

2004 Survey of the UK Fish Processing Industry

Key Features

Profitability improves as the fish processing sector modernises its purchasing practices

A new Seafish survey of the UK fish processing industry shows that profitability has improved across all sectors of the UK sea fish processing industry. Total employment peaked in 2000 and the decline in the number of processing factories over recent years has stopped. The purchasing power of supermarkets continues to put pressure on the industry to modernise. For the first time, employment in salmon and sea fish processing businesses have been surveyed together giving a clearer picture of fish processing employment in the UK. This report presents some of the key findings of the research.

Introduction

This new survey of the UK fish processing industry was carried out by Seafish Economics in 2004. A telephone census was used to build a complete characterisation of the structure of the industry in terms of the number, location, size and activity of UK fish processing businesses. A follow-up postal questionnaire and a series of interviews gave more in depth information about business performance and the issues facing these businesses.

This survey continues a series of Seafish industry reviews, with previous reviews conducted in 1986, 1995 and 2000. For the first time in this series, businesses processing predominantly salmon were included. This creates a more complete picture of the industry, removing doubt about double counting of businesses and jobs. It also provides an update on a 2001 study into the Scottish salmon sector¹.

¹conducted for SEERAD by Macpherson Research

Industry Structure

The sea fish processing industry now provides around 18,000 FTE jobs in 573 units (factories) (Table 1), with salmon processing providing an additional 4,500 FTE jobs in 76 units. These figures show a slight increase in the number of sea fish units and a decrease in the total number of FTE jobs. These changes may reflect improved success in the collection of data. Seasonal staff are included in the FTE jobs figure, and account for approximately 5% of sea fish FTE jobs and over 10% of salmon FTE jobs.

As in previous surveys, for companies with more than one processing unit, each unit is counted separately for the industry structure analysis. The information for this part of the study was collected by telephoning every UK fish processor and asking a few short questions about the number of people employed, the type of fish processed, and the type of processing undertaken. Most of these telephone interviews took place in March and April 2004.

Table 1: Sea fish processing – Employment figures reported during Seafish surveys

	1986	1995	2000	2004
No. of UK Employees*	19,359	19,659	22,255	18,180
No. of processing factories	988	719	541	573
Average employees per factory	19.6	27.3	41.1	31.7

* Full-time equivalents

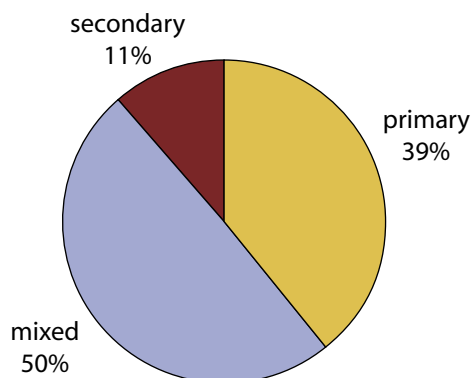
The total number of UK sea fish processors has changed; several companies were identified in 2004 which were not included in the 2000 survey. Similarly, some companies have been excluded this time as they do not fit the study definition of a sea fish processor, given in Figure 1 (either because they have changed business or more complete information has been gathered). In total, some 70 companies ceased trading in the last four years, and 19 new ones have been established. Overall, the number of sea fish processing units has declined by approximately 20% in each of the last two decades.

Figure 1: Definitions used in 2004 survey

Definitions used during data collection for the 2004 survey

- A processor is a company which in some way materially changes the fish. Fish merchants who buy and sell fish, possibly including defrosting, repackaging and selling in smaller quantities but not actually coating or cutting the fish in any way are excluded.
- Fishmongers who simply process fish for sale in their own retail outlet are not included.
- Service companies, who provide a processing service to other companies without owning the fish, are included, as they materially change the fish.
- Processors were divided into sea fish and salmon processors according to whichever constituted the greater part of their turnover.
- Trout-only processors were excluded from the 2004 survey.
- Employment data includes mainly fish-processing employees and excludes office staff where there is an office-only site. Onsite administrative staff have been included. This is a natural consequence of viewing each processing plant as a separate unit and is consistent with previous surveys.

