Food and Drink Federation

Making a real difference

What does the future hold for the UK biggest manufacturing sector?

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Food and Drink Federation

FDF: the voice of manufacturers

- UK's biggest manufacturing sector;
- 7,000 firms – mostly SMEs;
- 440,000 employees;
- Innovative – 8,000 new lines a year launched;
- Export more than £10bn.

And we are doing very nicely…

- 60% recording increased sales in Q3 2010;
- More than half predicted sales would grow in Q4;
- 64% expected to raise factory gate prices by end of 2010;
- Most maintaining or increasing investment in facilities, research and staff;
- 44% planned to launched new products by the end of 2010.

Source: FDF Business Confidence Survey December 2010

How we make a real difference

- Food safety – our number one priority;
- Health and wellbeing – the key concern for industry;
- Sustainability – topping the political agenda;
- Competitiveness – underpins everything we do.

We clearly live in interesting times!

Political context for our work

- Economic recovery and growth the number one priority for the Coalition;
- Low carbon future – Coalition wants to be the 'greenest Government ever';
- Improving public health a top priority;
- Ensuring strong support for the future of UK food extends to manufacturing ***and*** farming;
- Policy debates increasingly focused on 'healthy, low impact' diets.

Key issues shaping the trade

1. New product development;
2. Growing retailer power;
3. Marketing effectiveness;
4. Regulatory burden;
5. Customer insights;
6. Competitive pressures;
7. Labelling;
8. Talent management;
9. Operational flexibility;
10. Sustainability.

Source: Deloitte, Food and Beverage 2012

Consumer issues driving change

1. Health and wellbeing (73%);
2. Provenance (46%);
3. Convenience (42%);
4. Higher quality (38%);
5. Better informed (38%);
6. Ethical consumption (38%);
7. Rising indulgence (29%);
8. More grazing (25%);
9. Organics (25%);
10. Functional foods (21%).

Source: Deloitte, Food and Beverage 2012

Our key priorities for 2010/11

1. Preparing for discussions on a public health Responsibility Deal – building on our work responding to societal concerns;
2. Being a leader on environmental issues – and ensuring our competitive position is not undermined by UK environmental policies;
3. Putting food and drink sector at the heart of Government's manufacturing strategies, while pushing for a joined-up food strategy.

Enter the Institute for Manufacturing

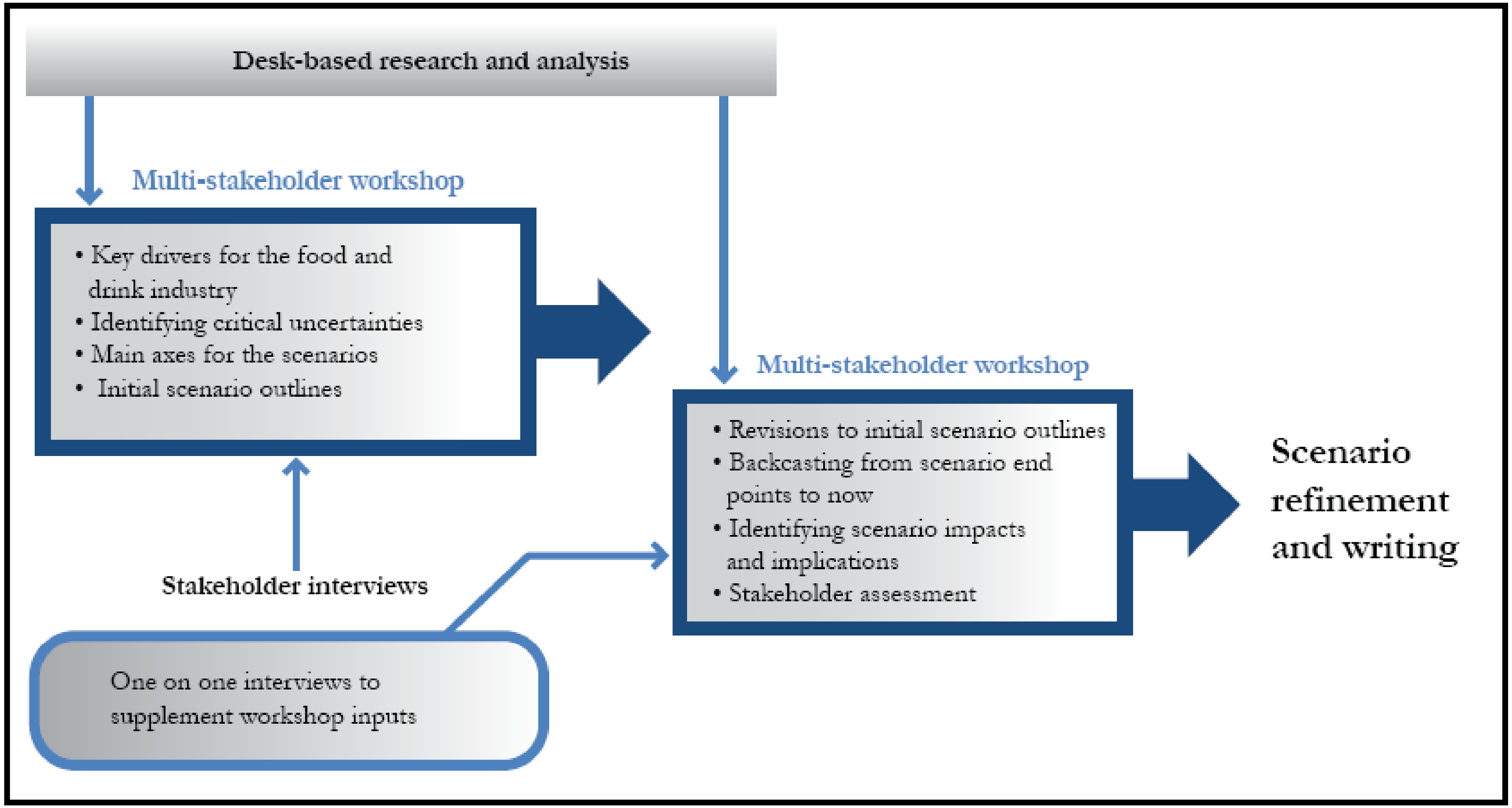
A value report to highlight the importance and key characteristics of our sector…

