

# East Midlands Food and Drink Sector Strategy

**A strategy prepared by *emda***

February 2008

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**February 2008**



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## 1 Introduction

### 1.1 *This strategy*

The East Midlands Development Agency has identified a number of key sectors and clusters that make an important contribution to the regional economy in the drive to increase productivity and competitiveness and achieve the objectives of the Regional Economic Strategy (RES). These priority sectors require targeted intervention to significantly improve the contribution they can make, in areas such as innovation, sector networks, supply chain development and skills (See Appendix).

The food and drink sector is one of four priority sectors. Within this sector, food is a key industry for the future economic development of the East Midlands region, and one that also exhibits many features of clustering that can multiply the effectiveness of intervention.

This document is the sector strategy for food manufacturing in the East Midlands, it touches on other parts of the supply chain but further work would need to be commissioned to have a strategy across the whole of the supply chain. It has been developed in consultation with industry, principally through The Food & Drink Forum.

### 1.2 *UK food sector: prospects and challenges*

The Food sector has a turnover of £70bn, This is 15% of the UK's total manufacturing sector. It employs 500,000 people, This is approximately 13.7% of the UK manufacturing workforce. The sector exports £9.9bn of food & drink (64% to EU) and imports £23.4bn of food & drink (64% from EU). The UK food sector buys two thirds of all the UK's agricultural produce. Food and drink is the biggest spending category accounting for £158.8bn (2005) this is 20% of national consumers' expenditure. In the UK there are 6,530 food and drink enterprises.

Data: The Food & Drink Federation

Large companies make up less than 0.5% of companies in the food sector. Around 14% of companies in the sector are small and medium businesses with between 10 and 249 employees while around 86% of companies are micro-firms employing less than 10 people (Defra)

The sector is intensely competitive, as a result of this competition the industry has consolidated in recent years through mergers and acquisitions e.g. PJ Smoothies/Pepsico, Dove Valley/Moy Park. In addition, a number of large companies e.g. Northern Foods are consolidating and divesting of non core operations.

There are a number of constraints that influence the industry's competitiveness. These include the price and availability of raw materials, regulation, public perception of the use of novel technology, the economic environment, the need for environmental conservation and animal welfare.

The industry is dominated by the 4 major retailers, Tesco, Asda, Sainsbury's and Morrisons. Other retailers such as Waitrose and M&S are key players particularly at the quality end of the market. This market 'stranglehold' of the retailers has increased the pace of change and rationalisation within the food manufacturing sector. The food industry, like other manufacturing industries within the UK is now part of a globally competitive market. Many foods e.g. milk, bread have become commodities leading to competition based upon price and UK supply often displaced by cheap imports.

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The industry faces rising consumer pressure for convenience, variety & choice, health & nutrition, keen pricing, clear & informative product labelling. This pressure is partly due to many consumers being 'fashion conscious'.

Despite this volatile environment opportunities do still exist for manufacturers. There is room for large companies and in particular SMEs to flourish in this competitive environment often producing specialist food products e.g. soya milk, natural cordials. The value added & niche products do attract a higher margin and there are many opportunities outside of the mature retail sector. There are a number of essential skills that are required in order to exploit these opportunities e.g. market research.

Other critical challenges facing the industry include:

- Image, the food sector has an image of 'low pay and low skill' and is not perceived as an attractive career choice
- A shortage of skills in particular technical skills, food science skills and engineering skills
- Disproportionately low investment particularly in research and development. This is especially prevalent within SMEs
- A slow uptake of science and new technologies meaning that some companies can not keep up with the increasing pace of change and are slow to innovate therefore becoming uncompetitive
- The food sector works with infinitely variable raw materials which provides a greater technical challenge
- Crippling 'red tape' and rising food safety standards against a backdrop of static prices from the retailers
- Environmental challenges e.g. changes in landfill rules, rising energy costs and the need to find alternative energy sources
- Long term risk of food crops being used to provide fuel may mean that farmers can access new (and possibly more lucrative) markets away from the food chain e.g. oil seeds
- Climate change impacting on the quality and variety of crops that can be grown in the UK
- The increasing dependence on 'transient' agency labour meaning that maintaining standards and efficiencies without a stable workforce is extremely difficult

These challenges lead to the industry being required to:

- improve the capability of supply chain companies to operate successfully and independently in a global market environment
- invest in new technology across supply chains and hence move the whole industry up the value stream into even higher-value-adding work
- improve the management of supply chains for greater effectiveness and efficiency
- improve productivity in the face of global competition including emerging markets
- address growing critical skills shortages in a highly cyclical industry context

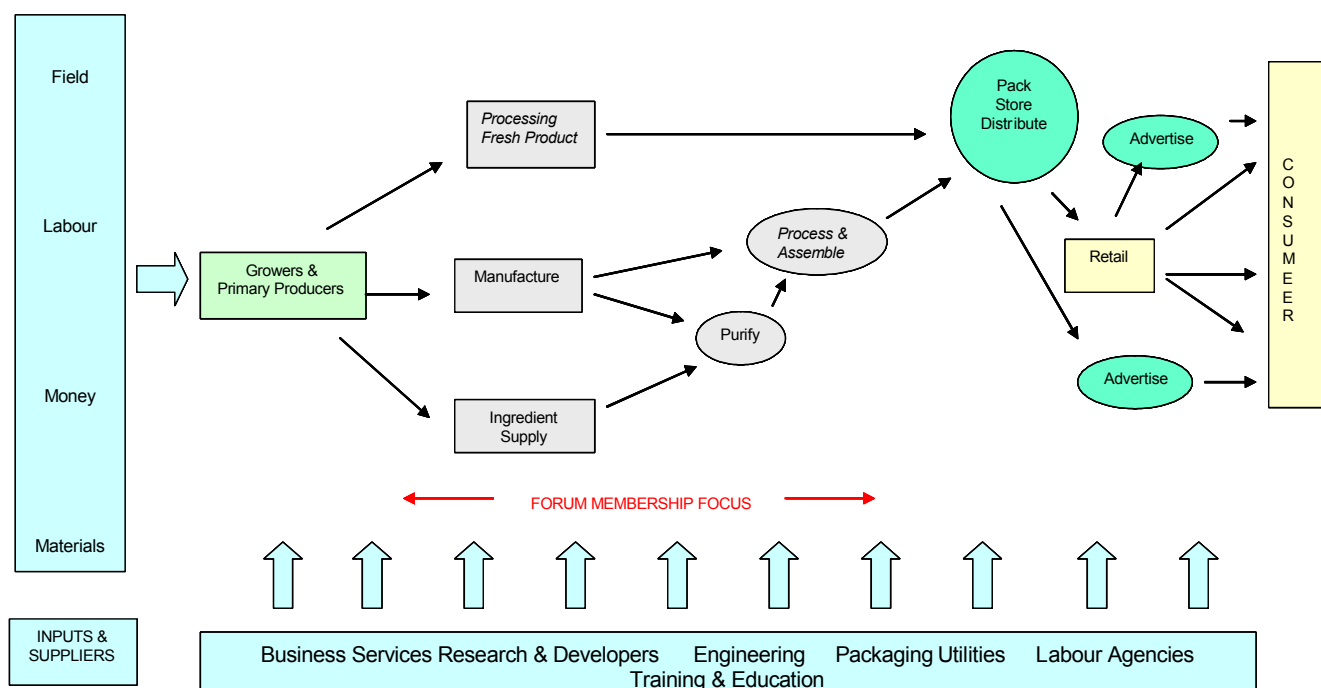
### **1.3 Food and drink in the East Midlands**

#### **1.3.1 The East Midlands food cluster**

- Specific regional data is patchy, much of the information included in this section is based upon the knowledge and experience of The Food & Drink Forum but it has not been quantified. We would like to recommend that, in the future, further work is done to quantify information about the sector in the East Midlands.

- The food and drink manufacturing sector is extremely important to the region, it contributes 17.5% GDP
- In the region there are approximately 700 food & drink manufacturing companies employing 46,000 people
- The region has a richness of large scale manufacturing. However the large scale manufacturing is undertaken by only a few companies. This is largely populated along the M1 corridor
- The region also has a large rural element, in particular Lincolnshire for primary produce, the Peak District and the Welland valley which house many small livestock farms in addition to farm diversification and other niche businesses e.g. Field House Foods, Melton Mowbray Sloe Gin in addition to livestock farms.
- Despite the absence of regional statistics, there is a strong correlation between UK issues and regional issues, within the region. These issues are magnified by the high value of the sector within the East Midlands.
- The food sector is comprised of a complex and integrated supply chain, please see the diagram below

### Food Chain



#### 1.3.2 Food and Drink in the East Midlands

- The sector in the East Midlands is dominated by small companies. There are a few large companies e.g. Geest, Samworth Brothers, Greencore. Of the large companies, few remain privately owned e.g. Samworth Brothers.

