

# What characteristics would a Welsh food and drink 'growth business' demonstrate?

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## Introduction

The Welsh Government aspires for the Welsh food and drink manufacturing and processing industry to grow by 30% to £7 billion by 2020<sup>1</sup>, 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 business 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 ( $n=768$ ). 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 we ask, "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 (9808).

## References

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## 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 respondent companies had up to nine employees defining them as microbusinesses<sup>1</sup>, 17% were small (10-49 employees), 21% medium sized (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 respondents answers (note that respondents could chose 1-3 sectors each).

### Sales turnover

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 1: Size of business by sales turnover ( $n=123$ )

Business size	Current year*	1 year ago	2 years ago
Micro	58%	59%	62%
Small	18%	18%	17%
Medium	12%	10%	8%
Large	2%	1%	1%

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 vulnerabilities in the sector. Small changes like losing a major contract and raw ingredient price increases could be detrimental.

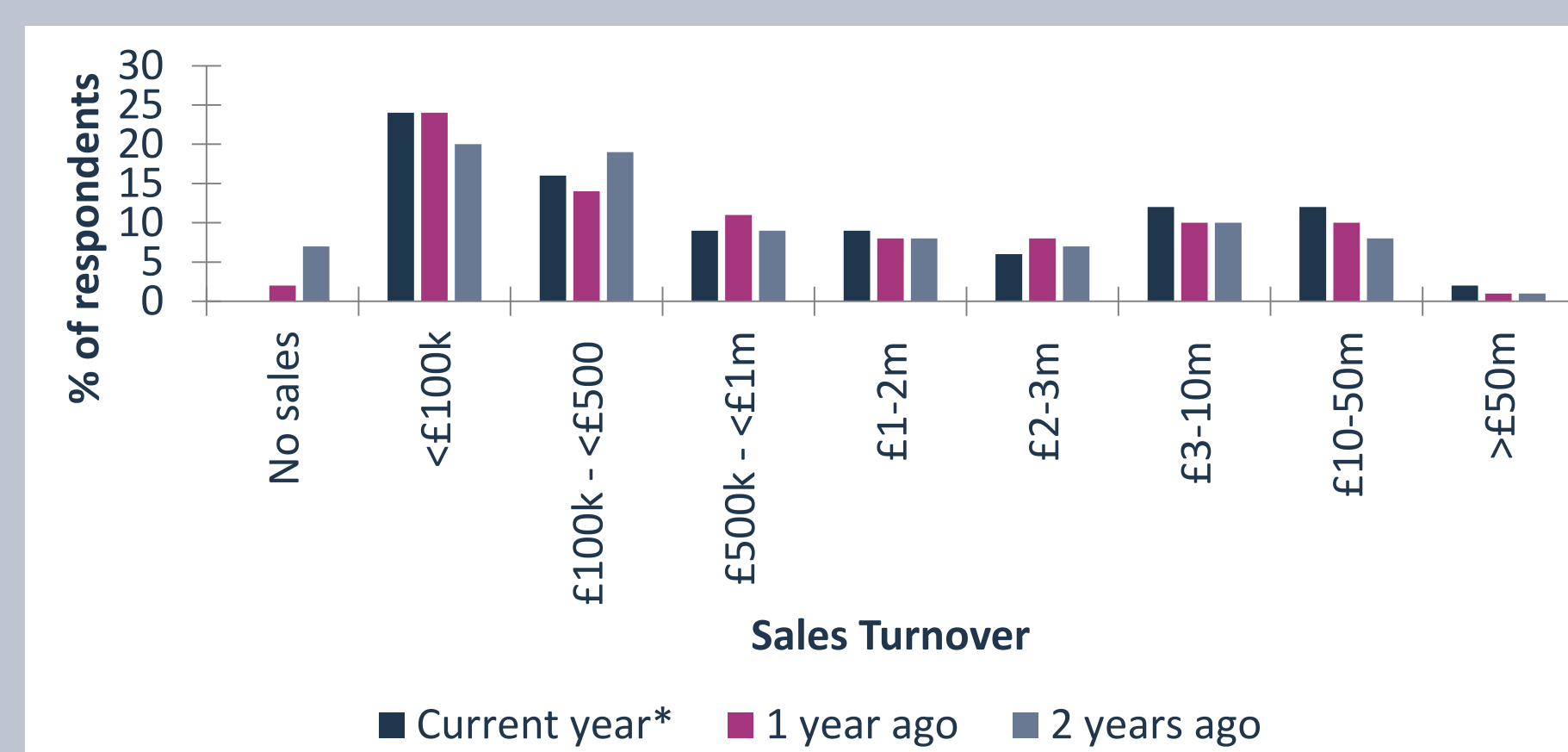


Figure 1: Indication of sales turnover for the previous two financial years (1st April to 31st March) and an estimation of turnover for the current year ( $n=117$ ) \*estimated

The availability of business documents such as visions, strategies, business sales, marketing, innovation and financial plans was investigated and businesses were asked to state whether they held any of these documents.

