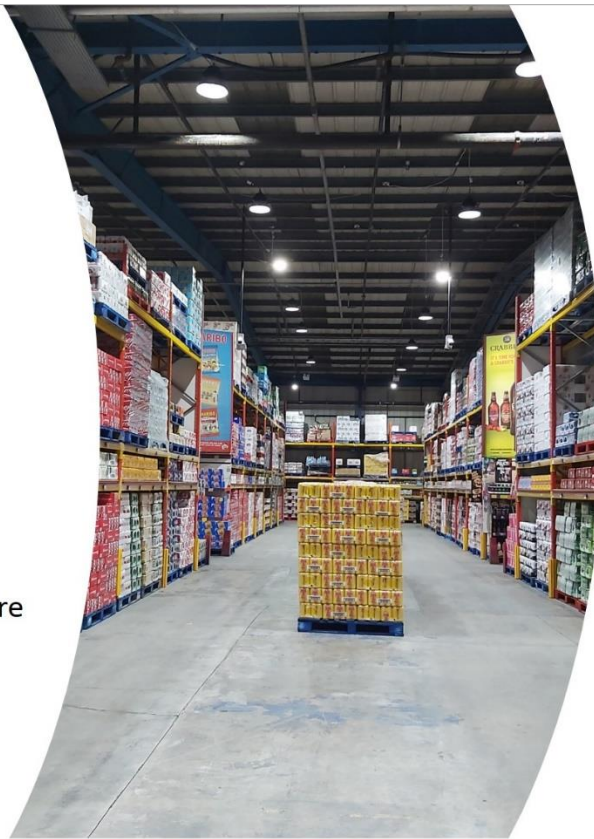


Member Survey

Scottish Wholesale Marketplace

Business Confidence & Future



Scottish Wholesale Association

Wholesale Market Survey: Business Confidence

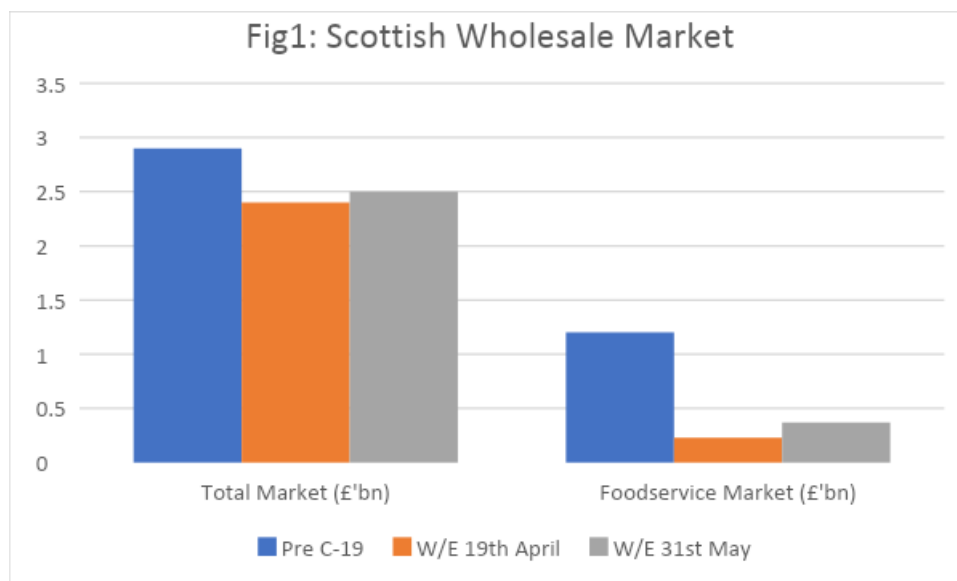
Summary of Findings

This market research was carried out during the week ending 31st May 2020 by the Scottish Wholesale Association, surveying their wholesale membership of 53 wholesale/food and drink distributors.

There were 12 useable responses and these businesses collectively have an annual turnover representing 23% of the total £2.9bn Scottish food & drink wholesale industry.