- There are a very small number of medium sized companies, this is indicative of the rationalisation within the sector i.e. as soon as a company reaches a certain size it is generally purchased by a larger company, often one that is a foreign owned global player e.g. PJ Smoothies acquisition by PepsiCo.
- Most of the manufacturing equipment is made overseas, in particular Germany and more recently, Italy. The Scandinavian countries have traditionally provided equipment to the dairy industry. Japan is a new market entrant for food manufacturing equipment. The sector has an acute shortage of skilled engineers as well as other skilled staff e.g. technical managers
- The manufacturing sector is increasingly moving to one which is based on 'component supply' e.g. a sandwich manufacturer may buy in all of their fillings – tuna mayonnaise, coronation chicken, diced vegetables and use their production line purely to assemble. This is a replication of other manufacturing sectors.
- None of the 'big 4' supermarkets have their head offices within the region.
- The region (and the UK) is advanced in the production of chilled ready meals, chilled soups and sauces. The chilled categories, particularly for ready meals now dominate their frozen predecessors. The East Midlands performs very strongly in the manufacture of chilled ready meals, chilled soups and sauces.
- The majority of growth opportunities come from applying innovation to develop new products e.g. healthy eating, functional foods. Products that assist the 'cash rich, time poor' consumers such as chilled ready meals and value added e.g. pre prepared vegetables are also showing growth. Climate change has a bearing on some of these things e.g. the growth in the number of English vineyards
- The East Midlands industry is relatively easy to enter at a basic level but accessing markets for business growth requires a significant investment in facilities and equipment.
- The large number of SMEs in the region can sometimes lead to short horizons as they are generally focused on short term manufacturing needs rather than long term planning.

Leading food companies are listed in the table below:

<b>Leading East Midlands food companies</b>	
Geest	Weetabix
Padleys	PJ Smoothies
Dove Valley	Samworth Brothers
Greencore	Dairy Crest
Northern Foods	British Sugar
PepsiCo	

Supply chains stretch across the world with examples of imports from Holland and Kenya (vegetables), Brazil and Thailand (chicken), American continent (beef, oranges), Canada (wheat).

The region is now striving for, and must make further progress in order to achieve a cohesive and integrated supply chain to protect integrity, reduce food miles and protect market share.

### 1.3.3 *emda* support for food and drink

*emda* has supported the food sector through:

- East Midlands Fine Foods set up in response to the Strategy for Sustainable Farming and Food (a mix of funding with Food From Britain)
- Public Sector Food Procurement Initiative and research into a Regional Food Mall in response to the Strategy for Sustainable Farming and Food

- Southglade Food Park (a mix of funding with ERDF)
- Significant investments to support industry-related research at university centres e.g. Holbeach, Brackenhurst, North Notts. College and Nottingham University
- Early stage core funding for Food and Drink Forum
- Foodcampus.com, a food industry information website
- Other project work has taken place across the region funded by ERDF and ESF

## 2 Food and the East Midlands economy

As a sector the food and drink industry (whole supply chain) in the East Midlands represents 7.0% of all UK food and drink firms and 6.6% of employment. However, the East Midlands contains a high proportion of the UK employment in storage & transport, repair, processing, farming, manufacturing and wholesale.

The table below illustrates the strong industry across all parts of the supply chain in the region

Distribution of food & drink firms and employment by sub group		
Subgroup	East Midlands Firms as a % of UK Firms	East Midlands Emp as a % of UK Emp
Storage & transport	7.9	16.7
Repair	11.1	14.7
Processing	7.1	12.4
Farming	8.0	11.1
Manufacturing	8.0	11.1
Wholesale	6.5	9.6
Services	9.9	7.6
Eating & drinking	6.6	7.2
Rental & hire	7.4	5.6
Retail	6.5	2.9
Total	7.0	6.6

Source: Trends Business Research

The key points are:

- The sector is dominant in the region
- Food manufacturing in the region employs a higher proportion of staff than the UK
- The East Midlands manufacturing sector showed stability & growth, it declined elsewhere in the UK by 2%
- Storage, transport & wholesale are particularly strong, this is due to the geographic location of the region and also the M1 corridor. There has been a large increase in employment of 8%, elsewhere employment decline by 13%
- There are sections of the East Midlands food economy that have grown less than the UK, these are at the end of the supply chain e.g. retail, eating & drinking, rental & hire.
- The sections of the East Midlands economy that have grown more than the UK figure tend to be further back along the supply chain e.g. manufacturing, storage & transport, farming.



## **2.1 Growth and regional economic structure**

The East Midlands' Regional Economic Strategy identifies the Food and Drink Sector as a key sector capable of growth and instrumental in the region's aim of creating a dynamic region with innovative creative businesses competing successfully in a global economy.

The food and drink manufacturing sector is a key economic driver for the East Midlands. Gross value added of the food sector in the East Midlands accounted for around 11.4% in 2000 - £1639 million (Defra)

Along with Yorkshire and Humber regions, the East Midlands is the country's biggest food manufacturing centre, and accounts for around 21% of food sector employment, again the highest in the UK. (Defra)

Distinct features of the East Midlands food industry:

- It contributes significantly to regional manufacturing GVA (around 13%)
- Has significantly high number of employees in manufacturing
- Has high proportion of employment in rural areas.

## **2.2 Productivity drivers**

The food manufacturing sector makes a contribution to all of the five drivers of productivity identified by the UK Treasury.

### *Innovation*

In 2004 UK spending on research and development in the food, drink and tobacco manufacturing sector totalled £258 million, equal to 1.15% of the total gross value added of the sector. This is only a small increase since 1995. (Office of National Statistics & Defra)

The UK has a higher proportion of food processing companies than any of its World competitors. The sector is classed by the DTI R&D Scorecard as a "low R&D intensity sector", contributing less than 2% of R&D spend of GDP.

Retail food prices were 0.8% higher in December 2005 than in the same month in the previous year. The All Items Retail Price Index rose by 2.2% over the same period, (Defra). This implies that many foods are still treated as commodities and not achieving the same price rises as the high value added products. Therefore to protect the manufacturers' position in the market place they must innovate and move to higher value added products.

Innovation needs to become a key driver across the whole of the manufacturing sector, there are pockets of excellence. There are recognised and established links between the amount a company invests in research and development and company growth, including sales growth, wealth creation, the development of manufacturing efficiencies, resource and waste management.

The aim of the Regional Economic Strategy is to increase gross domestic expenditure on research and development to 2.5% of GDP by 2009, reflecting the Governments ambition to increase public and private research and development investment to 2.5% of GDP by 2014 (DTI R&D Scorecard).

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The DTI 2005 R&D scorecard supports that higher investment in research & development links to company performance, research & development intensity is strongly correlated with sales growth and wealth creation. The growth in market value for the portfolio of FTSE 100 companies with the highest r & d intensities was 69% over the last 8 years compared to just 7% for the ftse 100 index. However company success depends not only on wise and balanced investment in r & d and other factors (capital investment, brands, skills, market development) but also on good strategic choices and operational excellence. The food sector has low investment in r & d, this is a key issue that needs to be addressed if the industry is to remain progressive and competitive.

### *Competition*

As indicated in section 1.2, the East Midlands food manufacturing is intensely competitive.

The sector (U.K. and East Midlands) operates in a global market place. The sector is known for its ability to adapt to difficult market places with a long history of supply chain collaboration with major retailers in product development, chill chain logistics and technical innovation.

Agriculture is slowly seeing a need for the shift from supply thinking to 'meeting market need'. SMEs are known for their flexibility. Further assistance is required if they are to retain their flexible approach to the customer and yet improve productivity and competitiveness.

### *Skills*

Skills are one of the biggest challenges for the food and drink manufacturing sector. This skills challenge is exacerbated by a poor industry image meaning that the industry does not readily attract and maintain the highest calibre employees and entrepreneurs. Major skills shortages are reported in:

- Management/ supervisory roles
- Technical operators – technologists, engineers, electricians
- Craft skills – bakers, butchers, fishmongers, cheese makers, machine operators.
- There is a critical shortage of food scientists.

Skills shortages are reported in:

- Softer skills - leadership, motivation, mentoring and teambuilding
- Shortage of new graduates and post-graduates joining the food sector

While an overall decline in employment is forecast replacement demand means the sector will need to continue to recruit. The sector has problems with recruitment and retention. There is little awareness and it is perceived as unattractive to new recruits.

Information Advice and Guidance has to be improved and flexibility has to be increased to attract females, ethnic minorities, older workers etc. so that recruitment can take place throughout the working population.

There is a forecast from the Sector Skills Council (Improve) that all jobs within the sector will require a minimum of level 2 skills within 15 years and it is projected that 50% more managers will be required over next 5-8 years and that lower skilled elementary jobs will halve.

Traditionally, training provision has been provided 'on the job', this has led to bespoke training that may not always lead to transferable skills meeting wider industry needs.

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Despite these significant challenges, productivity within the East Midlands food manufacturing sector has remained strong.

