

# **Economic Evaluation of the Group Marketing Grant and the Marketing Development Scheme**

## **Executive Summary**

**Prepared for:** Economics (Resource Use) Division  
MAFF  
Whitehall Place (West Block)  
London  
SW1A 2HH

**Prepared by:** The Scottish Agricultural College

*in association with*

CEAS Consultants (Wye) Ltd

<b><u>Contact:</u></b>	<b>Mr P M K Leat</b>	<b><u>Compiled By:</u></b>	
	Agricultural & Food Economics Dept	<b>SAC:</b>	<b>Philip Leat</b>
	SAC Aberdeen		<b>Jacquie Middleton</b>
	Craibstone Estate		<b>Julie Trenholm</b>
	ABERDEEN AB21 9YA		<b>Richard Kelly</b>
	Tel: 01224 711000		<b>Ceri Ritchie</b>
	Fax: 01224 711270		<b>Cath Milne</b>
		<b>CEAS:</b>	<b>Graham Brookes</b>
			<b>Andrew Fearne</b>
			<b>Dylan Bradley</b>
			<b>Jutta Cramer</b>

**Date:** December 1998

# EXECUTIVE SUMMARY

## Introduction

- 1 The Group Marketing Grant (GMG) was introduced in April 1992 following the results of a study commissioned by the Agriculture Minister into the UK's £6 billion Food Trade Gap deficit. The study found, *inter alia*, that the UK's major retailers wanted produce from suppliers consistently able to meet their increasingly stringent requirements for quality, service, volume and price, and that they could not work with small and poorly organised businesses. UK producers however, were failing to grasp market opportunities open to them. This failure was the result of a number of features apparent in the market: a historic lack of collaboration leading to relatively weak and inefficient marketing structures; poor communication of buyers' requirements and a long dependency on market support mechanisms which prevented market signals from reaching producers.
- 2 The overall purpose of the GMG was to "encourage the development of commercially-managed marketing groups for agricultural and horticultural produce". The idea was that the development of a collaborative approach to marketing that would ensue from such groups, which may include the establishment of new groups, rationalisation or merger of existing groups, or collaboration and joint ventures with other sectors of the food industry, would "assist the transition to a more market-oriented agriculture and horticulture industry". This in turn would increase the market security of UK producers both at home and abroad.
- 3 The Marketing Development Scheme (MDS) replaced the GMG in 1994 with the intention of enabling a wider range of businesses to apply for grant aid, broadening the type of assistance given and removing some of the original restrictions. The MDS was introduced under new powers in the 1993 Agriculture Act and, following an industry consultation on the experience of the GMG, was specifically "designed to deliver the marketing help the agriculture and food industries have asked for" (MAFF (1994). *Marketing Development Scheme* booklet PB 1764).
- 4 Overall, the intention of these schemes was to raise the level of marketing and commercial expertise in the sector by helping farmers, growers and processors to develop efficient marketing structures in order to meet the demands of their customers, both domestic and overseas, for direct supply.
- 5 As part of its rolling programme of economic policy evaluations, MAFF intended to commission an evaluation of the MDS and GMG within its 1996/97 programme. In the event the MDS closed before the evaluation could be started but, to provide a detached and objective ex post assessment of the Schemes and to draw any lessons for the future it was considered worthwhile to proceed with the policy evaluation. SAC, in association with CEAS consultants, were commissioned to carry out the study with the main objective of: 'Assessing the impact that the GMG and MDS have had on the UK food and drink industry in general.'

## Study Approach

- 6 In order to meet the study objectives the project team used a mixture of survey techniques. The study had six main components: desk research to establish sub-sectoral benchmarks; in-depth face-to-face interviews with key industry contacts; a postal survey of all grant recipients; in-depth face-to-face interviews with a sample of grant recipients; telephone interviews with a number of companies which were rejected for inclusion in the scheme; and telephone interviews with a number of companies which expressed interest in the scheme but did not apply.

## Validity of the Rationale Underpinning the Schemes

- 7 An analysis of the agri-food marketing system tended to support the view that in a number of cases UK producers, particularly primary producers, were failing to take full advantage of the market opportunities open to them. This failure is associated with certain features of the agri-food marketing system:- i) in a number of areas production and marketing decisions tend to be influenced more by CAP support arrangements than by consumer preferences; ii) there is an asymmetric distribution of market power within the food chain in favour of a highly concentrated retail sector; iii) there are shortcomings in the information flows along the food supply chain arising from its length and complexity; iv) consumer confidence in food safety and quality has been affected by a number of well publicised food scares and the market system has at times been deficient in delivering adequate reassurances.
- 8 Discussion with all sectors of the industry, as well as statistical analysis of the available data, confirm that whilst some improvements have occurred since 1992, the structure of the food chain is little different. Whilst the market share of farmer controlled businesses has increased in several sectors between 1992 and 1996, the UK still lags behind several European counterparts in embracing a more collaborative culture amongst primary producers. Food product value added, as a proportion of gross output, has remained unchanged since 1992 and is still behind that of the total manufacturing sector. However, whilst changes within the sector are being largely driven by retailers' pursuit of competitive advantage and the heightened emphasis of food safety and traceability rather than producer-led initiatives, market imperfections are continuing to prevent these signals from reaching primary producers.