A Chi-square test for independence is used to identify any associations between self-reported availability of specific business documents and sales turnover, where sales turnover is used as an indicator of business success. Availability (self reported) of a financial plan is significantly associated with sales turnover ( $p<0.05$ ); however, company vision, business strategy, sales, marketing and innovation plans, are not significantly associated ( $p>0.05$ ).

The higher the sales turnover (and size of the business) the more likely they are to have business critical documents. All of the respondents with turnover <£50m were reported to have a company vision, a strategy and a business plan.

### 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% 'rather not say').

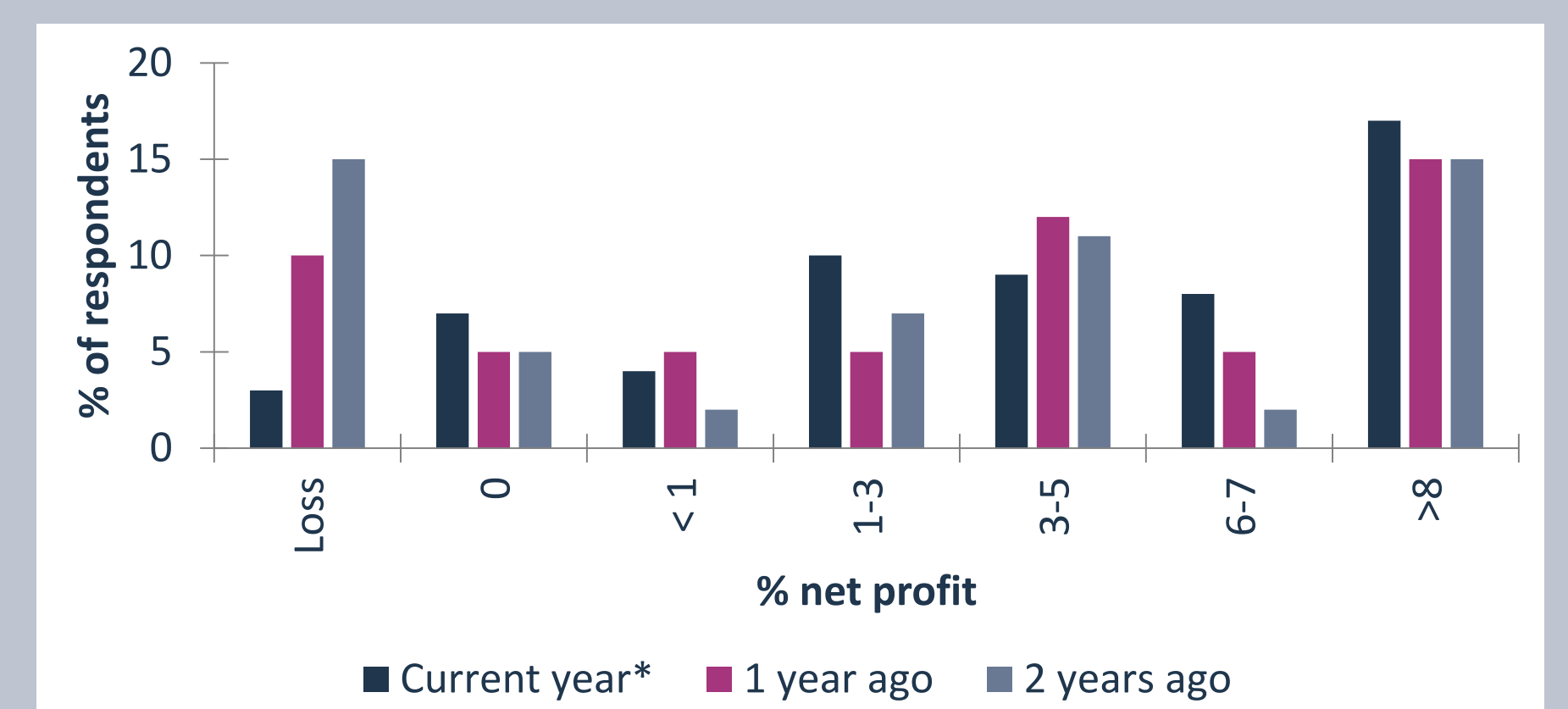


Figure 2: Percentage net profit for the past two financial years (1st April to 31st March) and an estimation of net profit for the current year ( $n=117$ ) \*estimated