Figure 2: Sea fish processing units by type of processing



Businesses were divided into sea fish processors and salmon processors according to whichever type of fish generated the higher proportion of turnover. This leads to some businesses with a significant minority of sea fish processing being included in the salmon sector and vice versa, but the effect is likely to be neutral on the overall results.

Salmon processing

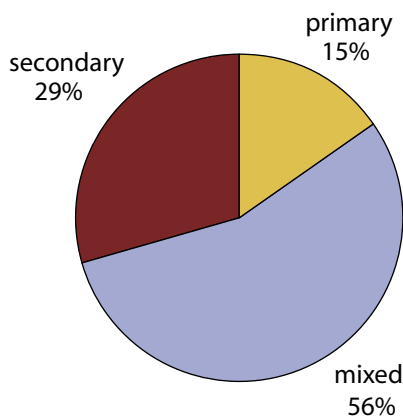
The change in structure in the salmon processing industry since 2001 is even more marked than that in the sea fish processing industry (Table 2). There has been a reduction in the number of units in Scotland of almost a third, and a 13% reduction in employment. Outside Scotland, the survey identified 21 units processing mostly salmon, providing around 600 FTE jobs in England, Wales and Northern Ireland. The reduction in total employment is due to some extent to the same factors that influenced the change in the sea fish employment figures. Also, some companies have invested in mechanisation which has reduced employment in the affected factories.

Table 2: Salmon processing – Employment reported during Seafish and Macpherson Research surveys.

	2001 (Scotland)	2004 (Scotland)	2004 (UK)
No. of Employees*	4,413	3,849	4,462
No. of processing plants	75	55	76
Avg employees per plant	58.8	70.0	58.7

* Full-time equivalents

Figure 3: Sea fish employment by type of processing (FTEs)



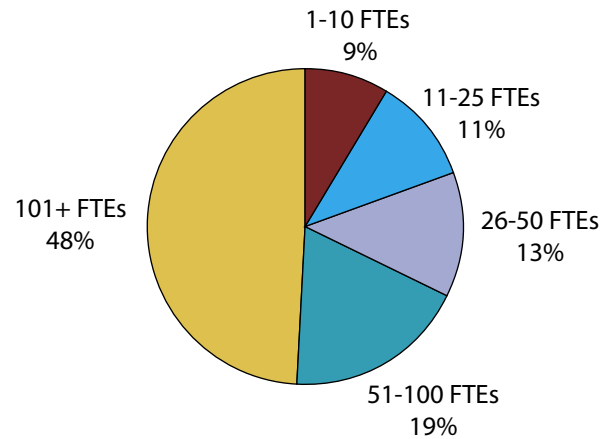
Interviews with salmon processors revealed that several feel they are struggling to remain viable, and at least one has ceased trading since interview. Stiff international competition from countries with lower production costs and different regulatory frameworks, and a global oversupply of salmon, have led to low prices and reduced profit margins.

Sea fish processing

The proportion of business units categorised as primary, secondary and mixed processors has remained stable since the 2000 survey (Figure 2), with half of processors carrying out both primary and secondary processes. Freezing is considered to be a secondary process, so this includes many businesses who conduct primary processes and then freeze the product before selling it. The proportion of jobs in primary processing has increased slightly to 15%, while in secondary processing it has decreased slightly from 36% to 29% (Figure 3), possibly reflecting further increases in mechanisation. Companies established within the last five years are almost equally split between primary and mixed. Only a few companies established over this period conduct solely secondary processing.

The industry is characterised by a small number of very large multi-unit businesses, and a large number of small, single-site businesses, with the large companies accounting for the majority of turnover. There is still a large number of small, primary, whitefish processors. 50% of primary processors process only demersal fish, and 70% of all primary processors employ 10 people or fewer, so that 27% of all units employ only 4.4% of all employees. On the other hand, the large units, with over 100 employees, which are fairly equally split between mixed and secondary processors, constitute just 6% of units and provide 50% of FTE jobs (Figure 4). This picture does not fully reflect

Figure 4: Sea fish employment by unit size (FTEs)



the ownership of the industry, as the very large units are often the ones which are part of multiple-unit companies. There has been consolidation among these companies with several high-profile acquisitions of already large companies. These companies are principally fish processors, so on the whole the fish processing industry retains its separation from other food manufacturing. This increases the economies of scale available to the largest companies.

