What characteristics would a Welsh food and drink ‘growth business’ demonstrate?

Leanne Ellis*, Martin Sutherland and Ellen W. Evans

*ZERO2FIVE Food Industry Centre & Food Research Unit, Cardiff Metropolitan University, Cardiff, Wales, UK.

*Corresponding author: lel110@cardiffmet.ac.uk

Introduction

The Welsh Government aspires for the Welsh food and drink manufacturing and processing industry to grow by 30% to £7 billion by 2020, to enable this the Welsh Government via Food Innovation Wales (FIW) provides support to manufacturing and processing businesses to facilitate business growth and development.

There are a number of definitions of ‘growth’ in a business context. A business that simply increases profits or turnover could be considered a growth business; alternately, a business could grow in capacity, number of products or in workforce.

The Organisation for Economic Co-operation and Development (OECD) defines a ‘high-growth businesses’ as a firm with an average employment growth rate exceeding 20% per annum over a 3-year period and with 10 or more employees at the start of the period” (Audretsch, 2012).

To ensure appropriate investment and support is provided to businesses that have the desire, ability and potential to grow, a tool is required to identify ‘growth businesses’. Therefore, this study identifies the characteristics of food and drink manufacturing business ‘growth businesses’ in the Welsh food industry.

Purpose

The aim of this study was to identify growth parameters suitable for the food and drink industry demographic and create a tool that measures growth using these parameters to enable the Welsh Government and Wales’ technical and businesses support networks to determine where potential growth is in Wales.

Methods

Data Collection: An online questionnaire to determine growth aspiration and business potential was distributed to the FIW database of Welsh manufacturing/processing businesses (n=708). The questionnaire was completed by 130 businesses (17% response rate).

For the purpose of this project, a number of factors have been taken into consideration to determine what a ‘growth company’ should look like in the food and drink industry in Wales. Therefore, the research asked, “what characteristics would a ‘growth businesses’ demonstrate”?

Ethical Approval: Ethical approval for the study was obtained from the Cardiff School of Health Sciences Ethics Committee (1808).

Results

The food and drink manufacturing industry in Wales is made up of mainly microbusinesses and SMEs, this is reflective of the UK as a whole. More than half (59%) of responding companies had up to nine employees defining them as microbusinesses17, 17% were small (10-49 employees), 21% medium size (50-249 employees) and 3% large businesses with more than 250 employees. Of the businesses completing the survey, the largest sectors were dairy (17%), bakery (16%) and alcoholic drinks (12%) accounting for 45% of the food and drink responders answers (note that respondents could choose 1-3 sectors each).

The majority of respondent companies were microbusinesses by sales turnover as well as number of employees (see table 1). A quarter (25%) of participating companies were identified as ‘growth companies’, or 35% when growth is based on net profit increases, and 12% of companies showed growth in both sales turnover and net profit. Table 1 shows sales turnover by company size. Size can often be an indication of potential growth and by looking at the changes in business size year-on-year, we can see if businesses are growing.

<table>
<thead>
<tr>
<th>Business size</th>
<th>Current year*</th>
<th>1 year ago</th>
<th>2 years ago</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>15%</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>Medium</td>
<td>20%</td>
<td>15%</td>
<td>10%</td>
</tr>
<tr>
<td>Large</td>
<td>25%</td>
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Table 1: Size of business by sales turnover (n=130)

Figure 1 shows sales turnover, this data is used in table 1 to determine business size. Large numbers of microbusiness and small businesses could be used as evidence to demonstrate potential growth in the sector, however, businesses tend to have a low turnover, showing their vulnerability in this small changes like losing a major contract and raw ingredient price increases could be detrimental.

Sales turnover

Net profit and net profit growth

Almost half (47%) of businesses surveyed reported increased profit (a move to the next percentage group shown in figure 2) in the last three years. More than a third (34%) achieved stable profits during this period. No profit was achieved by 9% of businesses and 6% made a loss (4% ‘other not say’).

Figure 2: Percentage net profit for the past two financial years (31st April to 30th March) and an estimation of net profit for the current year (n=137)

Table 2 shows the cases that were created to quantify business growth, based on the stated revenue growth anticipated for businesses in the next three years. Assuming an average inflation rate of 3% over the next 3 years, which would equate to a 9% growth. Business revenue would need to increase by more than 9% to show ‘compound growth’ or to be considered as a high growth business. Therefore the following parameters for growth are proposed:

Table 2: Breakdown of cases used to group businesses by net profit growth over a year period

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<td>Growth</td>
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<tr>
<td>30 – 100% growth</td>
<td>Faster growth/High growth</td>
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Figure 3: Plans for net profit growth: Percentage growth (n=137)

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Figure 3: Plans for net profit growth: Percentage growth (n=137)

Summary

Overall, almost half (45%) of businesses demonstrated increased profit in the previous three years (2014-17) and 34% reported stable profits. Two fifths (40%) aspired to increase net-profit by 10-19% over three years, 16% of businesses aspire to grow by 30-39% in the time period. Some (14%) aspired to expand their businesses by 50%. Businesses identified as ‘growth businesses’ (achieved sales growth or net profit growth in the three year time period) were determined to be more likely of having a documented financial plan and a company vision plan, such companies were more likely of having a positive attitude towards innovation. Based on sales turnover, 25% of participating companies were identified as ‘growth companies’, or 35% when growth is based on net profit increases, and 12% of companies showed growth in both sales turnover and net profit.

Significance of study

• Although many businesses perceived themselves to be growth businesses, the tool has enabled identification of those with growth potential. Furthermore, the tool has identified key characteristics of ‘growth businesses’.
• Completion of this study has developed a valuable tool to enable Welsh Government and FIW to identify companies with growth potential to enable delivery of support.
• The food and drink industry in Wales is composed of microbusinesses, which are generally quite young, have few employees and whose profit line is minimal. By identifying where the growth potential is in Wales, support, funding and policy can be directed effectively leading to a stronger economy.