

4.1 MARKET OPPORTUNITIES FOR THE FOOD INDUSTRY

RESPONDING TO THE CHANGING FOOD MARKET

Sections 16 and 20.4 of 2010 Report refer

The Agri Food 2010 Report highlights the increased demands facing the food processing industry, from both consumers and retailers.

As a result of changing lifestyles, consumers are interested in food products which require little or no preparation time. However, while convenience is important, consumers are more concerned than ever with quality, taste and variety.

The growing demands of consumers have contributed to significant changes at retail level. New technology means that retailers can closely track what their customers want, and these demands are quickly passed back to food processors. Retail concentration and competition from 'discounters' is leading to more pressure on prices. Other significant changes in the retail sector include a greater emphasis on private label goods and the rapid development of centralised distribution of products.

In order to compete in a more demanding environment, the food industry needs to be capable of responding rapidly to change. It will have to improve its marketing skills to sell Irish products in an increasingly complex market. It will need to innovate rapidly in order to produce the variety of new value added products demanded by more sophisticated consumers.

Structural change will also be required. While the development of entrepreneurial small consumer food firms will be encouraged, the Government strongly support the recommendation in the Agri-Food 2010 Report that primary processing facilities need to be rationalised. The removal of excess processing capacity would both improve the profitability of the industry through lower unit costs and enhance its ability to compete on domestic, EU and world markets. In addition, it would provide for more full time jobs and the development of a more skilled workforce and, accordingly, improve the attractiveness of employment in the sector. A unique opportunity exists to address this key issue during the current phase of structural funding (2000 to 2006). Government assistance will be provided, through the measures in the National Development Plan, to encourage rationalisation, but this objective can only be achieved with the commitment of the industry itself to the process. Rationalisation is addressed in more detail in relation to each of the commodity sectors in Section 6.

While primary responsibility for change rests with the industry itself, State agencies will also need to adapt their services in response to the changing environment. The recently established Food Agency Co-operation Council will further strengthen co-operation between the relevant State agencies. It will ensure that the support measures provided for food under the National Development Plan are utilised to the optimum benefit of the food industry. In implementing those elements of the food-related provisions in the National Development Plan for which it is responsible, Enterprise Ireland will focus strongly on the need for companies to improve competitiveness, added value and market orientation. Its team of development advisers will be responsible for ensuring that the needs of individual companies are met across all relevant aspects – R&D, production/operations, human resources, finance and business development. In implementing its remit under the NDP, Bord Bia will focus on the implementation of a new market development strategy.

ADOPTING A MORE PROACTIVE APPROACH TO MARKETING

Sections 16.1 and 20.3 of 2010 Report refer

COMMENT

The need to enhance marketing capabilities is recognised as essential to future development and this has been acknowledged in the food related provisions of the National Development Plan. With a limited home market, Irish companies must look overseas for growth opportunities and must have the ability to adapt to a changing marketing environment. The reports of the Food Industry Development Group and the Agri Food 2010 Committee have pinpointed the various change factors, which include increased concentration of purchasing power at retail level, continuing strong growth in the food services sector and enhanced emphasis on convenience. These factors place a premium on marketing expertise.

While the primary responsibility for marketing rests with the industry itself, Bord Bia has a lead role to play in the promotion and marketing of Irish food. The Board fulfils that role through its own promotional and marketing activities, and by assisting individual companies to enhance their marketing capabilities. A £1.8 billion increase in exports is targeted over the next seven years. Bord Bia's activities, services and support initiatives have a critical role to play in the achievement of that target. The vertical integration of the organisation, represented by joint State and industry funding, provides an important platform for partnership to enable effective marketing initiatives.