Two of the respondents were at least 90% Retail focused wholesalers. Their input has been removed from any graphs entitled “foodservice wholesalers”.

i. **Scottish Wholesale Market**



Pre Covid-19 the TOTAL Scottish Wholesale Marketplace was worth £2.9bn

Post C-19, SWA market research carried out w/e 19th April (20% market sample size) showed the total market turnover had fallen 17%.

The most recent survey results show a 3% rise on initial findings, with an overall total market decline of 14%. The new value of the Scottish Wholesale marketplace being £2.5bn.

“Foodservice” Member Wholesale Market

Pre C-19 the “Foodservice wholesale market” was c£1.2bn; around 40% of the total wholesale market.

Post C-19, SWA market research carried out w/e 19th April (20% market sample size) showed market turnover had fallen an average of 81%.

The most recent survey results show a 12% rise in sales since that point, within Foodservice wholesalers, as they adapt their models. The total foodservice market now is down 69% on Pre C-19 figures.

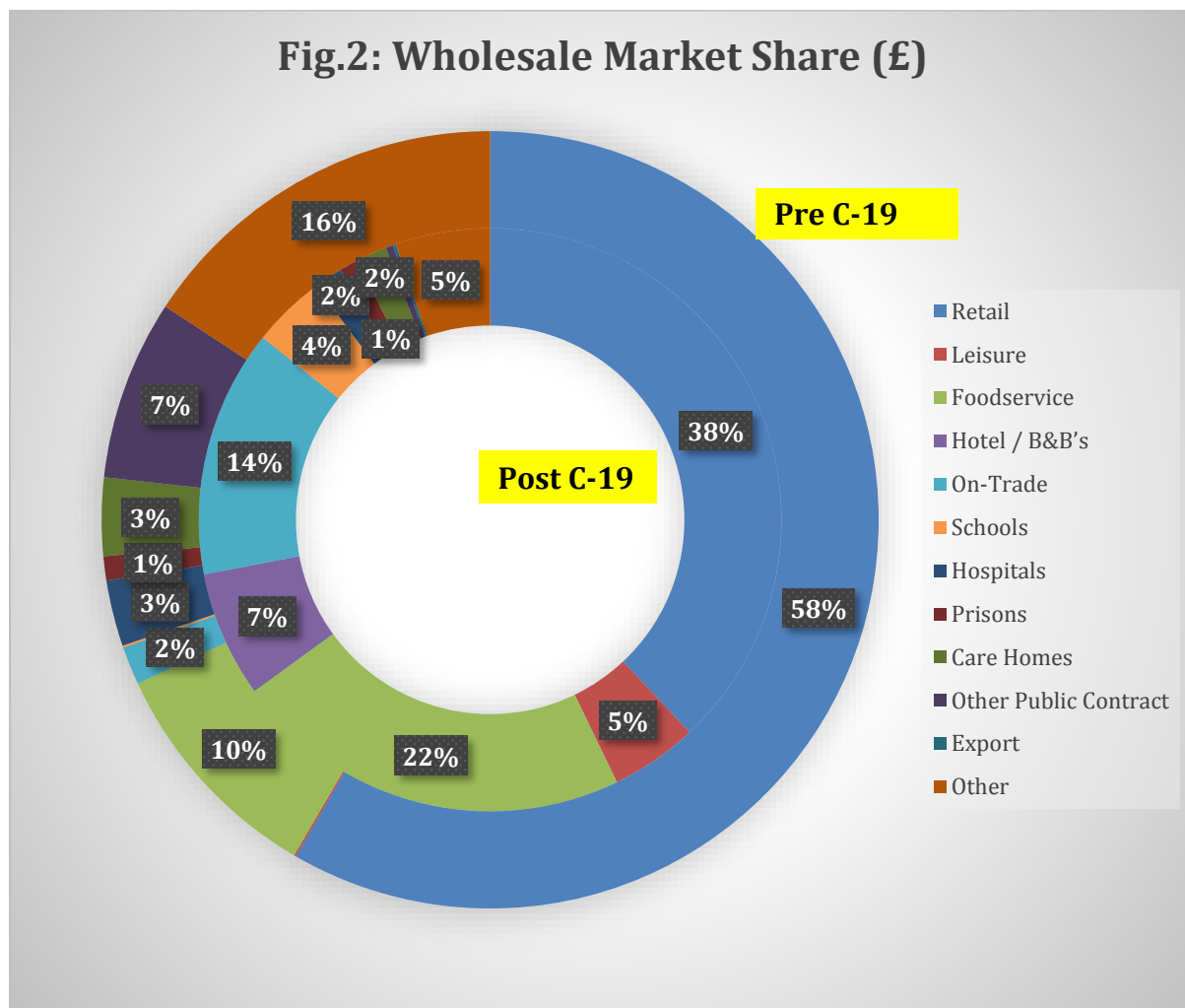
These foodservice wholesaler figures are not as positive in the Highlands and Islands however, where sales are down 71% on Pre C-19 markets, a 10% rise on research w/e 19th April.