…And a project to work with key stakeholders to identify the key pressures on industry and possible future (feasible) scenarios.

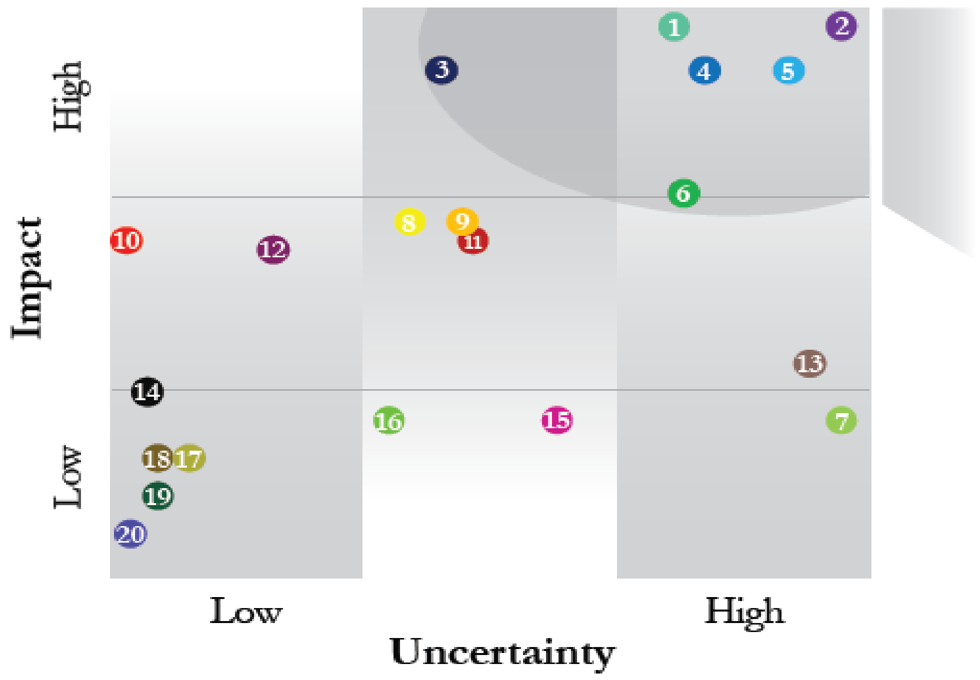
The IfM ‘value report’ confirms…

1. Food and drink is a significant, resilient and high value element of UK manufacturing;
2. Innovation is a key focus for the food and drink industry;
3. The sector provides skilled work, above average pay and long tenure in employment;
4. Strong and positive response to environmental and health concerns and could contribute significantly to sustainable growth;
5. While exports have increased significantly, imports are rising faster.

