directors and department heads took part in the survey.

Our survey questions focused on growth and export plans, job creation, capacity and investment, international markets and challenges.