Wholesale Market Summary

The figures presented above suggest that the severe decline in Foodservice sales has been compensated by a sharp rise in Retail sales.

The results suggest that wholesale retail sales have risen 25%, taking what was a Scottish retail wholesale market of c£1.7bn to one now worth c£2.1bn. This now represents 85% of the new Wholesale marketplace.

Indeed, Figure 2: Wholesale Market Sales Split, highlights the actual business split of survey respondents and the prevalent rise in the retail market share at the detrimental expense of the foodservice 'tourism, leisure and hospitality' market.



ii. Wholesale Business Confidence

The latest SWA survey asked members how confident they were about business survival. It's clear that the dramatic shift in business has meant that, both now and in the future, confidence in business survival is now at a critical stage.

While those mainly servicing the retail market are over 90% sure of their business survival until at least the end of the year, there is a stark difference for those servicing the foodservice markets.

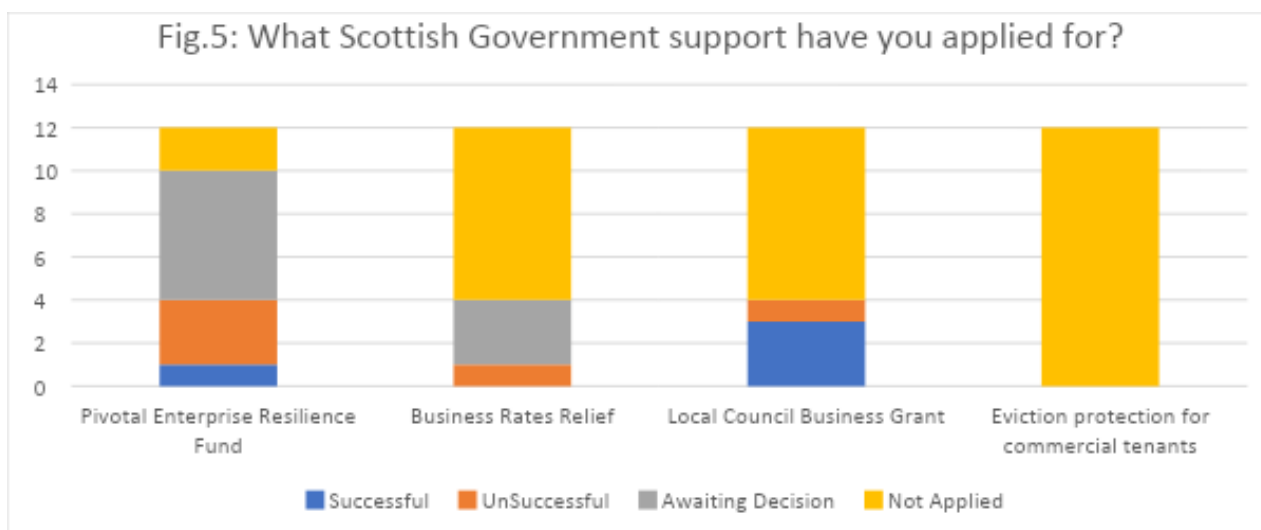
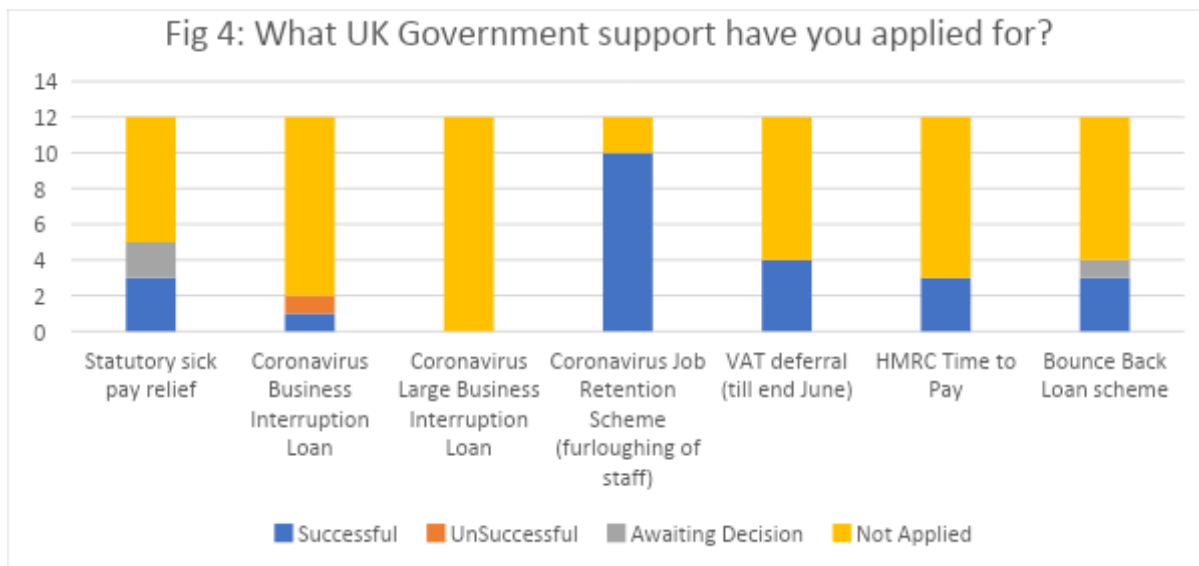
Fig 3. Shows that nearly 70% of foodservice wholesaler respondents were only 50%, or less, confident of surviving until the end of the year. This ties in with SWA's April survey which showed that 60% of respondents, at that time, were 'liquid' for between 9 and 12 weeks.



50% of respondents have pivoted and adapted their businesses to include selling direct to the public (versus trade only) or sold into new markets (ie. retail instead of foodservice). The other 50% have focused on cutting costs, reducing staff, cutting opening hours and operating at a loss just to 'stay open' in the hope of markets returning. Those businesses which have moved into new markets have incurred additional costs, particularly in relation to IT.

So far, wholesalers have, to a large extent, been left behind in respect of Scottish Government support.

Most foodservice wholesalers, faced with the collapse of their markets and little clarity about when their customers will re-open, have been unwilling to apply for 'costly financial loans', as depicted in Fig.4 and Fig.5. Any loan repayment adds further cost pressures and burdens to a sector that historically operates on net margins of 1.3%.



While Fig.3 shows 70% of foodservice wholesalers being over 50% confident of survival over the next 3 months it is only because of the minimal support members have received through the Scottish Government's PERF grants (Fig.5) and the UK Government's furlough scheme (Fig.4) These two measures have staved off the complete closure of those wholesale businesses which were cash critical back in April.

At the time of writing, only 29% of eligible wholesale businesses have been successful in receiving the much needed PERF grant. While 20% have been unsuccessful and await appeal decisions. The 51% balance still await a decision to be made on their applications.

Without significant numbers of hospitality and tourism businesses reopening very soon, or ongoing financial Grants from Government(s), food and drink wholesalers will not survive. Since the April survey, tough decisions on closure or mothballing have been delayed by a couple of months however they have not been averted. There remains a desperate need for longer term support for foodservice wholesalers and their partners in the hospitality, tourism and leisure supply chains.