Developing our scenarios



Key drivers for the industry

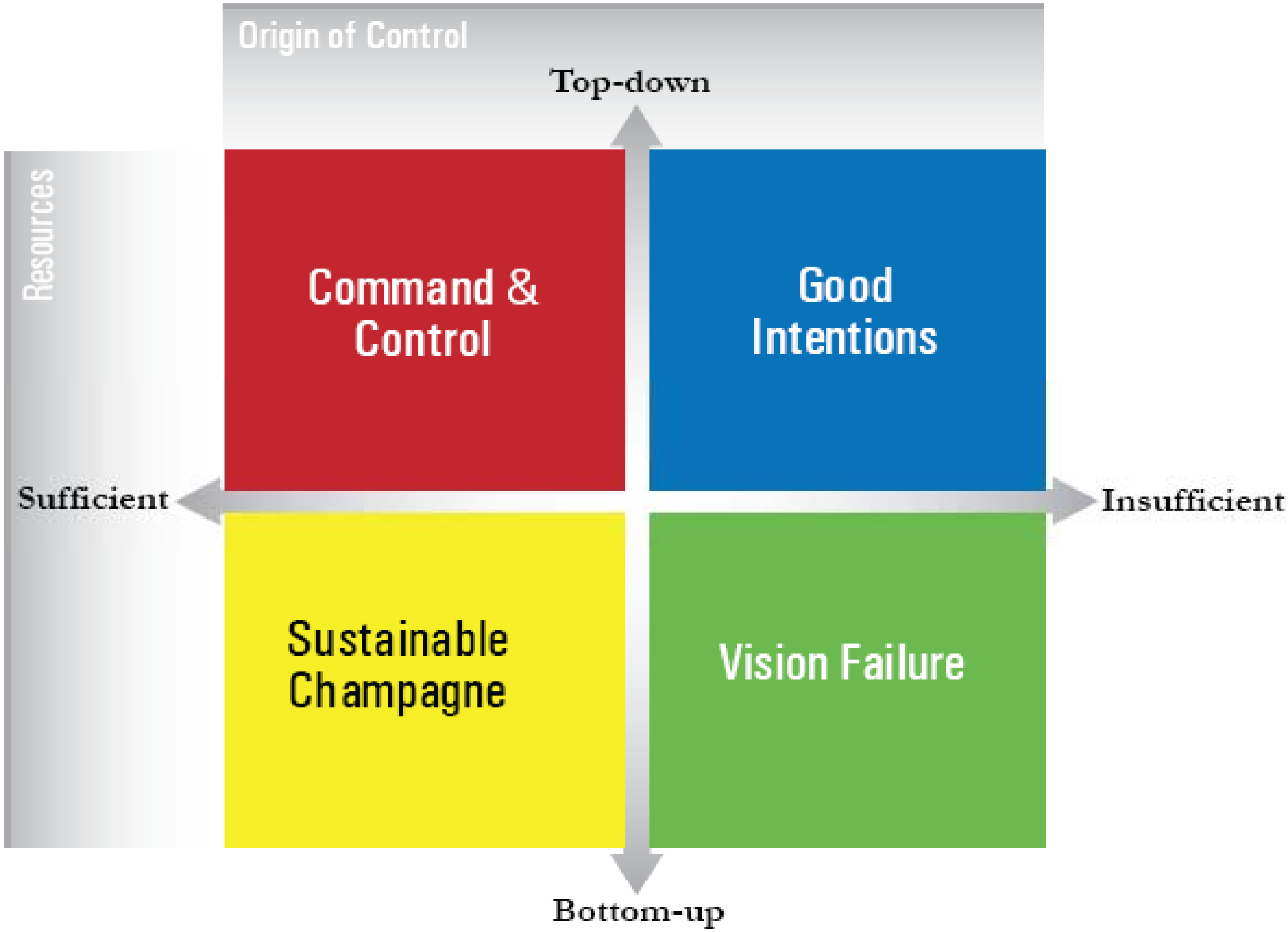


1. Increase efficiency via technology
2. Impact of climate change
3. Increasing regulation
4. Water stress and management
5. Price of raw materials
6. Ethics and behaviour (moral/ethical consumption, resistance to techs)
7. Government policy coherence
8. Health concerns and issues
9. Skill availability
10. Population growth
11. Cost of energy
12. Skills and education
13. Acceptibility of technologies
14. Waste reduction
15. Funding for research and innovation
16. Energy availability
17. Information (increased access and availability, speed of communication)
18. Efficient use of raw materials
19. Food safety (demand, perceived v. actual)
20. Availability of finance for investment

