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SFDF Submission to the Scottish Parliament Enterprise and Culture Committee's Inquiry into Business Growth

As Members will be aware, the Scottish Parliament's Enterprise and Culture Committee is currently having an Inquiry into Business Growth, looking particularly at what changes need to be made to achieve long-term sustainable growth in Scotland. SFDF were invited to make a submission to this Inquiry.

In order to prepare our submission, SFDF set-up a small working group to discuss the issue, and also invited all members to contribute their views on the issue. As a result of these discussions, the main points highlighted include the need for the Scottish Executive to develop a strategy to tackle labour shortages and skills gaps, establish a Centre for Excellence to raise the industry's profile.

SFDF also consider it necessary for the Scottish Executive and Scottish Enterprise to redress the imbalance in the level of support to business start-ups compared with established companies, and for Local Enterprise Companies to be more pro-active and tailor their advice to the needs of the companies in their area. The final submission to the Committee can be found below.

Jenni Hislop
SFDF Junior Executive

31 March 2005

Alex Neil MSP
Convenor,
Enterprise and Culture Committee
The Scottish Parliament,
EDINBURGH
EH99 1SP

Dear Mr Neil,

SFDF Response to Scottish Parliament's Enterprise and Culture Committee Inquiry into Business Growth

On behalf of the Scottish Food and Drink Federation (SFDF) I would like to thank you for the opportunity to comment on the aforementioned inquiry into Business Growth.

Background

As you will be aware, SFDF represents the common interests of the food and drink manufacturing industry. We work to improve the environment in which the individual companies who make up the industry operate: be it legislative, economic, social or political. In so doing, we aim to help maximise the competitiveness and profitability of the industry.

59,300 people are employed in the food and drink sector in Scotland (54,000 in food industry alone) – some 11.8% of total British food and drink sector employees. The industry in Scotland also accounts for annual sales of around £4.2 billion (exc. whisky).

Summary

In order for the food and drink manufacturing industry in Scotland to achieve sustainable business growth it needs to be increasingly efficient, constantly flexible and innovative in order to stay ahead of its competitors.

However, the role of Government and its agencies in setting a framework to enable (and not hinder) business growth is crucial to the industry's success in this area. The Scottish Executive must ensure the physical infrastructure it puts in place facilitates growth (and does not constrain it); the education system fosters an entrepreneurial and enterprising culture; an adequate supply of appropriately qualified people to match the workforce needs of business.

Furthermore public agencies such as Scottish Enterprise can play a vital role in providing outside expertise tailored to helping companies address their business development and growth issues.

SFDF's response to the Committee's inquiry into Business Growth addresses each of these areas and makes a number of recommendations including;

- The need for the Scottish Executive to develop a long term, comprehensive strategy to tackle labour shortages and skills gaps.
- The establishment of a Centre of Excellence for the Food and Drink sector that would not only raise the industry's profile but could assist in raising the status and desirability of a career in the industry and the courses on offer.

- The need for the Scottish Executive and Scottish Enterprise to redress the apparent imbalance in the level of support provided to business start-ups compared with established companies.

I trust that these comments will be taken into account and that SFDF will be kept informed of further developments relating to the inquiry.

Yours sincerely,

Flora A McLean
Director

Introduction

The food and drink manufacturing industry in Scotland makes a significant contribution to the economy. It has a gross output of around £6.5bn and it employs approximately 55,000 people (around 17% of the Scottish manufacturing workforce). In recognition of its significance, Scottish Enterprise established a food and drink cluster strategy in 1999.

The exposure of food and drink manufacturers in Scotland to increasingly intense competitive pressures not only influences their business operations, but their response to it also affects their potential to sustain business growth.

In a mature market, that has undergone a structural change in retailing; the buying power of supermarkets has significantly increased. In such an environment, suppliers are vulnerable to any increases in their cost base. Therefore, to ensure business growth food and drink manufacturers constantly strive for further efficiency and productivity gains and innovation is crucial to anticipating and reflecting consumer demands. In many senses, change has now become a constant factor for successful businesses.

The process of globalisation opens food and drink manufacturers in Scotland to the opportunity of a wider marketplace and to the threat of even more intense competition from companies in Eastern Europe and further afield, whose cost base is lower and where considerable investment in infrastructure and the skills base is taking place. This means businesses in Scotland cannot expect the competitive edge that product quality currently affords them in certain market segments to last for long.

To combat this competitive threat, food and drink manufacturing companies in Scotland need to be efficient, flexible and innovative to stay ahead of the game.