The Scottish Government's Routemap suggests pubs and restaurants can open outdoor spaces in Phase 2 and can open indoor spaces with physical distancing in Phase 3. However, even when those businesses are allowed to open we know that the current 2 metre physical distancing requirements will mean many will choose not to open because their business will be unable to trade in a viable manner.

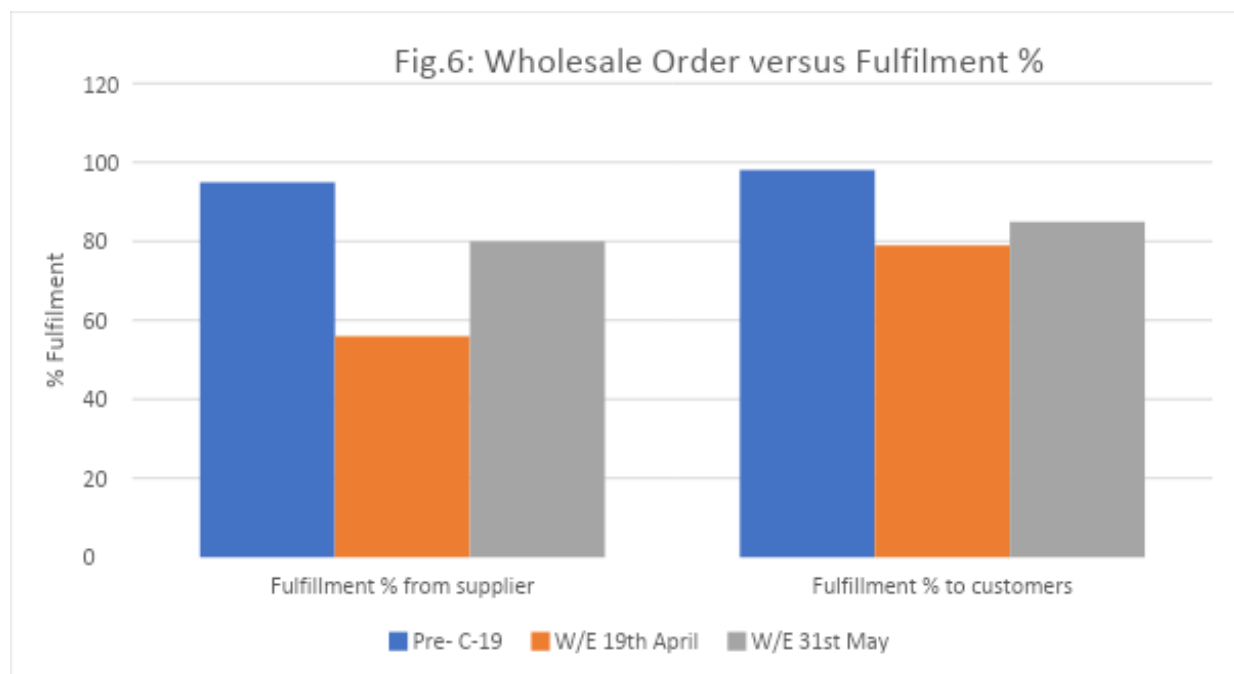
iii. Wholesale Market Order Fulfilment

Analysis of wholesaler order fulfilment both delivered into their warehouses, from manufacturers/suppliers, as well as from wholesale to their customer has shown an improving picture over the past month (Fig.6).

Before Covid-19, orders placed by wholesale to their supplier were approximately 95% fulfilled. This fell to 56% (w/e 19th April) but has since improved to 80% of orders being fulfilled in full w/e 31st May.

Likewise order fulfilment from the wholesaler to their customer pre C-19 was 98%. Falling to 79% in April and rising back to 85% as at w/e 31st May.