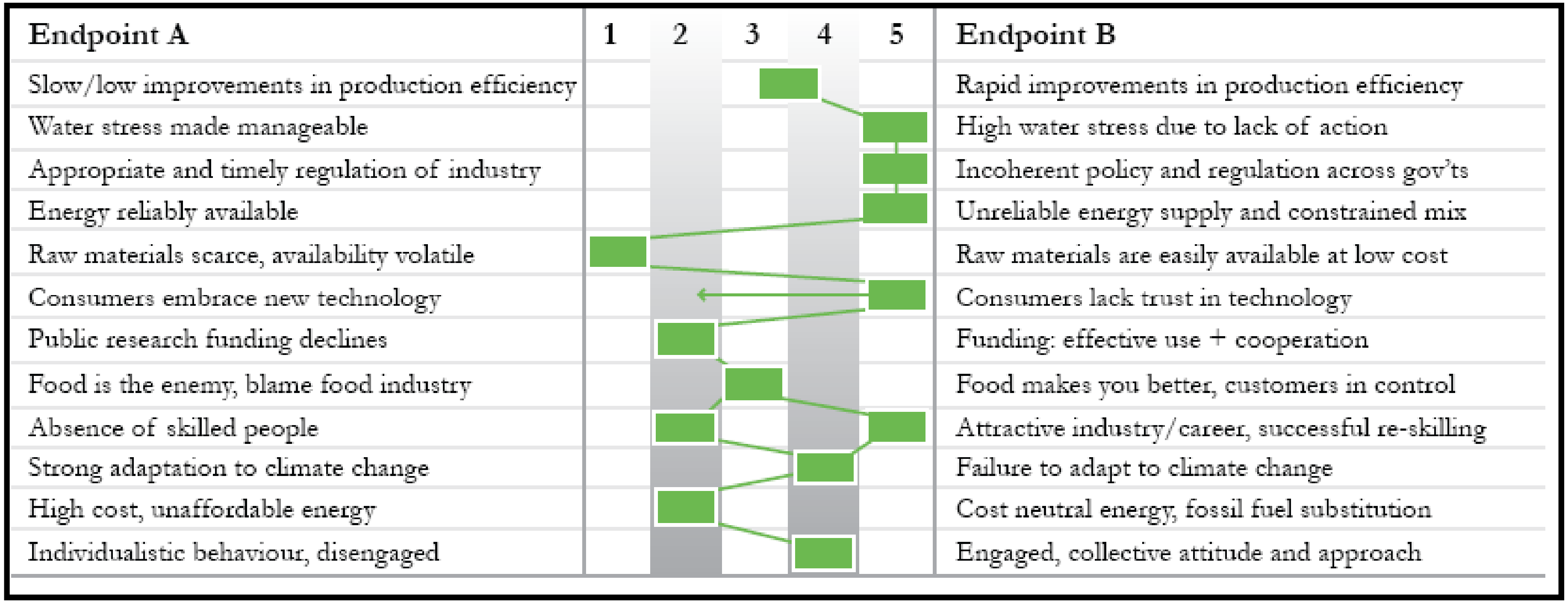
In summary: our ‘big 7’ issues?

- Impact of climate change (water in particular);
- Increasingly volatile ingredients prices – and energy prices;
- Developing new technologies – produce ‘more for less’ (and with less impact);
- Regulation;
- The rise of ethical consumerism (and manufacturing);
- Public health;
- Having the right talent and the right skills.