These many pressures on food and drink businesses affect the sector's activities, the way companies compete and the skills they require.

1. Setting the Framework for Business Growth

Government and its agencies are crucial in setting a framework to enable (and not hinder) business growth. In Scotland, the Scottish Executive must ensure the physical infrastructure it puts in place facilitates growth (and does not constrain it); the education system fosters an entrepreneurial and enterprising culture; and an adequate supply of appropriately qualified people to match the workforce needs of business.

These are the foundation stones on which business growth can be built and sustained.

Thereafter, a company's ability to achieve business growth depends on a combination of its ability to innovate to stay ahead of the competition; the quality of its staff; an ability to bear down on costs; and operational efficiency.

However, there is a clear role here too for public agencies providing outside expertise tailored to helping companies address their business development and growth issues. (See 2)

1.1 Infrastructure

Given Scotland's relative distance from its major markets, the quality of the physical infrastructure and transport system is extremely important, as it will be either an enabler of or barrier to business growth

Therefore, SFDF welcomes the Scottish Executive's ambitions for a new national body that will take a strategic approach to transport projects in order to ensure that the transport infrastructure is more integrated and efficient. However, it remains to be seen if the proposed Transport Scotland agency will

have adequate powers and funds to fulfil its remit. It will take time for the impact of this development to become known.

1.2 Addressing Labour Shortages and Skills Gaps

High skill levels are vital for companies to remain competitive, playing a key role in productivity improvements, profitability and innovation. Indeed, better skills go hand in hand with business growth. Hence, the importance of companies' factoring the cost of training and professional development into their ongoing business running costs.

However, labour shortages and skills gaps can hamper business growth and this has been a long-term concern for the food and drink manufacturing industry in Scotland.

Whilst migrant workers are currently filling some vacancies on the shop floor this will only be a short-term solution unless the Scottish Executive does more to encourage migrant workers to stay in Scotland. Also, it is only one part of the problem. The Scottish Executive must tackle the fundamental problem of a mismatch between people and courses / qualifications and skills gaps and jobs.

The Scottish Executive must develop a comprehensive strategy to tackle labour shortages and skills gaps in an innovative and integrated way. They need to commit to long-term investment in skills – from core skills to science, technology and engineering - to assist the process of upskilling the workforce and encouraging innovation.

1.2.1 Core Skills

The Scottish Executive must evaluate core skills to ensure the education system – from schools through to universities – equips students with good communication skills, encourages innovation and inspires students to “want to know how” to do something. Core skills are the building blocks for everything else.

The increasing use of technology is associated with the requirement for the workforce to become more technically able. For instance, production operatives increasingly need to be skilled in managing production lines and processes as well as knowledgeable about health, safety, and hygiene legislation.

In addition, IT is so integral to most roles now that basic IT skills are essentially core skills. Therefore, businesses require adaptable employees who are able to upgrade their skills throughout their working lives. Training is more difficult when these core skills are below standard.

Vocational education and training also needs to reflect this situation in order to meet business needs. Therefore, there needs to be good ongoing dialogue between education and training providers and industry.

Promoting entrepreneurial activity and behaviour is another key theme of *Smart Successful Scotland*. This is welcomed. However, in our view, entrepreneurship or an entrepreneurial spirit is something all businesses can benefit from - not just start-ups. As such, it is an approach that **should be encouraged and fostered throughout the education system (starting in schools) and continuing into employment.**

1.2.2 Plugging Skills Gaps in the Food and Drink Industry

At the same time as there is an increasing demand in industry for technologists, engineers and scientists, the number of people studying these disciplines has declined to crisis point.

Innovation is about how we develop the next generation of products and keep ahead of the competition. It is crucial to a company's success and growth.

As consumers demand more choice, better quality products and value for money the industry is looking for new products and services, improved supply chains, and efficient production and distribution systems.

In addition, the importance of sustainable development means that as companies strive to improve resource management (water, energy and packaging) and operational efficiency and implement environmental management systems, they have a growing need for people with the key skills to challenge operating practices.

Ensuring Scotland has a technically trained workforce is vital for long-term sustainable business growth in the face of intense competition from foreign companies with a lower cost base.

The Scottish Executive has a central role to play in bringing about a change in the education system to ensure it matches industry's requirements.

1.2.3 Create an Interest ... In Schools

Ensuring labour shortages and skills gaps do not continue to present a problem in the future will require industry and government to create an interest in the food and drink manufacturing industry by making sure children get early exposure to it in schools.