### *Investment*

The food manufacturing sector is a growth sector and the DTI identifies the sector as one with substantial cap-ex investment with modest R&D, adding value through strong brands. The sector contributes 17% of GDP regionally (Trends Research 2004), so unless innovation and spend on research and development are increased in the food processing and drink industry it is likely to impact on the ability of *emda* to meet their R&D aims.

Investment is particularly required for the following areas:

- For companies to build new facilities and to invest in the region
- To invest in new ideas and developments
- For replacement machinery, margin constraints mean that companies are trying to extend the life of their equipment, this can have a negative effect on energy efficiency.

Further investigatory work is required to accurately assess the level of investment within the East Midlands' food and drink manufacturing industry and make more detailed recommendations.

### *Enterprise*

Food manufacturing performs well in terms of enterprise. It is a start-up driven industry where the rate of new firm creation is high.

At first the industry is easy to access e.g. making products at home but to enter the industry in a substantive way is completely different, it requires investment and the enterprise focus turns to efficiencies, mergers and acquisitions.

In the context of enterprise, the focus on the correlation between health and diet can not be ignored by the forward thinking food manufacturers.

## **2.3 The food sector contribution**

As a result of the factors above, the food manufacturing industry makes an important contribution to productivity in the East Midlands economy.

Gross Value Added (GVA) is used to measure productivity. Storage & transport, manufacturing & wholesale all show a higher than average GVA for these sub groups in the UK as a whole. The Trends Research data suggests these sub groups are particularly productive in the East Midlands region.

According to SAC Commercial Ltd in their Food Chain Productivity report commissioned by Defra food manufacturing has a positive total factor productivity growth rate of 0.68% per annum (1998-2003) which was above the whole economy average of 0.57%.

DTZ report suggests that the food cluster has room for development, towards a single holistic strategy. The Food & Drink Forum suggest that the food supply chain has the basis to enable this development to occur bringing primary production and consumer into closer connection. It also suggests that this could harmonise a range of strategies, e.g. *emda* emphasis on food technology, sustainable farming and food, etc.

Consumers' expenditure on food, drink and catering totalled £38.2 billion in the third quarter of 2005, representing 19.9% of consumers' expenditure on all items.

National GVA has grown 35% since 1998. GVA of the food sector, excluding agriculture has increased by 31% since 1998. Food manufacture has increased 18.3% (Defra & Office of National Statistics). The price of food is declining in real terms, retail food prices were 0.8% higher in December 2005 than in the same month the previous year. The all items retail price index rose by 2.2% over the same period. This is in line with the long term trends that have seen the price of food decline in real terms.

The food sector contributes well to the East Midlands economy in terms of GDP and GVA, however further interventions are needed (see section 5).

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### 3 East Midlands food sector SWOT analysis

A SWOT analysis of the food and drink cluster in the East Midlands summarises the strengths and opportunities that the region can build on, as well as the weaknesses and threats that require to be addressed

#### 3.1 Strengths

##### *Business development*

- Good support from Food & Drink Forum & East Midlands Business
- Diverse range of manufacturing operations, both size, style and product
- Good North to South transport system (Rail & Road)
- Regional airport with very large distribution operation
- Good availability of land for 'build' & workforce in North of region
- Growing interest, nationally, in healthy speciality foods
- 80% of Forum members surveyed are forecasting growth in employee numbers

##### *Innovation and technology*

- Two specialist Food Parks with excellent NPD facilities (Southglade in Nottingham and Holbeach Campus at Spalding)
- 8 nationally recognised Universities, (4 of which have agriculture & food interests and sub-regional colleges)
- Food Research centres of excellence in the region – University of Nottingham

##### *Best practice*

- Speciality food production businesses established in Region
- Well established temperature controlled distribution operations within Region
- Established County Food Shows linked to Tourism
- There are strong local brands (e.g. Melton Mowbray pork pie), although the overall image of the region producing high quality foods is weak

##### *Skills*

- Large manufacturing company base
- Strong ethnic food sector
- In medium & large companies, a willingness to adapt and apply new science & technology

##### *Clustering*

- Strong and well established agricultural base yielding good range and supply of raw materials
- Significant activity in primary processing of flour, sugar, liquid milk and meats.

#### 3.2 Weaknesses

##### *Business development*

- Labour shortage
- Insufficient investment
- Poor east - west roads network
- No key supermarket chain head office/regional office in the Region
- Integration of all parts of the food chain (particularly retail/food services) is still weak

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*Innovation and technology*

- Insufficient use of e-commerce
- Difficulty in moving from 'artisan' style production to efficient sustainable larger production models
- The lack of a cost effective distribution systems for SMEs
- Poor engagement with the science base

*Best practice*

- Region has a poor image externally for food and drink products but a strong image for individual county brands
- A sector with a poor image for employment (wages, conditions & career development)
- The sector is poor at integrating best practice from other industries

*Skills*

- Labour that is available has low skills base
- High use of migrant labour, requiring specialist training
- Low technical competence and resource of SMEs
- SMEs lack of business planning, technical, financial and marketing skills
- Shortage of HGV drivers

### 3.3 Opportunities

*Business development*

- Exploit South East markets with higher spending & concentration of food outlets
- Exploit local produce/food products through tourism
- Exploit growing food service and export markets
- Encourage and help SMEs to respond to opportunities presented in growth sectors to match their skills (niche /speciality/ethnic products)
- Examine ways to collaborate for distribution, marketing and procurement (using Food Mall developments)
- Assembly supply of food components

*Innovation and technology*

- Capitalise on strong technical and research base (Universities/colleges/RI's) to improve productivity, innovation and cost reduction.
- Capitalise on new ICT infrastructure to enhance business performance
- Use technology to improve productivity in volume manufacture e.g. lean manufacturing
- Use of technology to improve energy efficiency and seek new sources of usable energy
- Use of new technology e.g. nano technology for self cleaning materials

*Best practice*

- Improve the support for new food 'start-ups' and thus increase numbers that reach sustainability
- Consumer demand for diversity of choice, new and locally produced food and good traceability

*Skills*

- Attracting more people into the industry
- Improving skills at all levels
- More effective use of skills within the migrant worker communities

*Clustering*

- Supply chain opportunities for SME's to supply larger companies with components
- Further integration of ancillary services e.g. banks, insurance companies into the food manufacturing sector

**3.4 Threats**

*Business development*

- Imports of produce and European/Far Eastern production & food product assembly
- Foreign ownership resulting in rationalisation of regional operations
- Consumer lack of confidence in UK food manufacturing
- Increased power of retailers, pushing margins lower, demanding high marketing contributions
- Ever increasing demand for lower cost food
- Increase in legislation e.g. health and safety
- Increase in food safety legislation
- Increased UK business taxation

*Innovation and technology*

- Increasing environmental demands and associated costs: Land fill tax, packaging waste disposal & food miles
- Food safety scare – farmers' markets, organic production
- Increasing energy costs –electricity, gas, water and motor/lorry fuel

*Best practice*

- Customers demanding more and more competencies from suppliers. Often these may be uneconomic to attain (certifications, audit regimes). The risk of not complying is that entire supply chains may be exported.

*Skills*

- Many of the 80% of the Forum members forecasting their businesses will be unable to grow due to labour shortages

**3.5 Weaknesses, market failures, and policy intervention**

To build effectively on strengths, take advantage of opportunities and overcome threats, East Midlands food and drink must address the weaknesses outlined above. These weaknesses are closely related to the market failures which underly them, impeding the attainment of desirable outcomes for the region.

Please refer to Appendix 15 RES Needs Implementation Strategy. Attached separately

## **4 Strategy for the future**

### **4.1 *Vision for the sector***

The following overall vision statement has been written by The Food & Drink Forum board and shared at a senior level within *emda*.

- A climate which encourages businesses to start, develop and remain in the East Midlands
- Sufficient labour supply of the required skill levels
- Increasing market share both within and outside the UK.
- This means that companies should be encouraged to focus on added value markets as a mechanism to increase market share
- Profitability derived from efficiencies, productivity and reasonable price increases

The East Midlands food sector needs to develop more fully so that it can substantiate its position as a national and international leader producing high quality, safe, good value food in a profitable way. In order to achieve this, the sector needs to innovate more so that the flair of artisans can be utilised across the large scale manufacturing sector. In addition, if this is to be achieved further investments need to be made in research and development, learning and skills.

In line with the longer term perspective of the Regional Economic Strategy to the year 2020, there are a number of challenges that will need to be overcome if this vision is to be achieved, it translates into overcoming the following problems. These problems have been split by each RES theme.