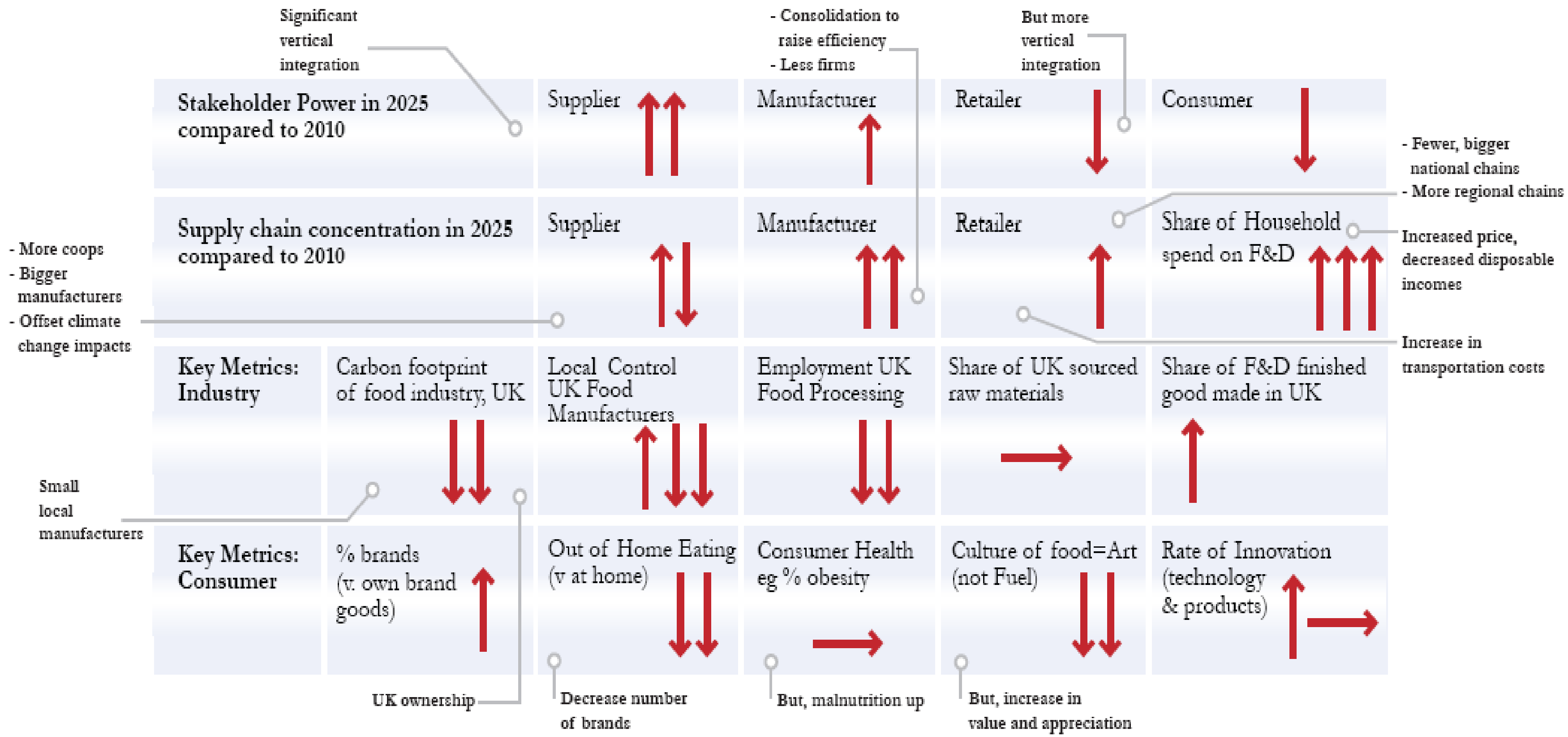
Meet the scenarios!



Developing the narrative



Refining the narrative



Key: The strength and direction of change is indicated by the up (increasing) and down (decreasing) arrows, with arrows in both directions indicating drivers in both directions.

Which scenarios are 'desirable'?

	Command & Control	Good Intentions	Vision Failure	Sustainable Champagne
Food manufacturers	4	0	0	3
Suppliers	0	4	0	3
Retailers	4	1	0	2
Society	3	0	0	4
Government	3	0	0	4
Totals	**14**	**5**	**0**	**16**

Command & Control

- Government-led interventions achieve a balance between supply and demand;
- Controversial issues – from nuclear energy to the use of GM foods – are tackled;
- Increased regulation on industry – and more control by the state of everyday life.