Many of our member companies already have links with local schools and the Scottish Executive's "*Determined to Succeed*" programme plays a part too.

However, there is still work to do to ensure Careers Scotland is fully aware of the range of careers available in the food and drink manufacturing industry and so able to encourage an interest.

1.2.4 Create an Interest ... In Colleges and Universities

It is ridiculous that at a time when around 200 to 300 new food scientists are needed in the Scottish workforce each year^[1], food science and food technology courses are being merged or discontinued. The further education options tailored to the needs of the food and drink manufacturing industry in Scotland are fast evaporating. Therefore, the Scottish Executive must take responsibility for ensuring that courses and students are matched to the workforce needs of industry.

Given the need to attract talented people to train and work in the sector, SFDF is of the view that there may be benefit in establishing **a Centre of Excellence for the food and drink sector**.

Not only would a Centre of Excellence raise the profile of the food and drink industry, but the concept could also help raise the status and desirability of the courses and the industry itself.

Support from the Scottish Executive to ensure greater collaboration between colleges and universities and with industry, combined with a virtual teaching academy that would make the most of on-line learning, would provide a flexible and cost-effective solution.

There is a need for technology; research and development; new product development; food science and technology; and process plant [to teach engineering diagnostic and problem solving skills] to feature.

1.2.5 Overarching Technology Strategy

Given the severe shortage of engineering, technology and science graduates is not specific to the food and drink sector but affects industry across the board, **SFDF is of the view that the Scottish Executive should develop an overarching technology strategy. The purpose of the strategy would be to increase the number of engineering, technology and science places in universities and colleges and to promote a nationwide campaign to attract people into such courses.** Ensuring increased collaboration between universities and business (in terms of business relevant research) should be an additional objective.

[1] "Scotland's £4bn food industry faces skills-shortage crisis" Sunday Herald 13th March 2005

2. Promoting Business Growth

Government and its agencies are crucial in setting a framework to enable (and not hinder) business growth. However, there is a clear role here too for public agencies providing outside expertise tailored to helping companies address their business development and growth issues.

2.1 A Question of Balance

SFDF welcomes the Scottish Executive's acknowledgement in *Smart Successful Scotland* that a key challenge is growing and sustaining businesses of scale. However, the experience of many manufacturing companies in the food and drink sector is that much of the assistance and resource available is linked to start-up businesses, rather than existing businesses with potential to grow further.

For instance, whilst Scottish Enterprise's Operating Plan 2004 – 2007 states that "The challenge is to develop more companies of scale and global presence in Scotland" [p10], £45m - £50m of Scottish Enterprise investment in 2004 – 2005 was allocated to Business Start-ups, compared with just £5m - £10m to assist Account Managed Businesses achieve improved business performance and growth.

Furthermore, SFDF questions the rationale behind setting Local Enterprise Company (LEC) targets for the number of new enterprises established.

Starting up a new business is one thing, but establishing a business that will grow and be sustainable beyond the first few years [after public assistance ends] is another thing entirely.

Medium and large companies already provide many jobs and generate a significant amount of wealth; however, even a small percentage increase in turnover or workforce achieved by such companies with support from LECs etc is worthwhile and can be equivalent to the effect of starting up several new companies.

SFDF is of the view that providing assistance to established businesses is a more cost effective and sustainable way of promoting business growth.

To achieve a better measure of how effective the use of public funds has been in relation to promoting business growth surely requires the Scottish Executive and Scottish Enterprise to look beyond the start-up phase and take a longer-term perspective.

Therefore, whilst the number of new business start-ups is a useful indicator of the amount of business activity, the number of companies that grow to become medium and large companies is, in our view, a more significant measure of "business growth" and specifically of sustainable business growth.

It is our view that the Scottish Executive and Scottish Enterprise must redress the apparent imbalance in the level of support provided to business start-ups compared with established companies if it is to achieve its objective of growing sustainable businesses of scale.

2.2 Foreign Direct Investment versus Indigenous Businesses

SFDF welcomes the Scottish Executive's shift in emphasis away from attracting Foreign Direct Investment (FDI), towards indigenous companies. Seeking to achieve growth via established indigenous businesses is not only a more cost effective way of promoting business growth, but it is a better way of achieving growth that is sustainable in the longer term too.

It is worth remembering that in times of recession, foreign investors tend to withdraw from their branch site and retrench their operations – regardless of how much financial assistance they received to locate in the host country.