#### 4.2 Challenges – five year perspective by RES Theme

<b>Business Issue</b>	<b>Problem to Address (weaknesses, threats, market failures)</b>
<b>Employment, learning &amp; skills</b>	Shortage of food industry skilled production operatives
	Shortage of high level management and leadership skills
	Shortage of strategic planning skills, managing change, business planning and risk management/assessment (e.g. global issues - terrorism/currency, oil prices, floods/crop prices)
	Poor industry image, low skill, low pay - lack of understanding of the complexity and opportunities
	Lack of entrepreneurship and intrapreneurship skills
	Business planning, financial planning and interpretation of financial information, tendering, range of skills required to run a successful business in an industry that is increasingly competitive and consolidated
<b>Enterprise &amp; Business Support</b>	Consolidation amongst customer base, leading to unequal bargaining relationship. Increased power of the retailers.
	Power of the Food Standards Agency, new EU regulations, red tape and legislation
	Reaching and maintaining technical standards enabling access to new markets e.g. retail (BRC, EFSIS etc.)
	Compliance with rapidly changing legislation (EU, allergens etc.) e.g. Labeling, packaging, new product development
	Market understanding and experience relevant to area of operation in a globally competitive industry e.g. chilled food sector for own label

	Specific sales and marketing to the sector, a better understanding Routes to market, understanding of the product life cycle and increasing consumer demands
	Factory processes, factory planning, layouts for efficiencies and cost competitiveness
	Lack of engagement of migrant workers meaning that entrepreneurial capability is not unlocked
	Few new products being developed by small companies leading to mature products in shrinking markets/'commoditised'
	Keeping pace and implementing (in a cost effective manner) changing legislative requirements
<b>Innovation</b>	Value addition to commoditised ingredients through technical development
	Production efficiencies e.g. lean manufacturing
	Lack of focus on profit generating innovation.
	Coordination failure which prevents SMEs organising joint activities, the fragmentation has a negative influence on collaboration within SMEs
	Lack of investment in r & d in terms of money and time
	Many managers encouraged to focus on the short term rather than long term planning, this can mean that new projects with a long lead time are not embarked upon
	Threat of cheap imports in commodity markets e.g. milk, need to add value and innovate in order to protect market share and look for new markets/products e.g. export
	Managers operating in micro environments, tightly focused and not looking to other business, industries for ideas, best practice etc.

<b>Transport &amp; Logistics</b>	Tackling road congestion to enhance distribution capabilities, poor East to West road network
	Access to affordable distribution, especially for SMEs and rural areas,
	Access to integrated transport infrastructures that are not road dependent
	Access to food sites from non car users affects recruitment and retention especially in rural locations
<b>Energy &amp; Resources</b>	Effect on international supply chains of further increases in oil prices
	The availability of energy Rising energy costs The knock on effect of high raw materials costs on primary production and processing
	The expectation of new price levels due to competition from industrial uses e.g. if crops are grown for fuel this may increase the price of crops going into the food supply chain e.g. oil seed rape
	Volatility of prices as EU agricultural protection is removed
	Environmental/waste demands
	Landfill constraints and new legislation, rising costs
<b>Environmental Protection</b>	Lack of understanding of impact of business management on the environment & associated costs
<b>Land &amp; Development</b>	Availability of affordable commercial property suitable for food use (except in the north of the region)
	Availability of pre start space or shared units for pre start work e.g. leading into Southglade
	Cost of land, proximity of residential, business space and accessibility

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	Availability of 'move on' space (above and beyond incubator space) holds back successful companies e.g. post Southglade
<b>Cohesive Communities</b>	Maximising the skills and potential that exist within the migrant workers population, breaking down barriers that exist preventing social cohesion and integration
<b>Economic Renewal</b>	Cost of crime on the business community, can deter people from investing and remaining in some areas
<b>Economic Inclusion</b>	Utilising the food industry which is easy to access to address some of these areas e.g. unemployment
	Social agenda and links with the food industry e.g. healthy eating, addressing obesity

## 5 Delivery programmes/interventions

The following table sets out a framework of delivery programmes and interventions required to address the challenges that must be overcome to meet the vision for the sector. Three forms of support are envisaged: knowledge/networking, delivery of tangible support to companies, and ongoing strategy work and communication to “raise the game” of the entire East Midlands food manufacturing industry.

Here, networks/clustering becomes a means to an end rather than a programme area in itself, with a strong role to play in delivering all three forms of support.

Programme area	Knowledge/networking	Delivery of tangible support	Strategy (ongoing)
1. Markets (see Appendix for more details)	<ul style="list-style-type: none"> <li>▪ Collaboration</li> <li>▪ Diffuse knowledge and information about market opportunities</li> </ul>	<ul style="list-style-type: none"> <li>▪ ‘Fit to Supply’</li> <li>▪ Distribution</li> <li>▪ Market knowledge</li> <li>▪ Sales and marketing ability</li> <li>▪ Accessing new markets e.g. export</li> </ul>	<ul style="list-style-type: none"> <li>▪ Iterative, measure success.</li> </ul>
2. Business development	<ul style="list-style-type: none"> <li>▪ Market East Midlands food sector</li> <li>▪ Increase food sector programmes</li> <li>▪ Increase customer knowledge/data</li> </ul>	<ul style="list-style-type: none"> <li>▪ Enhance company strategic thinking capabilities</li> <li>▪ Create business opportunities (trade shows, meet-the-buyer)</li> <li>▪ Diversification (e.g. business start up)</li> <li>▪ Support supply chain restructuring: moving up value chain, consortia working, supply chain management</li> <li>▪ Food sector inward investment</li> </ul>	<ul style="list-style-type: none"> <li>▪ Ongoing regional strategy for food manufacturing business development</li> </ul>
3. Innovation and technology (see Appendix for more details)	<ul style="list-style-type: none"> <li>▪ Diffuse knowledge and information about innovation and technology opportunities into the whole supply chain</li> </ul>	<ul style="list-style-type: none"> <li>▪ Develop additional infrastructure facilities, incorporate lessons learnt from current facilities e.g. pre start shared usage</li> <li>▪ Underpin existing capital spend through the provision of r &amp; d support so that spend is maximised against company performance, improved productivity, products and processes</li> <li>▪ Provide specialist support e.g. food technology, quality systems, NPD, product and process development</li> <li>▪ Provide a seamless service from the region’s food academic centres e.g. Nottingham University, Holbeach campus etc. focusing on innovation, technology and food science. Extend this along the supply chain to engineering, logistics, biotechnologies, pharmaceuticals and food specific business support services</li> <li>▪ Work with Innovation East Midlands to set up a food ‘iNet’</li> </ul>	<ul style="list-style-type: none"> <li>▪ Develop strategy for food sector innovation and technology to deliver best opportunities in the global market</li> </ul>

		<ul style="list-style-type: none"> <li>Provide industry expertise for feasibility studies related to key investments</li> <li>Utilise the strong industry threats of increased energy &amp; waste removal costs to drive productivity intervention, increases in manufacturing efficiencies and technology transfer in line with <i>emda</i>'s performance management framework</li> <li>Provide r &amp; d planning and project management support</li> <li>Extend the provision of food grade premises and associated services to enable more companies to grow</li> <li>Develop supply chain initiatives to encourage collaborative working, local sourcing of equipment, products and services and joint ventures into technology transfer</li> </ul>	
4. Skills (see Appendix for more details)	<ul style="list-style-type: none"> <li>Find out about and clearly articulate current and future demand for skills and training</li> <li>Training providers to offer clear menu of approved/accredited skills and training opportunities that are market led</li> </ul>	<ul style="list-style-type: none"> <li>Facilitate excellent manpower planning within companies.</li> <li>Support East Midlands food sector companies to implement strong people investment programmes.</li> <li>Providers of training provision are fit for purpose: well aligned and appropriate (food specific as required) skills, training and people development funded programmes</li> <li>Programme to ensure key skills are being retained and transferred between companies and people as required. Joined up thinking</li> <li>Work to ensure image of industry is attractive to prospective entrants.</li> <li>Develop and run craft skills courses and apprenticeships e.g. bakery, butchery, deliver flexibly</li> <li>Increase the availability of supervisory and manager training e.g. VRQ level 2</li> <li>Higher level skills development for senior managers, level 5</li> <li>Delivery of entrepreneurial programmes for start up and ongoing learning</li> <li>Provide vocational qualifications for shop floor e.g. TQM, lean manufacturing, knowledge transfer</li> <li>Promote the industry to schools and universities, increasing numbers of individuals joining the sector and not perceiving it as just low skill and low pay. Forge links between industry and schools</li> <li>Utilise more effectively skills and expertise within the migrant worker community</li> </ul>	<ul style="list-style-type: none"> <li>Strategy to assess and articulate future skills needs commensurate with evolving food industry policy.</li> </ul>
5. Best practice business processes	<ul style="list-style-type: none"> <li>Encourage all food industry companies to meet sharing best</li> </ul>	<ul style="list-style-type: none"> <li>Programme to ensure that food companies are improving their standards and practices.</li> <li>Excellent provision of generic forms of business support to food</li> </ul>	<ul style="list-style-type: none"> <li>Overall Midlands regional strategy to define focuses and programmes to achieve food</li> </ul>

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	<p>practice from within and outside of the industry</p> <ul style="list-style-type: none"> <li>▪ Ensure companies have an understanding of global manufacturing competitive standards.</li> </ul>	<p>companies.</p> <ul style="list-style-type: none"> <li>▪ Strengthen supply chain</li> <li>▪ Involve ancillary providers in the development of all best practice business processes</li> </ul>	<p>world class best practice standards.</p>
6. Access to finance (see appendix for more details)	<ul style="list-style-type: none"> <li>▪ Ensure all food industry companies can easily find out about access to finance</li> </ul>	<ul style="list-style-type: none"> <li>▪ Provide linkage, repository of information and coordination</li> <li>▪ <i>To be further developed</i></li> </ul>	<i>To be developed</i>
7. Infrastructure	<i>To be developed</i>	<i>To be developed</i>	<i>To be developed</i>

## 6 Partners' roles

Key partners for the food and drink sector are The Food & Drink Forum and *emda*. A number of other partners will be involved in implementation, according to their specialist capabilities.