## Main Factors Influencing Uptake of the Schemes

- 9 In total 243 businesses received MDS and GMG awards in England and Wales. The horticultural sector was the largest beneficiary (38% of businesses), followed by the livestock sector (21% of businesses).
- 10 The total value of grant awarded through the Schemes was £15.70 million. The postal questionnaire reported £7.99 million of grant *claimed* by 98 companies. MAFF records for these businesses indicated *awards* to the companies concerned totalling £8.63 million (55% of the total awards). Discrepancy between these two figures is the result of recipients claiming below their entitlement at the time of reporting.

- 11 MAFF publications and consultants were ranked as two of the most important sources of information about the Schemes.
- 12 Significant personnel, particularly buyers within the retail trade, were unaware of the schemes. Therefore, publicity for any future schemes should additionally be targeted at the retail customer part of the marketing chain in order that they might promulgate to their suppliers the assistance available through the scheme.
- 13 The GMG/MDS Schemes have been successful in targeting enterprises which needed to meet the market and product quality challenges anticipated in the Schemes' objectives. The objectives of the project for 88% of those interviewed had been achieved. However, 65% indicated that targets and timescales had changed.
- 14 A key initial reason for applying for the grant, mentioned by both recipients and rejects, was to improve/allow access to new markets both at home and abroad. Improved servicing of existing markets and marketing management, as well as new product development, also featured prominently.
- 15 High actual or intended grant usage for feasibility studies, salaries of key staff and production and dissemination of promotional material was reported.
- 16 Non-applicant companies are thought to have recognised a mismatch between their proposed grant usage and key scheme objectives, and therefore did not proceed with their applications.
- 17 The single main reason for application rejection, as perceived by the companies, was that the scheme was either over-subscribed or that the scheme was closing (the Scheme became significantly over-subscribed just before closure, and the proportion of rejected applications rose accordingly). Only four of the companies felt that their projects were rejected because they did not meet Scheme criteria.
- 18 Only 8 companies out of 37 rejected applicants contacted had gone ahead with their projects. In all cases the project had gone ahead on a smaller scale and / or at a later date than originally planned. Nine out of 15 non-applicants had proceeded with their projects, all on a smaller scale and / or at a later date.

## **Impact of the Grant on Individual Firms**

- 19 Receiving funding from the GMG/MDS has had a tremendous positive impact on all those companies concerned. Both the grant application process itself and project implementation have allowed widespread development of marketing skills and capabilities through, amongst other things, the ability to employ more professional and specialist staff or directors.
- 20 Companies / groups experienced additional benefits in marketing capabilities and skills development beyond those which they had anticipated at the time of grant application.
- 21 Clear increases in marketed volumes of existing products and more secure arrangements with major customers were reported. Changes in market security were attributed to the increases in volumes sold, overall improvements in the professionalism of the company and increased group membership levels.

- 22 The research reassuringly showed that 55 - 65% of respondents had gained improved access to new UK markets and approximately 35 - 45% to export markets. Grant recipients who were interviewed face-to-face reported that they were exporting to over 60 different new markets in the UK and abroad with more than 30 different products.
- 23 The GMG and MDS have had a limited impact on the prices received for products, although the interview survey suggests that 25 - 30% of recipients may have seen positive price improvements and for others the GMG/MDS projects may have helped maintain prices.
- 24 Approximately 62% of businesses which responded to questions on turnover and profitability indicated that the GMG/MDS project had had a positive impact in this area.

### **The Macro Impact of the Schemes on the Food Marketing Sector**

- 25 Whilst the GMG and MDS have made a significant contribution to the exporting activities of possibly 35-45% of grant recipients, macro market developments such as the stage of the economic cycle, exchange rates and food safety concerns, can swamp the contribution of such schemes when gauged at a total market level.
- 26 It is estimated that the Schemes may have directly created 490 jobs (394 full time equivalents) and helped secure a further 261 (204 full time equivalents), and it is reasonable to suppose that a significant number of these jobs will be retained beyond the period of GMG/MDS funding.
- 27 There was a high level of ‘additionality’ associated with GMG and MDS expenditure. Almost half of the reported projects would not have occurred at all without the GMG and MDS funding, and a further third would only have occurred later and on a smaller scale. Some of this net positive benefit will, however, be reduced to a degree by market displacement where the GMG/MDS assisted output is being sold in markets dominated by UK competitors. The displacement of UK produce is not so great in export markets.
- 28 Two-thirds of respondents stated that the schemes had provided a high degree of ‘additional benefit’ to the producer group part of the food marketing chain, and approximately two-thirds have been assisted in accessing other parts of the chain.