There has been an increase in the proportion of FTE jobs in mixed fish-type processing, and a reduction in the proportion in demersal-only processing, although the overall picture in relation to fish types has changed little. Just over half of FTE jobs are in units handling more than one type of fish (Figure 5) and one quarter are in units dealing only with demersal species, a slightly smaller proportion than in 2000. 19% of all FTE jobs are in units processing only shellfish. There are relatively few pelagic-only processors.

Figure 5: Sea fish employment by type of fish processed (FTEs)

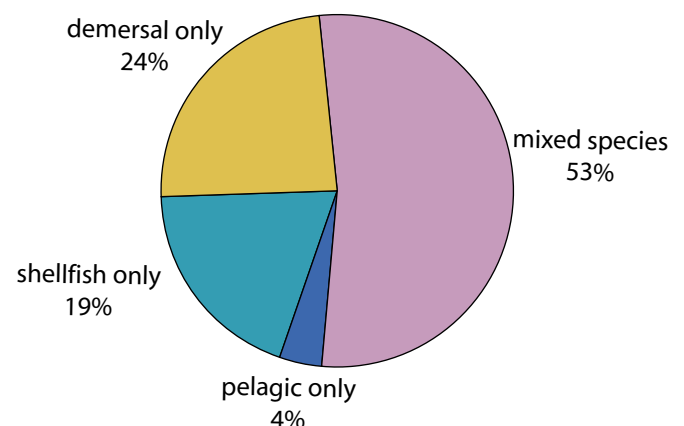


Figure 6: Sea fish employment structure by region in 2004 (FTEs)

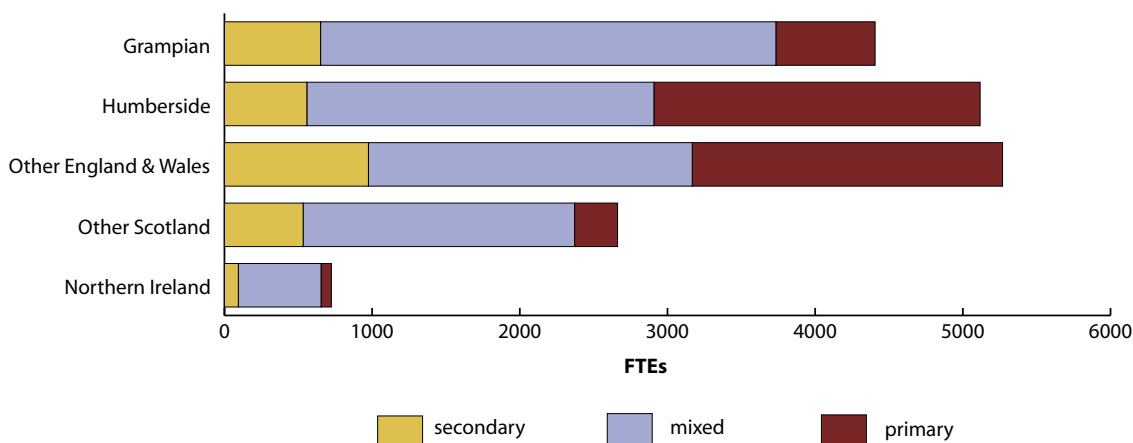


Figure 6 shows the distribution of employment by region, which is fairly consistent with previous surveys, suggesting that there has not been much change in the spread of companies around the UK. Humberside and Grampian represent 28% and 23% of employment in the UK respectively, and have the highest average unit size; several of the largest mixed and secondary processors are based in these processing hubs. South West England and Highlands & Islands have the smallest average size. These are also traditional processing areas, serving a different sector of customers. 40% of FTE jobs are in Scotland, and 4% in Northern Ireland, and these proportions have remained stable since 1986. The biggest change in the regional employment picture is in South West England, where several new small companies have been identified in this study. The decrease in employment in Humberside has not continued, with a 5% increase since 2000.