These partners include:

- Food Processing Faraday, the KTN
- Nottingham University
- Nottingham Trent University
- Campden & Chorleywood Food Research Association
- University of Lincoln, Holbeach Campus
- University of Northampton
- North Notts College
- Other public sector bodies e.g. GOEM
- Other public sector funders e.g. European funding

### 6.1 The Food & Drink Forum mission and strategy

The vision statement for The Forum is as follows:

*"To be the preferred membership led organisation for the food and drink sector stimulating and supporting the sustainable growth and development of our industry across the East Midlands"*

Strategic Aims:

- Being the champion of the food and drink sector in the East Midlands
- Continually growing the support to members by actively developing strategic influencing partnerships with organisations within and outside the East Midlands
- Being the centre for information and knowledge on all subjects relating to the food and drink sector in the region
- Stimulating and facilitating sustainable change within the companies of all sizes across the food chain
- Generating income and securing resources to meet the needs of a high quality service
- Promoting the sector to future employees through education and the raising of skills

The Food & Drink Forum unites the whole food cluster - from the largest to the smallest company, from university researchers to private consultants, and from trade unions to local government and skills and training agencies.

In terms of delivery programmes to member companies, the Forum Board has determined that the Forum will concentrate its efforts in areas where its expertise can add the most value, as follows.

Programme area	Knowledge/ networking	Delivery of tangible	Strategy
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		support	
Business development	<b>X</b>	<b>X</b>	<b>X</b>
Innovation and technology	<b>X</b>	<b>X</b>	<b>X</b>
Skills	<b>X</b>	<b>X</b>	<b>X</b>
Best practice business processes	<b>X</b>	<b>X</b>	<b>X</b>
Access to finance	<b>X</b>		
Sales & marketing	<b>X</b>	<b>X</b>	<b>X</b>
Infrastructure	<b>X</b>	<b>X</b>	<b>X</b>

## 6.2 Regional partners

According to the RES, a range of partners is to be involved in the implementation of sector strategies:

This Strategy identifies and provides a framework for public sector support for developing the region's key sectors. This support will involve *emda* (including Innovation East Midlands and Business Link), Sub-Regional Strategic Partnerships (SSPs), the regional Learning and Skills Councils (LSC) and the Sector Skills Council (Improve), UK Trade & Investment (UKTI), as well as other national, regional and sub-regional partners with sector-targeted activities.

## 6.3 Relevant RES Priorities

The following table sets out the key *emda* RES priorities together with key partners which will be involved in implementation activities.

Programme area	relevant <i>emda</i> RES sub-priorities (key ones in bold italics)	Key partners for knowledge/networking, strategy	Key partners for delivering tangible support
1. Business development	2a, 2b, <b>2c, 2d, 2e, 2h</b>	FDF, <i>emda</i> , UKTI, FPF	FPF, FDF, UKTI, EMB
2. Innovation and technology	<b>3a, 3b, 3c, 3d, 3e</b>	FDF, InnEM	FDP, FPF, iNET, key companies, universities
3. Skills	<b>1a, 1b, 1c, 1d</b>	FDF, Improve	All skills and training partners
4. Best practice business processes	<b>2c?</b>	MAS, FDF	FDF, BL
5. Access to finance	<i>TBC</i>	<i>TBC</i>	<i>TBC</i>
6. Infrastructure	<i>TBC</i>	<i>TBC</i>	<i>TBC</i>

## **7 Appendix: Implementation Timetable**

Please see Excel spreadsheet

## **8 Appendix: Strategic governance**

The Food & Drink Forum Board was established on incorporation in 1998. The role of the Board is primarily to ensure governance, provide strategic thinking and overall direction. Representing the sector, members and their needs is an essential element of the Board's work. The primary function of the Board is to:

- Oversee strategic development creating a consistent approach and philosophy
- Ensure the whole food chain is represented from all areas of the region
- Represent the Forum and its members at regional, sub regional and national level
- Ensure the compliance on financial and statutory matters and transparency of activity is achieved
- Seek to achieve integration and alignment with the region's economic and social policy influencing change as appropriate

## **9 Appendix: *emda* Sector Strategy in the RES**

Pages 83-85 of the RES

### **Priority sectors**

The following four sectors are likely to make the greatest contribution to the East Midlands' economy over the lifetime of the RES:

- Transport equipment
- Food & drink
- Construction
- Healthcare

The four priority sectors were selected on the basis of a number of measures that identify sectors that:

- perform strongly on productivity and /or have high quality jobs (in terms of higher wages reflecting a greater emphasis on workforce skill);
- have good prospects for growth;
- have a significant presence in the region - in absolute terms and relative to the UK.

Analysis indicates that targeted interventions will have a greater impact in terms of closing the productivity gap that exists between the East Midlands and the UK. By targeting these four sectors around £14 billion of additional GVA is generated. This compares with an additional £11 billion of GVA if intervention was spread more thinly across a greater range of sectors in the economy. This is detailed in the Economy and Productivity section of the RES Evidence Base.

### **Sector support**

The priority sectors will require customised packages of specialist support to enable them to overcome barriers to growth and realise their full potential; it is unlikely that generic business support alone is sufficient to achieve this. Support will be directed towards an identified market failure or developmental bottleneck and will address both the shorter-term business requirements and the medium to long term innovation and development needs of the identified sectors. Market failure should not be confused with lack of demand in the marketplace. In terms of sector policy, examples are:

- uncertainty associated with rapid growth or technological change that may be deterring investment in the sector or impairing the ability of businesses to respond quickly to a market need, e.g. meeting skills requirements;
- where a limited intervention can help a sector overcome co-ordination failures (i.e. the optimal outcome requires joint working within the sector and there is no incentive for any one business to make that happen individually) e.g. networking or establishing research centres; and
- where there is incomplete information to make judgements about the prioritisation of public sector resources, and a better flow of information is needed between the sector and government, e.g. account management.

By targeting those sectors with the most significant market opportunities and removing developmental barriers to their growth, we will be in a position to maximise the return on the public sector investment in terms of increased economic output in the East Midlands. Previous strategies focused on clusters rather than sectors. This approach was based on the understanding that sectors that exhibited clustering features were likely to make a greater contribution to the economic development of the region than those not demonstrating these

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features. Within the new sector policy, clustering will continue to be encouraged where there is evidence that such an approach will enhance the economic development potential of a priority sector by encouraging speedier innovation and increased competitiveness. Importantly, businesses in those sectors that are not identified as priorities will continue to qualify for generic business support through the Integrated Business Support Network. Special measures for managing change may be needed where, for example, sectors are facing restructuring and businesses need help to diversify into priority sectors, or where action is needed to minimise the impact on local communities. Some sub-sectors have particular significance at sub-regional level - e.g. high-performance sport in Loughborough, interactive leisure software around Derby and Nottingham, and industrial design in Leicestershire. In some cases these niche sectors may benefit from customised support provided by the relevant local agencies.

### **3e PRIORITY ACTIONS: GROWING THE REGION'S KEY SECTORS**

Ensure that the priority sectors (transport equipment, construction, food and drink and healthcare) are considered in the implementation of other actions in the RES to support growth, address skills needs and focus on efficiency and excellence, for example:

- by ensuring skills and training providers are matching their provision to the needs of these sectors;
- by encouraging business support organisations to consider these sectors in the setting of their priorities and delivery of their services.

## 10 Appendix: Markets

The East Midlands region provides a diverse range of quality, fresh food and drink products from within its boundaries. The rural areas within the East Midlands produce primary products such as fruit and vegetables, salads, milk, cheese and other dairy, also meats such as beef, lamb and pork. In addition both rurally and in urban areas added value products are produced with great skill and expertise such as ethnic foods, ready meals, sauces, pies, pickles, cakes and confectionery.

Products of extremely high quality and reputation are plentiful across the East Midlands, some products have already achieved, or are in the process of undertaking, European Protected Food Names status.