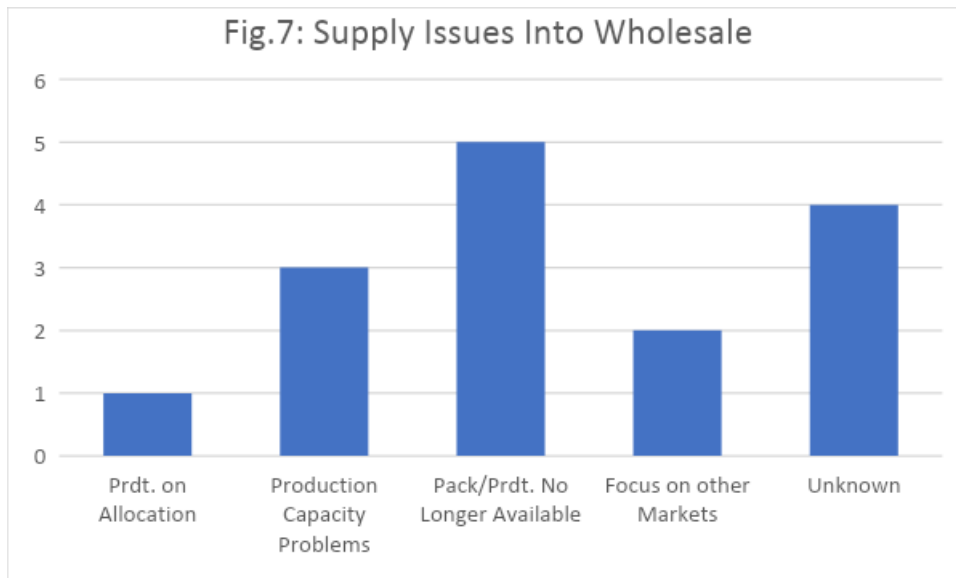
This analysis suggests there are still stock supply problems within the wholesale food and drink supply chain with manufacturer supplies, into the wholesale channel, still 15% below what they were before the pandemic.



Further analysis and questioning of wholesalers identified common reasons given for shortages in supply and are highlighted in Fig.7.

These included manufacturers changing their production methods and reducing the number of products in their range. This resulted in reduced availability of certain products and pack sizes.

Manufacturers servicing the 'foodservice' and retail markets have changed focus and production to retail packs. Further change within the production of retail packs themselves have moved from discontinuing price marked packs (PMP's), destined for the wholesale and independent retail channel, to the manufacture of non-price marked packs. The latter is normally produced for supermarkets and multiple operators but is now being sold across all retail channels potentially reducing consumer confidence in the local independent channel, where PMPs gave consumer knowledge that they weren't being 'overcharged'.



iv. The Future of Wholesale

This survey has not only highlighted the complete destruction within 50% of the Scottish Wholesale marketplace but the resilience of those SWA members who have continued the fight to keep their business afloat and their customers supplied despite little financial support to date.