Sustainable Champagne

- Sustainable balance between supply and demand for raw materials, food and energy;
- Scenario assumes consumer behavioural change, which reduces consumption and forces industry to become more sustainable;
- A reduction in the role of central Government (relatively speaking) as more localism and community initiatives take hold (the Big Society in action perhaps?).

Key messages from the work?

- Business as usual not good enough;
- Widespread support for a ‘shared vision’ with Government for future of industry;
- Vision must be based on strong evidence, consistent regulation, consumer engagement;
- Underpinned by changing consumer expectations, increased skills base and innovation focused on sustainability targets;
- A willingness to embrace change.

Plus new behaviours needed…

- Genuine leadership – both from industry and Government;
- Co-operation and partnership– both within the industry and between industry and Government;
- Speed of purpose – to accelerate the changes that have already started.

What have we done?

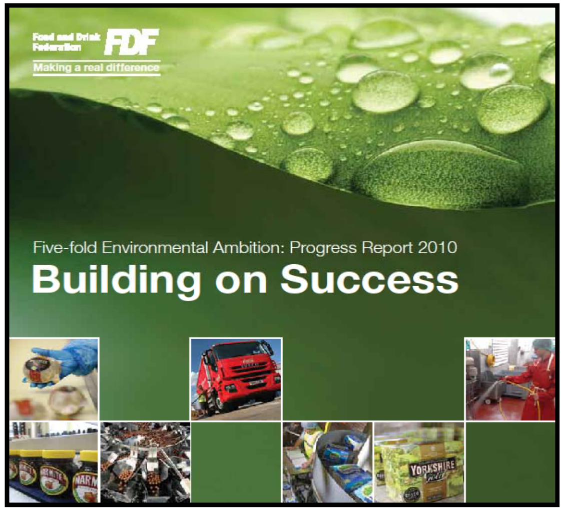
• Shared the findings with members and spread the word across the industry;

• Briefed key stakeholders – helping to underpin their work in these areas;

• Used the findings to support our ongoing work to put industry at forefront of difficult debates;

• Underpinning our advocacy work – particularly in pressing for food and drink to be at the heart of Government thinking.

‘The Big Society’ in action?



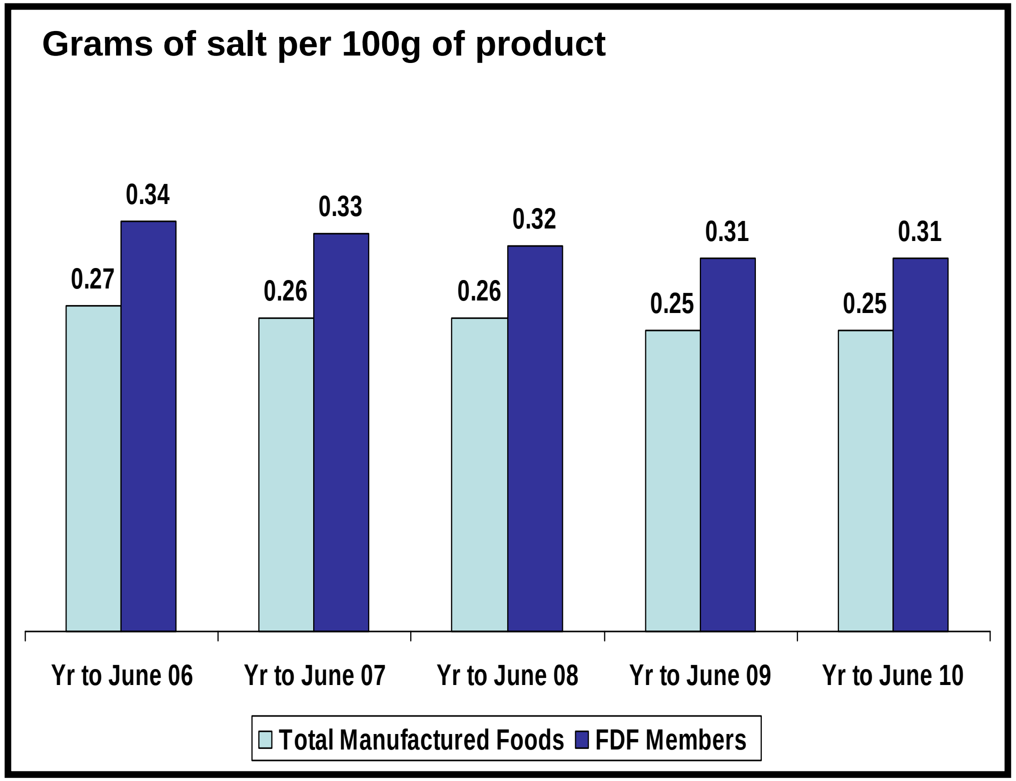
- Have met our target for a 20% absolute reduction in CO_2 emissions by 2010 compared to 1990;
- Zero factory waste to landfill from 2015;
- Reduce household packaging waste;
- Contribute to an industry-wide absolute target to reduce water use by 20% by 2020 compared to 2007;
- Fewer and friendlier food transport miles.