The common issue facing most SME producers in this sector is increasingly how to get their product to a wider market in the face of supermarket domination in the food & drink sector. Some clear areas of support and intervention are required to realise the vision of an enterprising and flourishing SME food and drink sector. These areas need to focus on the difficult challenges which are not currently being met by the market or not likely to be in the foreseeable future:

- Internet Markets – This is a very important area in need of development. SME producers will need to develop their own capability to sell online and/or be encouraged to collaborate with other producers to share cost and reach critical mass in terms of range and capability. It is acknowledged that careful thought and planning needs to be undertaken on costs and distribution models, mail order may enable the commencement of such projects.
  - Further exploration is required here to make sure that it is commensurate with market changes however, The Food & Drink Forum will be launching a pilot on line shop on May 1<sup>st</sup> 2007, this differs from the Farmshop Home Delivery model as distribution will be via post/established carrier routes not by an in house delivery service.
- Accreditation – Although some SME producers already achieve standards such as STS, BRC & EFSIS, in order to fully exploit opportunities with outlets such as retailers and public procurers suppliers will need help to de-mystify the process that is required in order to attain and retain such standards. In a similar way those companies wishing to supply the public sector will need help to face the challenges of sometimes off putting tender processes.
- Selling – Although small producers are often experts in relation to their own products they often lack the confidence and skills to engage with buyers particularly from large retailers. They need help to up skill in these areas but also they need to understand the process more fully. Management of expectations is crucial in this area so that inexperienced producers realise the length of time it will take to secure a sale and the challenges involved including the challenge of how to negotiate. Connection on a mentoring basis will be key in this area with other more experienced producers and buyers themselves.
- Fit to Supply – The increased legislation and regulation of the Food and Drink industry combined with the increased sophistication of both the consumer and retailer will continue to provide the smaller producer with challenges. Such producers will continually need to focus on their packaging to ensure clarity, shelf readiness i.e. bar-coding, and most importantly that their product packaging not only shows traceability and provenance but that it highlights point of distinction e.g. help is needed in this area to educate producers on how to properly package their product and develop the product USPs

- Collaboration – whether rural or urban, SME food and drink producers will need to work together. Such collaboration will be important in order to overcome issues such as capacity, seasonality and most importantly distribution which will continue to hinder small producers. Support will be needed to encourage sometimes reticent producers to make the ‘leap of faith’ and work with other producers who they may traditionally consider as competitors. In such situations legal advice will be required to ensure trading agreements can be reached and contracts agreed. Processing capacity will need to increase to ensure that local and regional primary products of all types can be presented to the end user in a suitable format. Initiatives such as farmer diversification will be important in this area and there will be a real need for farmer controlled businesses to come to the fore to help plug this gap
- Distribution- as highlighted in the above section distribution is a constant challenge for small producers wishing to get their goods to market. It will be necessary for producers to increase their delivery efficiency by “piggy backing” other producers goods with their own. In addition to this it will be vital that small to medium size transport companies are encouraged to set up or to diversify into the food and drinks industry in order to meet this need. It will remain unlikely that existing larger logistics companies will wish to become involved in this potentially complex area and thus this issue represents a real market gap and failure.
- Finance - Business planning and forecasting will continue to prove a difficult area for an aspiring SME. Businesses will need to develop their planning skills to produce accurate costings, as well as sales predictions and, possibly most critically, cash flow forecasting and financing. This area will be critical for any food and drink company entering into new markets
- Marketing, product placement and development – Although many food and drink producers will be comfortable within their existing markets, they will need to be best equipped to decide how to position their product/s before expanding into new markets. This will require that they have adequate access to vital information in areas such as market information and trends, how markets mature, how to analyse competitors and also how their products can be merchandised to an optimum level in store. In addition the skill to identify and anticipate trends will be vital and the foresight to properly resource new product development will be essential to ensure continued success in any market. The food and drink sector has become and will continue to become ever more sophisticated providing more and more choice to the consumer. Consequently food producers within the region will need to ensure they are providing distinctive products, where possible with regional identity, which are safe and shelf ready. If East Midlands producers can achieve this, the region will be recognised for the provision of a variety of high quality food and drink products.
- Export - Food from Britain was commissioned by ISG to undertake a large piece of research on segmentation in the regions. This would indicate that the majority of exports from the East Midlands are commodities rather than value added products:

Total food & drink exports from the region in 2004 was £504.5m of which:

Baker's wares £94.17m  
Un-milled cereals £89.2m  
Chocolate £71.1m  
Meat £43.6m  
Fruit & vegetables £39.8m

whereas "Food preparations other" which would encompass all the value-added sectors is just over £30m. This pattern is replicated in most other regions, although the North West, South West and London far exceed the East Midlands in this sector.

Currently our main markets are Ireland, France, Spain, Germany and the Netherlands with markets outside the EU featuring way down the list. Interestingly we send more to Russia and South Africa than we do to the US.

One of the hurdles to exporting is felt to be food manufacturers' relationship with the UK retailers. The retailers are demanding customers and given their proximity to home, they tend to command the attention of the manufacturer over and above any current or potential overseas customer. A more strategic approach to developing export business is required so that a steady course can be followed. Typically it can take one to two years to secure a new export customer.

Where networks exist e.g. East Midlands Ethnic Food Forum who are in contact with many food manufacturers, these need to be nurtured as they can bring new exporters to the attention of key organisations e.g. UKTI, The Food & Drink Forum. For example, Leicester is recognised in many markets as a centre of excellence for Indian foods and therefore has an already renowned USP.

Britain generally is recognised as manufacturing high quality, innovative food. We in the East Midlands should capitalise on this and promote ourselves as a key food processing region.

To increase the number of value-added exports, we need to target manufacturers and convince them of the benefits of exporting and to ensure that they include exporting within their strategic planning process. Until this happens and they are willing to commit some of their production and their sales/marketing activities to export rather than concentrating almost exclusively on UK retailers, we will continue to have limited success.

## **11 Appendix: Learning & Skills**

In the area of learning and skills, major skills shortages have been reported in the following areas:

Management and supervisory roles  
Technical operators – technologists, engineers, electricians,  
Craft skills – bakers, butchers, fishmongers, cheese makers, machine operators.  
Food scientists.  
Leadership, mentoring and team building

There is a shortage of new graduates and post-graduates joining the food sector which further exacerbates the high level skills gaps.

While an overall decline in employment is forecast, replacement demand means that the sector will need to continue to recruit. The sector has problems with recruitment/ retention due to poor awareness of the high level skills that the industry requires and the perception of working conditions (cold, noisy) and shift patterns of the shop floor. Information Advice and Guidance has to be improved and flexibility has to be increased to attract females, ethnic minorities, older workers etc so recruitment and improved retention can take place throughout the working population.

There is a forecast from the Sector Skills Council (Improve) that all jobs within the sector will require a minimum of level 2 skills within 15 years and it is projected that 50% more managers will be required over next 5-8 years, lower skilled elementary jobs will halve.

Accessibility & relevant training need to be improved. Accessibility to training is a major problem – difficulty in taking workers off the line to train and on-site facilities not always being suitable. There is a need for a fresh look at methodologies for delivering training, e.g. more training in the workplace or online delivery so that training can be delivered in a more flexible manner.

There is a need to increase the productivity of food businesses across the region by enhanced collaboration with science and technology, education and training and to meet their future needs by providing a skilled workforce.

In summary

1. Increase awareness of the opportunities within the sector
2. Improve the overall perception of the industry
3. Encourage more female workers into the sector
4. Improve accessibility to FE training
5. Up-skill existing staff to enable career path into more senior positions.



## 12 Appendix: Innovation

There are recognised and established links between the amount a company invests in research and development and company growth, including sales growth, wealth creation, development of manufacturing efficiencies, resource and waste management.

The aim of the Regional Economic Strategy is to increase gross domestic expenditure on research and development to 2.5% of GDP by 2009, reflecting the Government's ambition to increase public and private research and development investment to 2.5% of GDP by 2014 (DTI R&D Scorecard). In 2004 spending on research and development in the food, drink and tobacco manufacturing sector totalled £258 million, equal to 1.15% of the total gross value added of the sector. This is only a small increase since 1995. (Office of National Statistics & Defra)

Food producing nationally is a key sector. The UK has a higher proportion of food processing companies than any of its World competitors. The sector is classed by the DTI R&D Scorecard as a "low R&D intensity sector", contributing less than 2% of R&D spend of GDP.

Retail food prices were 0.8% higher in December 2005 than in the same month in the previous year. The all items retail price index rose by 2.2% over the same period, (Defra) so food companies have to innovate to produce premium products and to remain profitable.

It is however a growth sector and the DTI identifies the sector as one with substantial cap-ex investment with modest R&D, adding value through strong brands. The sector contributes 17% of GDP regionally (Trends Research 2004), so unless innovation and spend on research and development are increased in the food processing and beverage industry it is likely to impact on ability to meet the region's R&D aims.