## **Scheme Administration**

- 29 MAFF's claim to be *'happy to discuss ideas or applications, and to visit applicants or potential applicants'* was fully implemented. An overwhelming majority of postal respondents indicated satisfaction in their dealings with MAFF staff.
- 30 The majority of 'rejected' respondents reported that they were at least satisfied with their personal dealings with MAFF staff; non-applicants considered that there is room for improvement in dealings that MAFF staff have with them. Rejected applicants were largely dissatisfied with scheme rules. It is highly likely that their high level of dissatisfaction is closely linked to their rejection from the schemes.
- 31 MAFF is highly successful at meeting the expectations of its customers with regards to timing of payment.

## **Future Improvements in the Marketing Performance of the Agri-Food Sector**

- 32 Nine key performance issues were identified which the industry needs to address if the marketing performance in the sector is to continue to improve. The two main ones were quality assurance, food safety and service, and food distribution chain co-ordination and traceability. Others included costs and competition pressures, production innovation and differentiation, and industry education and training.
- 33 Industry representatives felt that primary producers are still some way from addressing these issues and that the biggest hurdle facing them is the need to change. In terms of opportunities and threats facing the industry, a lack of consumer orientation by producers is a major threat to improvement. Major opportunities exist in product innovation and in high value products.
- 34 The industry strongly supports the case for continued marketing support in some form. This includes support from who have already received support and might therefore be considered to be more impartial. The economic argument is also strong given the market imperfections which continue to be present in the agri-food marketing system.
- 35 Priorities for support were identified and included further forms of horizontal and vertical integration, better communication between links in the chain, the provision of key marketing skills, particularly to small and medium sized enterprises, further product innovation, export assistance and the further development of traceability and quality assurance systems.
- 36 Other organisations and initiatives supporting the sector were identified as including Food from Britain, the IGD Food Project, the Horticultural Export Bureau, Sector Challenge, and the concept of Efficient Consumer Response.

## **Effectiveness of the Schemes in realising any improvement**

- 37 The Schemes are viewed as being very successful in meeting their own objectives of ‘helping the industry to develop efficient marketing structures and encouraging good practice’. The objectives of the project were met by 88% of recipients and 98% of projects experienced some degree of ‘additionality’. Almost 50% of the projects experienced full additionality. The Schemes had helped recipients significantly improve their marketing skills and management, to broaden their outlets, and to improve access to new UK and overseas markets.
- 38 On a macro level, the impact of the Schemes was more limited, which is to be expected given the relatively small number of businesses the budget was able to support. However, 598 FTE jobs had been created or secured at a cost of £24,250 per job. The Schemes had also leveraged a total capital and operating expenditure of £28.4mn. It is estimated that turnover generated by recipient companies will far exceed the level of MAFF funding.

## **Conclusions**

- 39 A number of related key issues continue to dominate the food distribution chain. The GMG and MDS were identified as having facilitated producers’ ability to meet the requirements laid down by the major multiples.
- 40 Performance related issues such as quality assurance, traceability and supply chain co-ordination, along with retailer generated issues, continue to challenge the food supply industry.
- 41 There is overwhelming support for continuing to afford a high priority to agri-food marketing. This is supported by the identification of a diverse number of areas requiring support in the future.
- 42 The schemes have been shown to have been very effective in bringing about significant improvements in individual companies but have had a more limited effect at a macro level.

## **Recommendations**

- 43 Further consideration should be given to introducing a successor Marketing Development Scheme, with ‘additionality’ as a key criteria. Objectives for the scheme should be more clearly specified to enable easier evaluation of the scheme but that eligibility should not be too tightly defined so as to discouraged innovation. Consideration should be given to expanding the scale of the scheme so as to have greater impact at the macro level.
- 44 Any future schemes should be promoted to the whole industry and MAFF should take on a co-ordinating role to ensure that all sectors of the chain are aware of all support which may be available to them.
- 45 Scheme evaluation should be carried out more promptly and better evaluation systems

established with financial penalties imposed if recipients do not comply with evaluation procedures.

- 46 Consistent, personal support by MAFF staff should be given and should remain active beyond the duration of the project. Seminars should be held so that recipients can share experiences and problems together.