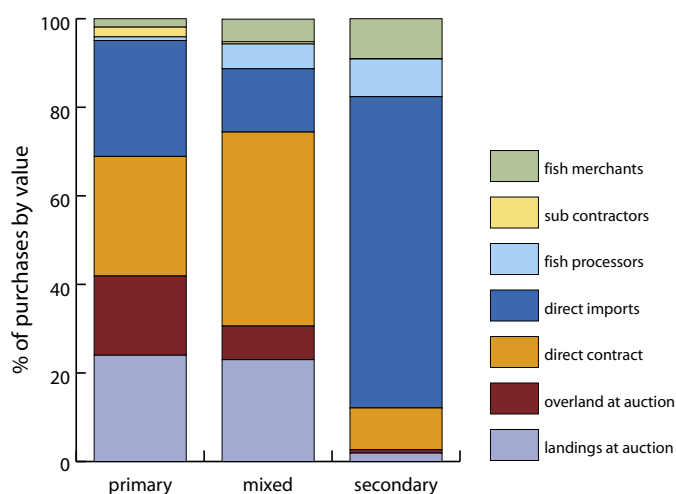
Business Activity and Issues

Several companies provided more detailed information in a questionnaire and/or interview regarding where they typically buy their supplies, their main customer types and their financial performance. The following sections report the results from the sea fish processors who took part in this survey. Processors also reported the issues they are currently facing relating to obtaining supplies and marketing to customers. Data collected related to the most recent complete business year (i.e. ending in late 2003 or in 2004). Financial data were also collected from published accounts of registered companies.

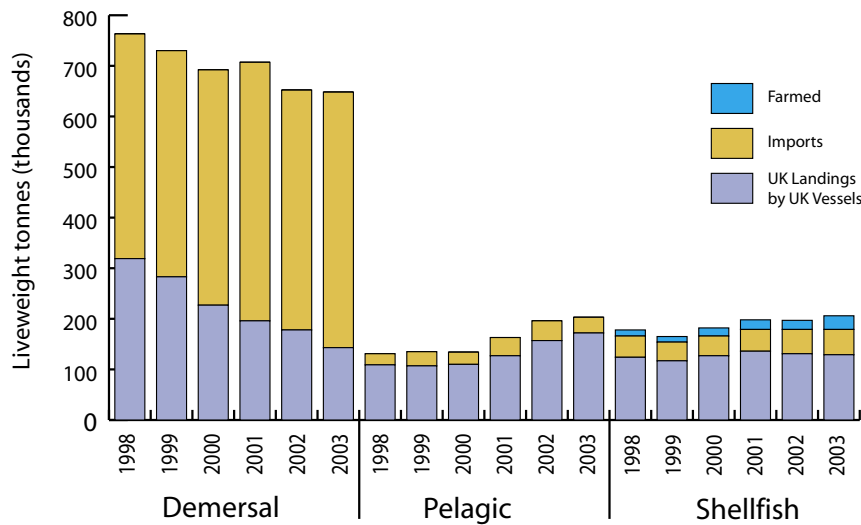
Supply chain is increasingly international

As shown in Figure 7, the biggest source of purchases by primary processors in this sample is at auction, both landings and overland, constituting 42% of purchases, followed by direct contract with vessels (27%). Mixed processors also rely heavily on direct contract with vessels (44% of supplies). Secondary processors source mainly through direct imports (70% of supplies), much of which is part-processed and frozen. Fish sold at auction includes imports sold by auction.

Figure 7: Sources of supply for sea fish processors



Sample: 57 cases

Figure 8: Fish supplies available to the UK (Source DEFRA, CEFAS)

Purchases from landings at auction by primary processors have decreased significantly, while direct contract and imports are increasing. This is due to declining landings in the UK forcing processors to look elsewhere for supplies.