ACTIONS

Bord Bia is currently drawing up a new market development strategy for implementation with effect from 2001. Under that strategy the Board, through its own activities and support for individual companies, will adopt an extremely proactive approach to marketing and will aim to maximise customer-orientation within the Irish food industry. The indicative public funding allocation of £49m being provided under the National Development Plan will assist this, but full and effective implementation of the strategy will require some additional resources. The planned actions include the following:

- Bord Bia's Retail Development, Speciality Foods and Food Service Programmes will be enhanced.
- The development of a comprehensive market research and intelligence service will be a key, but resource dependent, element of the Board's plan. Linked to market development programmes, the service will help companies to develop their marketing capabilities through the disciplines of category management.
- The Board will allocate increased resources to target continental EU markets.
- The Board's highly successful Food Service Programme for the British market will be extended to the continental EU market in 2001.
- Branding issues and the opportunities available to Irish companies are being examined by a special group established by Bord Bia. This group is due to report in September 2000. Research into internet shopping will be intensified – the Board has already undertaken considerable work in this area.

IMPROVING THE LEVEL OF CONSUMER FOCUSED INNOVATION

Section 16.2 of 2010 Report refers

COMMENT

Various reports have cited innovation as a key to the future success of the food industry. The industry operates in a changing environment and the pace of change continues to accelerate. The discerning nature of the market makes it imperative for the industry to anticipate and respond rapidly to change. As the rate of product turnover increases, the industry's ability to adapt assumes greater importance.

The need to enhance the innovative capabilities of the industry is fully recognised by the relevant State agencies. Significant funding was, in fact, made available under the 1994-1999 Food Sub-Programme for research and product development. Under the National Development Plan, such support will be increased over the 2000-2006 period.

ACTIONS

The relevant measures provided for in the National Development Plan are market-oriented. The indicative public funding allocation of £83m for food research/innovation provided in the Plan will be utilised under the following initiatives:

- A competitive project-based industry scheme that will assist incremental and new product development by individual companies.
- A capacity building industry scheme that will assist new or expanded research and development strategies by individual companies.
- An institutional research and development measure that will assist 'public good' research. It will complement the in-company initiatives and will seek to ensure that development is underpinned by attention to market requirements, including food safety and quality.

Implementation of these initiatives will commence in 2000.

FOCUSING ON GROWING VALUE ADDED FOOD SECTORS

Section 16.8 of 2010 Report refers

COMMENT

The high value-added prepared consumer foods sector had an output value of £1.6bn in 1999 and has been a significant driver of growth in recent years. Developments in the market, such as the increased demand for convenience and the expansion of the food services sector, have assisted that growth. The funding made available under the 1994-1999 Food Sub-Programme has supported companies to avail of the growth opportunities.

The Food Industry Development Group recognised the strong recent performance of the value-added areas but pointed to the need for accelerated progress along the value-added chain. This is reflected in the food-related provisions of the National Development Plan which put a particular focus on added value. Output in the prepared consumer foods sector is expected to grow by £1bn over the next seven years mainly through increased exports.

ACTIONS

Under the National Development Plan, an indicative public funding allocation of £282m is being made available to the food industry over the 2000 to 2006 period. This will support initiatives in capital investment, research and development, promotion and marketing, and human resources. In implementing these initiatives, there will be a particular emphasis on encouraging added-value projects.

DEVELOPING THE POTENTIAL OF SMALL FOOD FIRMS

Section 16.9 of 2010 Report refers

COMMENT

The vast majority of Irish food firms are considered to be 'small' or 'micro' in European terms. Over 70% of food industrial units have less than 50 employees.

The emergence of new entrepreneurial start-up and early stage food companies is a critical factor for the food industry as a whole. It is particularly important in the context of availing of growth opportunities in the high-value area. The innovative tendencies of such companies comprise a valuable resource in anticipating and responding to the needs of the market.

Small food firms have particular difficulties and needs. These relate to a variety of factors such as the availability of funding, the limited size of the home market, and scale-related problems. Those difficulties and needs will be recognised by Enterprise Ireland and Bord Bia in designing and implementing their support measures under the National Development Plan.

ACTIONS

- Enterprise Ireland and Bord Bia operate a range of programmes and initiatives that are targeted specifically at small food firms. These measures will be significantly enhanced and expanded.