However, this policy shift requires greater expertise and better knowledge of indigenous companies and key business sectors on the part of Scottish Enterprise and the LECs. Advice and support will need to be more tailored to individual companies if it is to assist them achieve sustainable growth. This will require more in-depth knowledge of / expertise in business development issues.

2.3 Assistance for Established Companies

In relation to established companies, Scottish Enterprise's structure at local level focuses on Account Managed Clients. From discussion with our members, it appears there is little or no experience of LECs making proactive contact with these companies.

This appears to be the start of a process of disengagement on the part of some businesses.

It is undoubtedly the case that many established companies are unaware of what assistance – from the plethora of initiatives in existence – is available to them.

Yet in terms of business growth, it is clear that established companies can derive considerable benefit from expert outside help to do the right things at the right time. However, **there would appear to be a credibility gap in relation to LECs, in so far as there is a perceived lack of in-house expertise for them to perform this role.** Furthermore, the bureaucracy and time involved in processing applications all act as barriers to companies needing assistance.

Therefore, there is clearly a need for LECs to communicate more effectively with business than is currently the case in order to:

- a. Improve businesses' awareness of assistance available, and
- b. Ensure Scottish Enterprise nationally, and the LECs are better informed about the needs of established companies in relation to achieving business growth.

In addition, it is correct that safeguards should be in place to ensure the appropriate investment of public funds. However, the requirement that companies provide evidence that jobs will be safeguarded or new jobs created before they can secure grant funding does not take into account the fact there are seldom guarantees of success in business.

Companies can invest in a number of ideas / projects before achieving success. The Scottish Executive's and Scottish Enterprise's failure to reflect this fact in relation to the conditions attached to securing grant funding does not act to promote innovation, an entrepreneurial culture or business growth. On the contrary, it seems somewhat "risk averse".

Building more flexibility into the qualifying criteria for allocating assistance to established companies is essential.

LECs need to improve the way they engage with businesses locally. They need proactively to make businesses aware of the assistance available to help them grow and they need to develop / acquire more in-house expertise of business to bridge the perceived credibility gap.

SFDF believes that by addressing the priority areas outlined in this response, the Scottish Executive can take significant steps towards establishing a framework which enables sustainable business growth in Scotland. For whilst a company's ability to achieve business growth depends on a combination of its ability to innovate to stay ahead of the competition; the quality of its staff; an ability to bear down on costs; and its operational efficiency, the Scottish Executive and agencies such as Scottish Enterprise can, and must play a crucial role in developing the foundation stones on which business growth can be built and sustained in Scotland.

The Food and Drink Manufacturing Industry

The Scottish Food and Drink Federation (SFDF) represents the food and drink manufacturing industry in Scotland.

The food and drink manufacturing industry in Scotland has a gross output of around £6.5bn and accounts for circa £2.5bn of total UK exports and 11.8% of the UK sector workforce.

SFDF is a devolved division of the Food and Drink Federation (FDF), the voice of the UK food and drink manufacturing industry. As the largest manufacturing sector in the UK, food and drink manufacturers employ over 500,000 people and have a combined annual turnover of in excess of £69bn. UK food and drink exports in 2003 were almost £10bn.

The following organisations are members of the Food and Drink Federation:

ABIM	Association of Bakery Ingredient Manufacturers
ACFM	Association of Cereal Food Manufacturers
BCA	British Coffee Association
BCCCA	Biscuit, Cake, Chocolate and Confectionery Association
BOBMA	British Oats & Barley Millers Association
BSIA	British Starch Industry Association
CFA	Chilled Food Association
CIMA	Cereal Ingredient Manufacturers'
EMMA	European Malt Product Manufacturers Association
FA	Food Association
FOB	Federation of Bakers
FPA	Food Processors' Association
FF	Frozen Food Group
GPA	General Products Association
ICF	Ice Cream Federation
IDFA	Infant and Dietetic Foods Association
LDT	Lifestyle and Dietary Trends Group
MSA	Margarine and Spreads Association
MG	Meat Group
NABIM	National Association of British and Irish Millers
NACM	National Association of Cider Makers
OHG	Out of Home Group
ORG	Organics Food and Drink Manufacturers' Group
SB	Sugar Bureau
SG	Seafood Group
SIBA	Society of Independent Brewers
SMA	Salt Manufacturers' Association
SNACMA	Snack, Nut and Crisp Manufacturers' Association
SPA	Soya Protein Association

SSA	Seasoning and Spice Association
UKAMBY	UK Association of Manufacturers of Bakers' Yeast
UKTA	UK Tea Association
VEG	Vegetarian and Meat Free Industry Group