On the other hand, direct contract with boats now accounts for 44% of purchases for mixed processors in the 2004 sample, compared with an estimated 19% for the population in 2000. This shows increasing connections in the supply chain as more boats land directly to a particular processor. This supply method gives vessels a chance to get direct customer feedback, which is often absent when fish is sold via auctions.

Processors were asked what changes they have noticed in the supply of sea fish over the last five years. The most common comments were that there has been a decline in supplies, particularly on the markets, that fish are smaller, and that processors are finding it harder to find reliable sources of supply. Decommissioning was blamed; one whitefish processor commented *“with all the whitefish boats being decommissioned, there must be less fish available.”*

Decline in available demersal fish

Recent years have seen a continuation of the decline in the quantity of fish landed into the UK by UK vessels. From 1998 to 2003 total landings decreased by around 20% from around 552,000 tonnes to 445,000 tonnes. There was a 55% decrease in the volume of whitefish landings (Figure 8). Shellfish landings remained steady throughout the period and pelagic landings have increased by 60%, due to the recovery of the herring and mackerel stocks in the North Sea. Landings of pelagic species have now nearly recovered to their 1997 level.

The quantity of fish imported has increased, such that the total amount of fish available in the UK has remained steady. However, demersal imports increased by only 8% between 2000 and 2003, so that the total quantity of demersal fish available has declined. Imports of pelagic fish have also increased. The manpower required to process whitefish is much higher per tonne than for processing pelagic fish, and so this replacement of whitefish by pelagic fish in the total fish available is likely to be part of the cause of the drop in employment since 2000.

Businesses focus on main customer groups

Just under half of all sales value by sea fish processors in the survey sample was to retailers, with supermarkets forming the majority of that group. The remainder of sales were split between wholesale, catering and exports. Primary, mixed and secondary processors have very different customer profiles.

The largest customer group for primary processors in the survey sample is caterers, who buy 51% of sales by value, followed by wholesale (26%), other processors (12%), and retail (6%); only 2% of sales by primary processors were exports (Figure 9). This shows a large increase in the proportion of sales going to caterers compared to the results found by the 2000 study (up from 29%), and a large decrease in the proportion of exports. The increase in proportion of sales to caterers and slight decrease to retail may reflect the fact that the primary processors are smaller on average than the mixed and secondary units, and therefore tend to be less inclined to compete with the larger companies to secure contracts with supermarkets, concentrating instead on supplying the more fragmented catering sector.

Approximately half of all exports are frozen, in which case processors supplying this route would be considered mixed processors, for whom exporters are 40% of customers by sales value. The next largest customer groups for mixed processors are wholesalers (24%), retailers (19%) and caterers (11%). This is a marked change from the picture in 2000, when supermarkets alone accounted for 24% of sales and exports were 19% of sales.

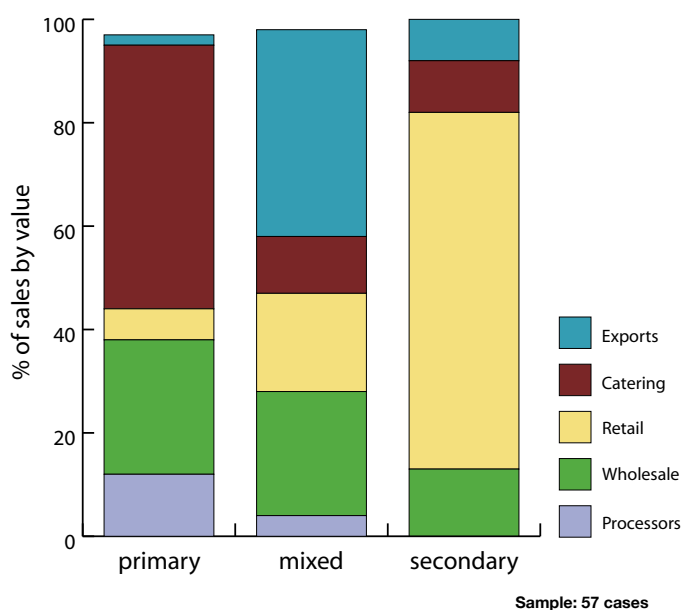
The largest customer group for secondary processors in the survey sample is retail (70%), followed by wholesale (13%), catering (10%) and exports (8%). This is an increase from 48% of sales to retail and a decrease from 19% of sales to exports identified in the 1995 survey (this information was not collected for secondary processors in 2000). The dominance of the supermarkets is not surprising, reflecting a concentration by secondary-only processors on fulfilling the stringent requirements of supermarkets in terms of quality, volume and consistency; the