Increasing the uptake of R&D, Innovation and technology could be achieved through public and private collaboration and a mix of information, support, and gateways:

- Underpinning the existing spend on capital expenditure through the provision of R&D support to ensure that any potential spend is maximised against company performance, improved productivity, products and processes.
- Providing one regional intellectual centre for R&D and technology transfer which focuses on the industry, identifies, publicises and delivers industry best practice to the region's food producing and beverage companies and benchmarks practices against other industries.
- Provide specialist business support in the key development areas of food technology, quality systems, public procurement, brand development, new product, packaging and process development.
- Provide a seamless service from the region's food specific academic centres such as Nottingham University, Nottingham Trent University, Lincoln University, North Notts College, and West Notts College into industry, focusing on innovation, technology and food science and extend this along the supply chain to engineering, logistics, biotechnologies, pharmaceuticals, and food specific business support services.
- Utilise the strong industry threats of increased energy and waste removal costs to drive productivity intervention, increases in manufacturing efficiencies and technology transfer in line with *emda*'s Performance Management Framework.
- Provide R&D planning and project management support.
- Extend the provision of food grade premises to enable more companies to grow.

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- Development of supply chain initiatives to encourage collaborative working, public procurement, local sourcing of equipment, products and services and joint ventures into technology transfer.

Research:

East Midlands Food and Drink Trends Business Research Ltd  
Food Statistics in your Pocket May 2006 – National Statistics Office & Defra  
The top companies by value added 2006 DTI  
The top companies by R&D investment 2006 DTI  
The Economic position of the agri food sector regional analysis - Defra

## **13 Appendix: Access to Finance**

### Importance of access to finance

It is vital that there is sufficient access to finance in the UK. Affordable and appropriate finance enables business to operate efficiently and grow. It:

- Encourages business start-ups
- Ensures that businesses that need to expand their operations are able to finance potentially viable investments.
- Provides funds for business to innovate, generating new technologies and new, more productive ways of operating
- Allocates resources in the economy to their most productive use
- Funds business growth, creating employment

Many SMEs find it difficult to find access to funding in order to progress their business. It is recognised that there are gaps in available funding that impact particularly on SMEs and business start ups. It could however also affect larger businesses and social enterprises moving into new areas of activity that could be classed as 'high risk' by certain market lenders.

There has been some improvement in access to finance for small and growing businesses over recent years. However, there are still market failures and anomalies in the system that needs to be addressed. By addressing market failures, government-backed schemes have an important role to play in enabling businesses to access finance. There is currently an equity gap of up to £3m facing SMEs seeking growth, funds like the Regional Venture Capital Fund should assist with this gap.

Hence, there is a need

- For setting up and supporting appropriate, simple and market led finance schemes and ensuring that the business grant network is easy to navigate and that, funds are appropriately allocated.
- To help sectors struggling to raise finance.
- To start planning ahead for the future, as for example, Venture capital funds have a limited life. Many are unwilling to make risky investments and are trying to exit rather than invest. Many schemes are also beginning to run out of money and it is therefore a good time to think about working with finance providers to look at how business demand for finance can be catered for in the future.

Raising finance for innovation which is unlikely to raise high levels of return is becoming an increasing problem. There is a need to look at ways of making better use of mezzanine finance to tackle this issue and to fully investigate the risks and potential rewards

The types of finances sought fall in the following categories.

- Debt Finance
- Risk Capital
- Tax Interventions

### Debt Finance

Within Debt Finance there is

- Bank Finance: Types of finance sought within this are Equity Investment, Overdrafts, Loans, and Mortgages etc. During 2005, term lending rose by 11% to £ 33.3 bn, overdraft lending rose by 10% to £8.8bn, and deposits increased by 6% to £41. bn. 515,000 small businesses also established their first banking relationship (source: British Bankers Association). Despite these figures there are still shortages in unsecured bank finance. Cash flow based lending is still quite rare and many small businesses can rarely provide security.

- Small Firms Loan Guarantee (SFLG): This is a scheme where a separate pot was created to provide funding for new lenders. This sort of fund needs to be used in conjunction with Banks to help firms that are not able to provide security.
- Mezzanine funding: This type of funding is a mixture of debt and equity and includes a loan to the borrower as well as the borrower issuing equity, and thus a flexible form of financing. There is however a gap in this type of finance in particular for investments in Research and Development.

#### Risk Capital

There have been many schemes developed with government backing, that provide equity new and growing businesses. Types of this kind of funding is

- Regional Venture Capital Funds: These are designed to facilitate equity investments to a maximum of £2,000,000. There is a need for sharing of best practice between fund managers and regional venture capital schemes.
- Enterprise Capital Funds: This model is based on the US Small Business Investment Companies that play a key role in stimulating Venture capital activity and bridging the equity gap. In the UK there is a need to invest both public and private in growing businesses that are seeking equity finance.

#### Tax Intervention

- Incidental costs of raising equity finance: For some businesses, equity is a more appropriate source of finance than debt-based finance. This is true for businesses seeking to grow rapidly or those companies where activities are highly innovative and where product development needs significant investment before income from sales can be generated. Incidental costs are not currently deductible for tax purposes.
- Capital Allowances (CA): CA's provide incentives for businesses to invest, however many businesses incur capital expenditure before it becomes profitable and hence are not able to claim any allowances.
- There could be other tax relief, such as R & D tax credit and relief on Venture Capital Trusts.

It is therefore clear that government intervention and backing is required to address the market failures in accessing finance.

APPENDIX 2: FOOD & DRINK SECTOR RES IMPLEMENTATION PLAN						TACTICAL INTERVENTION													
NEED	STRATEGIC INTERVENTION	FOOD SECTOR MARKET FAILURE	FOOD SECTOR MARKET FAILURE EVIDENCE	RES PRIORITY ACTION	FOOD & DRINK SECTOR OWNER	THE FOOD & DRINK FORUM	COMPANIES	UKTI	British Midlands	Food Processing Faraday (KTN)	Universities and other HE	Schools & FE	Innovation East Midlands	BUSINESS LINK	ESP	Sector Skills Council/LSC	Manufacturing Advisory Service	New Technology Initiative (NTI)	Other emda
<b>Business Development</b>																			
East Midlands food companies have excellent strategic planning	Enhancing company strategic thinking capabilities	Many medium and small business units do not possess specialist food sector marketing expertise; many have poorly developed business strategies.	RES	2a, 2b, 2c, 2d.	Food and Drink Forum	Encourage further strategic thinking and planning during IDB consultations (iNet advisers). Strategic thinking and planning are selection criteria for tenancy at Southglade Food Park (Southglade).	Large companies to recognise that their practices affect suppliers ability implement effective strategies.							IDB process and effective brokerage					
East Midlands food companies implement strategic plans effectively and develop their businesses successfully	Marketing East Midlands food and drink and creating business opportunities	New business models are not emerging from the major retailer dominated industry	Regional Food Mail research	2b, 2d, 2e.	Food and Drink Forum	Help companies to find new routes to market and market opportunities, and facilitate their exploitation (EMFF).	Commitment and action.	Help companies to access overseas markets.	Support inward investment opportunities										
Wide range of local and regional foods readily accessible to the consumer, good information supplied on provenance etc.	Maximise local and regional supply into all food markets	National retail and foodservice companies prevent emergence of new business models for local and regional supply	Regional Food Mail research	2b, 2d, 2e, 2h.	Food and Drink Forum	Encourage and enable farmers to diversify e.g. into food manufacturing (FDF). Continue to develop and implement local sourcing initiatives. Promote collaboration throughout supply chain. Investigate foodservice opportunities for members and enable access to these markets e.g. via effective coordination (EMFF). First local distribution hub (Southglade).	Commitment and action.		Market opportunity for inward investors			Schools should teach children to understand food							
The East Midlands food industry has sufficient new start businesses	Provision of sector specific start up and entrepreneurship programmes.	Start up requires public sector support to produce sufficient new businesses.	Business Link and RES	2b, 2d.	Food and Drink Forum	Work with the provider of the Business Link Start-up Service to ensure that added value of Enterprise in Food programme and the Food Entrepreneurship programme are retained (iNet advisers). Sector specific elements to enhance Business Link Start-up Service (iNet delivery).	Commitment to assist fledgling companies.							Brokerage for business start up to supplier of Universal Start-up Offer		Start up and entrepreneurship skills support			
<b>Innovation and technology</b>																			
Knowledge of future technology developments is transferred into supply chain	Transfer knowledge and information about innovation and technology opportunities into supply chain	Knowledge flow and information diffusion across food sector is poor, including for non-sensitive knowledge (there is no market mechanism to generate it).	Innovation strategy, CHIEFS	2c, 3a, 3b, 3d.	The Food & Drink Forum	Build on The Food & Drink Forum databases for key knowledge on key technology strengths of East Midlands food sector. Major role in translating and diffusing knowledge and information based on expertise and networks. Research for and publish updated research institutions brochure. Organise programme of networking events/visits etc. Promote access to/knowledge about existing demonstrators (especially publicly funded). Better utilisation of UK engineering base (iNet advisers). Manage external facing portal onto regional food industry research through FDF website (iNet delivery).	Participation and commitment	Enhanced opportunities for export	Stronger innovation & technology strand will be more attractive to inward investors	iNet delivery and assistance with strategic influence	iNet delivery and linkages e.g. science and technology spin outs into mainstream support	Science curriculum and employment opportunities	Strategic guidance, working in an iterative way with i net consortium. Fit for purpose and industry led innovation	A dissemination activity to widely diffuse knowledge of the consortium process and technology implications through workshops and seminars which will assist in developing a best-practice model of technology consortia as well as disseminate specific technology implications;	Policy implications	Delivery and provision	Manufacturing improvements	As part of iNet and HE/FE implementation	
Food sector programmes are supported with regional key investments	Build participation for broad food industry in new technology programmes	Market under-values food technology investment. Supply chain companies have poor links to primes and universities for technology development and some have few capabilities. Many supply chain business units have insufficient in-depth expertise to develop effective manufacturing strategies.	Innovation Strategy	2c, 3a, 3b, 3d.	The Food & Drink Forum	Develop and deliver real specialised East Midlands food sector programmes within national and global framework. Work with companies to define requirements and with agencies on funding opportunities. Focus on increasing supply chain participation in major UK and global technology development programmes. Provide industry expertise for feasibility studies related to key investments (iNet advisers).	Leading companies to share knowledge down supply chain and diagonally. Smaller companies to use knowledge to develop own information and technology strategies			iNet delivery and assistance with strategic influence. Undertaking group technology road mapping exercises. Shortlisting of technology areas where SMEs can form consortia to pull technology through from the higher education community and the prime contractors. Directly supporting consortia to pull through technology and thus build product differentiation for the region's companies as a group. These consortia will use project funding to leverage further DTI and Framework 7 funding that can have a large impact on the SME base.	iNet delivery. Impacts on innovation need e.g. packaging, energy, engineering	Curriculum need	Strategic linkages		Policy implications	Delivery and provision	Impacts on innovation need	Impacts on innovation need	
Ongoing regional strategy formulation	Develop strategy for food innovation and technology to deliver best opportunities in the global market	Market mechanisms will not (alone) provide for food technology strategy either at national or regional levels.	Innovation Strategy		The Food & Drink Forum	Work with FFPF to map future technology opportunities in global market. Publish authoritative future East Midlands food technology "road-map." Work intensively with companies to ensure they grasp what it means to them. Organise food industry inputs to advise InnEM on food-related strategies. (iNet advisers).	All companies to understand what the strategy means to them and commit to participate							Building on this work to develop a broad coherent regional food technology strategy					
<b>Skills</b>																			
Industry clearly articulates current and future demand for skills and training	Holistic skills strategy for food companies	East Midlands food industry does not communicate needs to education and training providers effectively.	Skills gaps identified by employers	1b.	Improve	Strategic intelligence. Skills brokerage. (iNet advisers or Train to Gain advisers)	To articulate need. Address industry's image problem.				Fit for purpose graduates commensurate with employer and strategic need	As Uni and other HE but at appropriate level, influence more VRQs	Linkage to ESP	Appropriate brokerage and having enough of the right type and quality initiatives to broker to. Effective brokerage via Train to Gain	Policy provision and resources	Work with employer groups and FDF to assist with delivery provision and resources			
Excellent people, skills, training planning within companies	Workforce planning	Poor specialist human resources planning processes and skills within many food supply chain business units.		1b.	Improve	Work with recruitment professionals in region. Develop best practice templates. Run a programme to make sure this is being practiced within companies. Note this is required to provide well articulated demand knowledge (see above) (FDF).	Participation and commitment				as above	as above		as above	as above, long term strategic planning	as above			