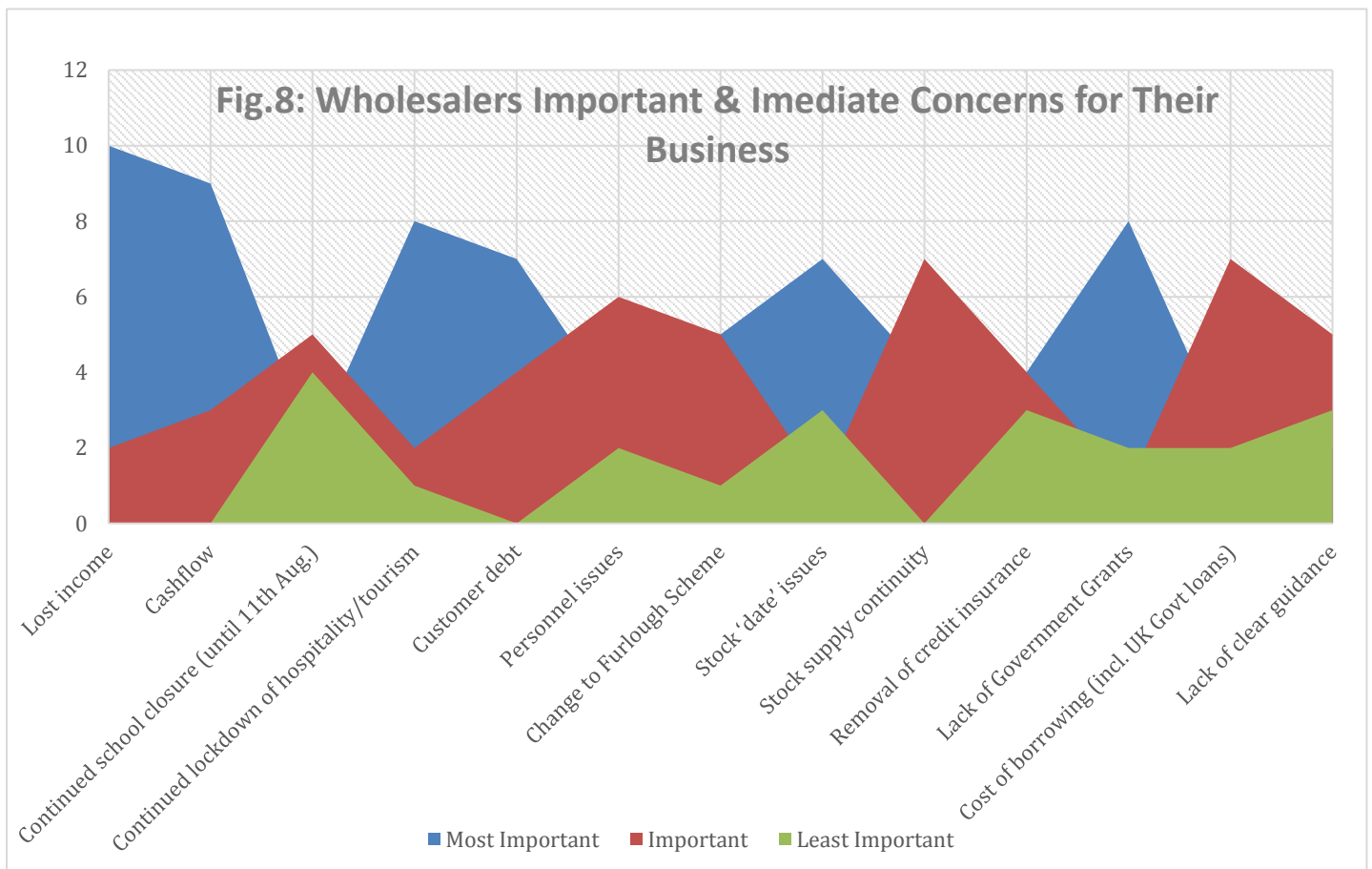


Fig.8 shows the immediate concerns of wholesalers and where focus is required to prevent a collapse in this chain. Clearly lost income is of primary importance so wholesalers can continue to pay suppliers, their staff and their significant fixed overheads including business rates.

However, lockdown of the hospitality/tourism market is also a major issue given the likely dates and physical distancing rules required before their customer base can reopen. The entire Scottish tourism supply chain looks set to lose out on the crucial Summer season which sustains thousands of seasonal jobs and businesses.

The two SWA surveys show there is a real danger of sectoral collapse. As a result, there will be a need for long term financial assistance to the wholesale sector as a crucial part of the supply chain to critical public and private sector customers.

It's essential that both the UK and Scottish Governments understand the different roles that the wholesale channel plays in the food and drink supply chain. So that when schools and hotels re-open and pubs, cafes and bars lift their shutters once again, the length and breadth of the country, there is a Scottish wholesale industry there to supply them.

Given the ongoing lockdown of hospitality/tourism and the need to plan for recovery then the wholesale sector calls upon both governments to provide

- Continuation of the furlough scheme into 2021 for the tourism/hospitality supply chain, including wholesalers.
- Business rates relief for all businesses in the hospitality/tourism supply chain including food and drink wholesalers.
- Innovation grants and support to assist wholesalers to diversify their business in the short to medium term; to focus on building local food supply chains and green vehicle investment.
- Targeted support to assist wholesalers to maintain apprenticeships and youth employment.
- Facilitation of an ongoing dynamic partnership to reduce food stock waste, supply foodbanks and improve food security.