Figure 3 shows the plans for net profit growth in the next three years. Table 2 shows how growth was then categorised to determine how that growth can be interpreted for the purpose of this project.

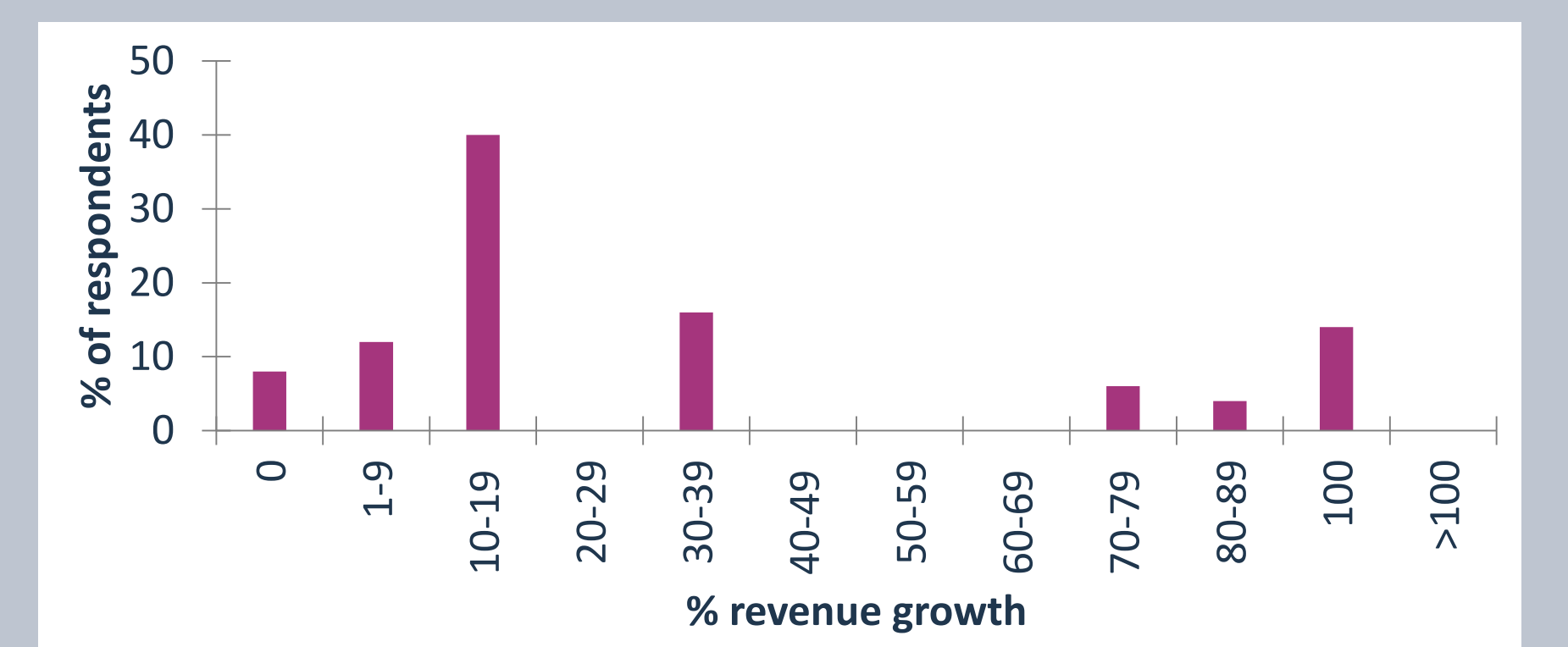


Figure 3: Plans for net profit growth: Percentage growth ( $n=116$ )

Table 2 shows the categories 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 categories used to group businesses by net profit growth (over a 3-year period)

Percentage growth	Definition
0 – 9% growth	Real terms negative growth
10 – 29% growth	Growth
30 – 100% growth	Faster growth/High growth

## 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 business by 100%. 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 have 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.