- Enterprise Ireland will also encourage partnership initiatives/alliances between large and small companies through, for example, informal introductions/collaborations and the placement of experienced people on the boards of the smaller companies. Such initiatives/alliances will be a key component in the growth and development of high performance start-ups and early phase food ventures.

4.2 PARTNERSHIP IN THE FOOD INDUSTRY

The Agri Food 2010 Report stressed the importance of building partnerships at all stages of the food production chain. The Government strongly supports this view. Partnerships between farmers and processors improve information flows and responsiveness to changing consumer demands. Within the food industry, partnerships between employers and workers are needed to address the human resource issues facing the industry.

DEVELOPING STRATEGIC PARTNERSHIPS ALONG THE FOOD CHAIN

Section 16.3 of 2010 Report refers

COMMENT

Strategic partnerships can contribute significantly to increased competitiveness and market-orientation within the food industry. Such partnerships can play a particularly important role in assuring safety, quality, and traceability. They have facilitated and can continue to facilitate cost savings, price transparency and the exploitation of niche markets. They allow for an integrated approach to the needs of the market.

The current situation regarding strategic partnerships varies from sector to sector. There are, for example, strong links between producers and processors in the milk, poultry, and pig areas. The establishment of producer groups in the fruit and vegetables sector in response to increased centralised distribution at market level is another welcome development. Within the beef and sheep sectors, a number of partnerships and producer groups are already in existence but there is much scope for future development. Such arrangements have an important role in exploiting market opportunities through their extension to retail level. Support for such arrangements is, and will continue to be, provided through the promotion and market development programmes of Bord Bia. In addition, Bord Bia, Bord Glas and Enterprise Ireland are supporting food companies to meet the opportunities and challenges arising from centralised distribution and e-commerce.

ACTIONS

While market developments will remain the primary drivers for partnership arrangements, the initiatives under the National Development Plan 2000-2006 will be so formulated as to contribute to the development of strategic partnerships:

- The existence or intended establishment of partnership arrangements will be a positive consideration in the selection of projects for public funding.
- Bord Bia, Bord Glas and Enterprise Ireland will assist companies to develop e-commerce capabilities and to respond efficiently and effectively to centralised distribution and other trends demanding partnership-type arrangements.
- Teagasc and Bord Glas will actively promote and support the continued development of producer groups which contribute to the creation of strategic partnerships.

DEVELOPING HUMAN RESOURCES IN THE FOOD INDUSTRY

Section 16.10 of 2010 Report refers

COMMENT

Investment in human resources will be a key factor in ensuring competitiveness and comparative advantage in the food industry, and is therefore a critical element in the Government's support for the industry. Such investment should underpin enterprise partnership, which is defined in the PPF as 'an active relationship based on a recognition of a common interest to secure competitiveness, viability and prosperity of the enterprise'.

As highlighted by AF2010 and the Food Industry Development Group, the food industry is experiencing difficulties in attracting and retaining the resources needed to manage and operate modern food processing plants. The Group pointed out that this was partly due to labour market tightening, but might also reflect a failure by the industry itself to promote itself adequately to that market. While a resolution of human resource difficulties is not within the sole remit of a food development policy, the actions taken under that policy can have a major positive influence. This has been recognised in the food-related aspects of the National Development Plan.

ACTIONS

An indicative public funding sum of £31m will be provided under the National Development Plan to address the human resources needs of the food industry over the next seven years. This funding will be administered by Enterprise Ireland which, in conjunction with other relevant agencies, is currently drawing up an operational plan that will take effect in 2000 covering:

- food safety training
- competitiveness and productivity
- management development
- food core skills
- innovation management
- micro food companies
- information technology

In designing the Plan, those training courses that demand national accreditation will be identified, and such accreditation will be pursued.

Allied to the implementation of the above plan, Enterprise Ireland will work with Irish industry to facilitate them in recruiting foreign workers, and will meet the specific needs of those workers through training in foreign languages.