Providers are fit for purpose and offer a clear menu of skills and training	A 'joined up' system is required	Information is fragmented. Training not delivered at time and place that suits industry.	Employer evidence.	1c, 1d.	Improve	Influence skills programmes in region towards better meeting food industry requirements (e.g. bite-size learning, delivery in situ) (FDF).	Participation and commitment				as above	as above		as above	As above, long term strategic planning	as above			
Critical skills gaps are being addressed	Critical skills gaps are addressed	Knowledge of critical skills gaps fragmented; no programmes to address these on industry-wide basis.		1a.	Improve	Identify critical skills gaps that can be addressed by specific actions (= in practice knowledge strand): FDF's role: communicate/raise profile. (iNet advisers). Management and leadership skills training (2007-8 Train2Gain).	Participation and commitment				as above	as above		as above	As above, long term strategic planning	as above			
Image of industry is attractive to prospective employees (link to realistic industry understanding of social trends)	Improve industry image	Many companies fail to create the conditions to recruit and retain a high quality workforce	High staff turnover, critical skill shortages, casual and migrant workers.		Food and Drink Companies	FDF to focus on making company links, outreach, etc. (FDF).	Leadership and genuine change				as above	as above			As above, long term strategic planning	as above			
<b>Productivity and competitiveness</b>																			
All food companies improve their standards and practices towards world-class standards.	Implement programmes e.g. lean manufacturing, improvements in work flow, waste reduction, learning from other industries. Link to investment/provision of industrial food grade units	Lack of forward planning and using available expertise	Dti evidence - market access denied	2c, 2d.	The Food & Drink Forum /MAS	Help coordinate the design and delivery of business process improvement programmes for food in the East Midlands (both national and regional, both private and public) (FDF). Work with companies and other customers to define "world-class" food sector best practice models (from lean to integrated business management tools) and improvement programmes, and communicate these to companies and to service providers and policy makers. Provide mentoring support (iNet advisers). Programmes to improve productivity and competitiveness (iNet delivery). Use flexim and Southglade resources (Southglade).	Establish vertical supply chain groups with key customers for operations improvement work			As above	as above		Best practice sharing across other industries				Ensure high-quality food-related expertise and full understanding of industry requirements. Provide direct support to food companies to improve productivity and competitiveness. Establish food industry branded and coordinated best practice programmes. Ensure all food sector companies have access to the right programmes that can help them improve their performance. Launch best practice work with horizontal groups of companies on defined programmes (e.g. quality, scheduling, new product development)		
There is excellent provision of generic forms of business support to food companies.	Effective generic support	Delivery of generic business support to the food sector is very patchy.		2c, 2d, 3c.	The Food & Drink Forum/ MAS/ EMB	Contribute to advising on, designing and monitoring application of more generic business support programmes to the food sector (iNet advisers)								Tie food sector specialist support (e.g. lean manufacturing) to generic regional business support					Ensure generic business support products are fit for purpose
Food industry increasingly energy efficient and reducing carbon emissions	Delivery of existing programmes e.g. carbon trust, envirowise. Incorporate new technologies into delivery	Co-ordination failure	Government drivers for energy efficiency	5a, 5b.	Food & Drink Forum and Food Processing Faraday Partnership	Provide information and access to programmes of intervention (iNet advisers)	Participation, commitment			Collaborative delivery of resource efficiency programmes with FDF	innovation to drive change	Links to appropriate education policy	InnEM policy and best practice from other industries				Manufacturing and process improvement		Continue working with Jonathan Nobbs
<b>Land &amp; Development</b>																			
Effective provision of food grade units enabling equitable competition between large & small companies	Develop Southglade model, greater assessment of pre start and move on, link with access to finance for equipment	Provision of industrial real estate	Southglade research	7b.	The Food & Drink Forum and local /district councils/SSPs and emda	Work at SSP and emda level to research, conduct feasibility studies as in Southglade Food Park (iNet advisers)	Articulate need, desire to grow and raise standards	Opens up export markets	Inward investment opportunities		Linkages and market access	Linkages and assistance with curriculum delivery and careers opportunities/ work placements		IDB			Opportunities for service delivery		
<b>Transport &amp; Logistics</b>																			
Adequate and effective distribution systems for SMEs affordable proportionate to volume	Investigate further, run pilots e.g. Transfresh. Look at provision for large co as well as SME	Co-ordination failure	EMFF		The Food & Drink Forum	Articulate need, lobby, find solutions, work with providers (iNet advisers).	Participation and commitment, willingness to try new things			Environmental opportunities	Research and commercialisation of new technologies (e.g. alternative fuels, new types of transport). Lobbying and securing funding		Policy and delivery impacts	IDB			Linkages		
<b>Finance</b>																			
Food sector SMEs and large companies are able to access appropriate and affordable finance schemes for growth and investment	Enable greater access and fit for purpose products	Low investment, low spend on R&D	Inn Emm Strategy		The Food & Drink Forum	Be fully conversant with the range of products available and work with BL/emda to signpost etc. (FDF). Broker to finance products and services (iNet advisers).													
<b>Infrastructure</b>																			
iHub	Build participation by broad food industry in new technology programmes	Market under-values food technology investment. Supply chain companies have poor links to primes and universities for technology development.	Innovation Strategy	2c, 3a, 3b, 3d.	The Food & Drink Forum	Extend Business Centre at Southglade Food Park and locate all of FDF, iNet and FPPF there (iNet delivery)													
<b>Networks/clustering</b>																			
Food sector SMEs and large companies are part of an effective network that brings tangible benefits to them and their supply chain	Resource as part of sector implementation plan	Coordination failure			The Food & Drink Forum	Continue to offer a tangible range of products and services that meet the needs of companies (FDF and iNet delivery)								Brokerage to FDF					