secondary processing sector has fewer units than the primary and mixed sectors, with a larger average size, and is largely geared to supply this market².

Processors' comments on their ability to sell fish revealed resignation to market fluctuations. One mixed processor commented "*sometimes we sell the fish for less than we'd like, but we always sell it.*"

Total UK consumer purchases of fish were estimated to be £2.2 billion in retail in 2003 and £2.6 billion in foodservice (provision of food out of home).³ Total output from UK processors, including salmon, is estimated to be £3.2 billion; this figure excludes sales from one processor to another.⁴

Figure 9: Sales to various types of customer by sea fish processors



Profit margins show small improvement

The financial data provided by processors in the sample shows a similar position to the survey in 2000 (Table 3). Secondary processors were included in this study, but it should be noted that some of the largest businesses in the UK are classed as mixed processors because they carry out both primary and secondary

²For more information on the value chain for cod, haddock & nephrops, refer to Value Chain Report, Seafish, 2004

³Market Service Intelligence (MSI), published by Market Insight, Seafish

⁴Seafish Economics

processes within their business. Primary processors in this sample show a small profit margin, 2.5% of sales, whereas they were showing an average small loss in 2000. Mixed and secondary processors show profit margins of 4.3% and 5.8% of sales respectively. This contrasts with the picture given by a study conducted in 2001⁵ where primary processors showed a higher profit margin than secondary or mixed processors. Fish purchases remain the biggest expense for all three sectors: 75% of sales for primary processors, 56% for mixed processors and 46% for secondary processors. This is lower than was found for mixed processors in 2000, but is consistent for primary, and reflects a high level of vulnerability to the price of fish inputs in the whole industry.

Wages are also taking up the same proportion of costs as in 2000, at 8.4% for the primary sector and 16% for the mixed and secondary processors. Mixed and secondary processors also have higher administration and advertising costs than primary processors (3.8%, 4.0% and 0.9% of sales respectively). These differences reflect the more customer-focused and variable nature of the operations they undertake.