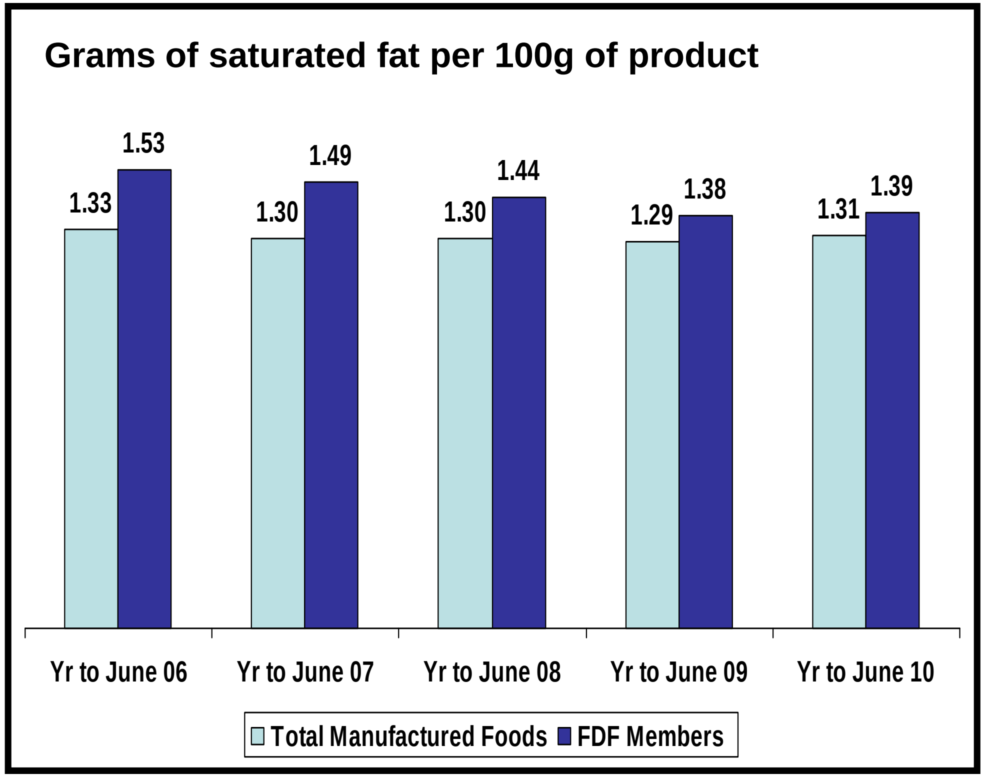
No longer the unsung heroes?

- Government recognises the economic and strategic importance of food – good dialogue across Whitehall departments;
- Our sector is at the heart of the BIS advanced manufacturing strategy – opportunity to unlock growth opportunities;
- Some interesting targeted initiatives to boost productivity – robotics and automation;
- Taking control of our own destiny too – careers campaign being developed by FDF;
- Promise of a ‘supermarket adjudicator’ – although timeframe slipping.

Challenges remain for 2011

Well placed to respond positively?





Source: Kantar Worldpanel research for FDF

The New Year off to a bumpy start

- Consumer confidence – and disposable income – are both falling;
- Aggressive customer behaviour;
- Rocketing raw materials prices – cost recovery increasingly difficult;
- Access to finance still a concern and frustrating for a relatively ‘low risk’ sector;
- Uncertainties about some key Government policies – notably the future of CCAs;
- And the policy debates getting ever more complex – ‘healthy, sustainable’ diets.

But, I’m glad to be working in food!

Thank you for listening!