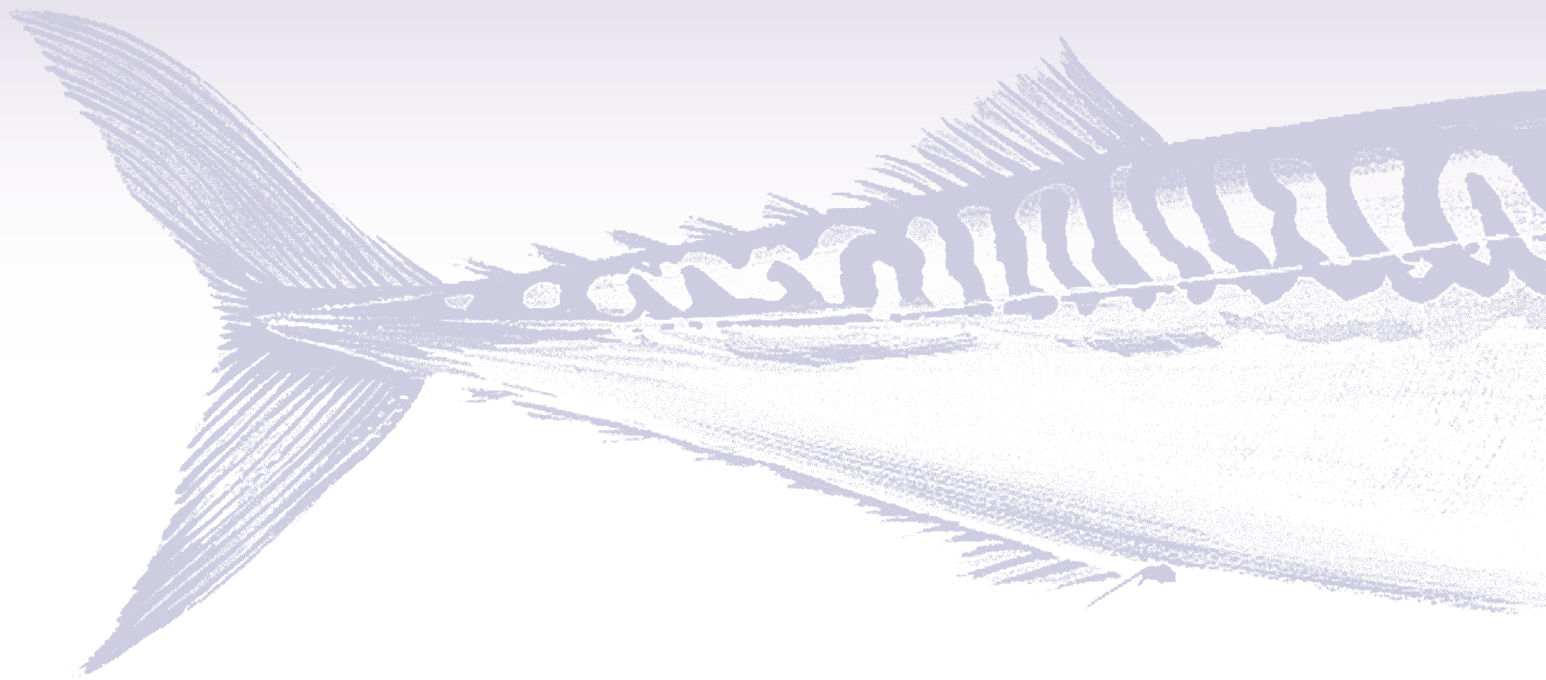
Average sales per business for primary processors in the survey sample is 50% higher than it was in the 2000 survey, and for mixed processors it is more than double. Again, this may be partly due to sample selection, and the figures have not been adjusted for inflation.

⁵"Cost and Earnings of the UK Sea Fish Processing Industry 2001", Seafish, April 2002

Table 3: Financial performance of primary, mixed and secondary sea fish processors

	Primary Processors		Mixed Processors		Secondary Processors	
	£3,126,000 (20 cases)		£16,041,000 (66 cases)		£14,057,000 (21 cases)	
Avg sales per business ¹	% sales	No. of cases	% sales	No. of cases	% sales	No. of cases
Avg cost of sales	97.7	17	95.9	56	94.4	21
Fish purchases	74.6	12	56.1	28	45.7	10
Wages & Salaries	8.4	17	16.2	57	16.0	20
Transport	3.5	8	3.1	23	3.5	10
Energy	0.9	7	1.3	22	1.2	10
Water charges	0.2	5	0.5	20	0.4	9
Packaging	4.4	6	2.6	20	4.1	9
Non-fish raw materials	0.3	8	1.0	23	4.9	10
Other direct costs	0.2	8	1.2	23	2.4	10
Total Direct Costs	88.1	17	83.3	57	78.1	21
rent and rates	1.1	9	2.3	22	1.4	10
administration	0.8	7	3.4	20	3.1	9
advertising	0.1	9	0.4	24	0.9	10
repairs & maintenance	0.4	9	0.9	24	1.5	10
insurance	0.4	9	0.5	24	1.0	10
other overheads	1.2	9	1.9	24	4.5	10
Total Overheads	9.3	18	12.5	57	16.3	21
depreciation	0.7	9	0.9	23	1.6	10
interest	0.5	17	0.9	53	1.1	18
operating profit	2.5	17	4.3	57	5.8	21

¹Figures rounded to the nearest 1,000 N.B. Data collected relate to the most recent complete business year (i.e. ending in late 2003 or in 2004). Financial figures are per business rather than per processing unit, so multiple-unit businesses are counted as one case.



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