BPEX Annual Pig Meat Industry Survey

2008

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January 2008

Background

1. A key strategic objective of the BPEX Road to Recovery 2006-09 strategy is to rebuild industry confidence to invest in the future. In order that BPEX is able to assess its delivery of this objective an annual pig industry confidence survey has been established. The first survey was undertaken in January 2007 and the second in January 2008.

2. The primary objective of the survey is to measure industry confidence. The secondary purpose of the survey is to assess the quality of BPEX services provided to levy payers and other elements of the industry and to identify areas where we can improve our performance in serving our customers.

3. The survey methodology chosen was to send out a postal survey questionnaire to individual businesses in the following sectors of the pig meat industry:

    1. Producers
    2. Allied industries
    3. Vets
    4. Processors
    5. Retailers and foodservice companies
    6. Civil Servants

4. The structure of the confidence section of the survey was based on the confidence survey undertaken by the Confederation of British Industry (CBI) which is undertaken quarterly and has been in use for over 40 years.

5. In addition to analysing the overall pig meat sector, the methodology enables us to undertake cross-sectional analyses of differences between the industry groups. Furthermore, now that two surveys have been completed, additional time series analyses are possible.

6. The following response rates were achieved by the survey:

Sector	Issued	Response	Percentage
Producers	248	90	36%
AIG	87	32	37%
Vets	156	13	8%
Processors	16	6	38%
Retailers/ food service	51	3	6%
Civil servants	24	2	8%
Total	*582*	*146*	25%

7. While interesting results have been obtained for all these sectors, the disappointing response rates for retail/foodservice companies and civil servants mean that these results will be less statistically robust.

Confidence: overall summary

8. There are many possible ways of measuring confidence. But it is probably fair to say that a confident person is more likely to invest in the business than one who is not confident. In this survey we have therefore based our overall confidence indices on questions 2a and 2b. These are the questions that relate to capital investment in buildings, plant and machinery over the next 12 months.

9. There is no reason why confidence levels should be the same at different stages of the pig meat marketing chain, as profit margins will be influenced by a differing mix of factors. The output of the producer sector will also be the input of some of the other sectors. In the industry survey we have therefore constructed one Confidence Index for producers and one for other businesses.

10. If we assign the number +1 to more investment, –1 to less investment and 0 to no change, the total industry confidence level in the current period would be:

Confidence Index = Previous year index multiplied by

(100 +(More%*+1 + Less%*-1 +Same%*0))/100

Confidence Index

	Less Confident		More Confident		No change		Confidence Index		
							2006	2007	2008
Producers	**67.9%**		**11.8%**		**20.3%**		**100.0**	**93.2**	**40.9**
Processors	40.0%		40.0%		20.0%				
AIG	48.8%		10.0%		41.3%				
Vet	75.0%		0.0%		25.0%				
Retail & FS	50.0%		25.0%		25.0%				
Non-producers	**53.4%**		**18.8%**		**27.8%**		**100.0**	**125.5**	**81.9**

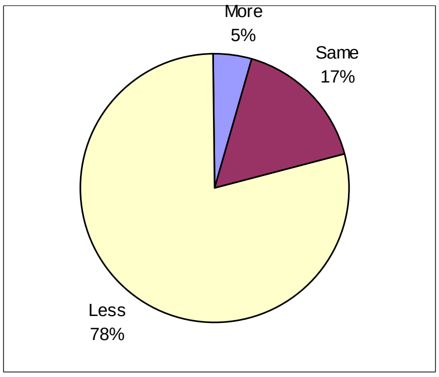
11. As in 2007, there is a marked disparity between producers and other businesses. However, 2008 saw a decline in the Confidence Index of non-producers, whereas in 2007 it had improved.

12. Compared with 2007, producers saw a decline in confidence of 56% while confidence in other parts of the pig industry fell by 35 per cent. Compared with the 2006 base year, the corresponding declines were 59 per cent and 19 per cent.

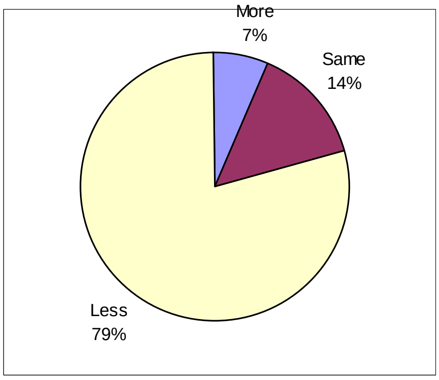
Industry Confidence: Optimism

Q1: Are you more or less optimistic than you were a year ago about the general financial situation in your part of the pig sector?

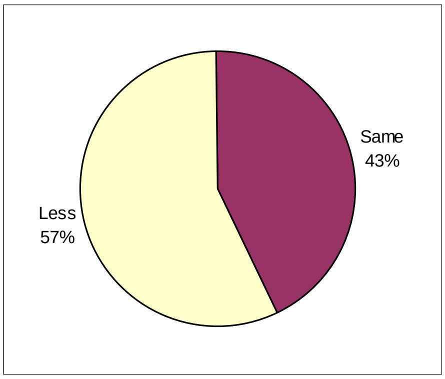
Overall



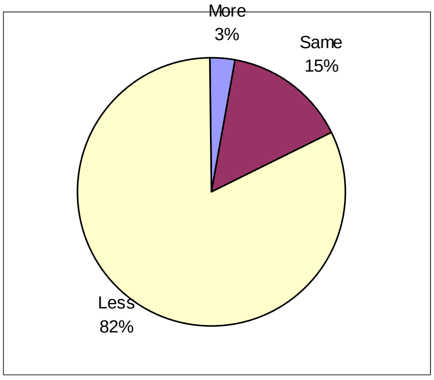
Producers



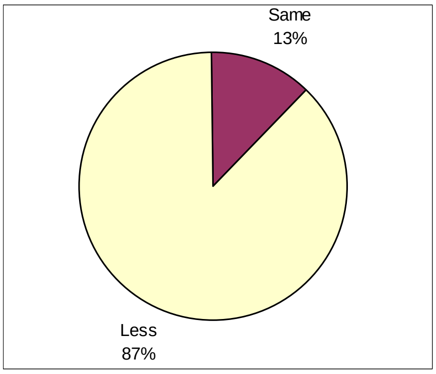
Processors



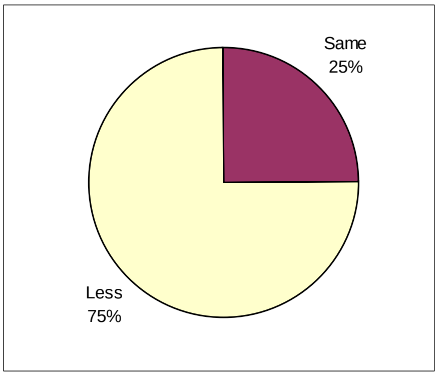
AIG



Vets



Retail/foodservice



Summary of results:

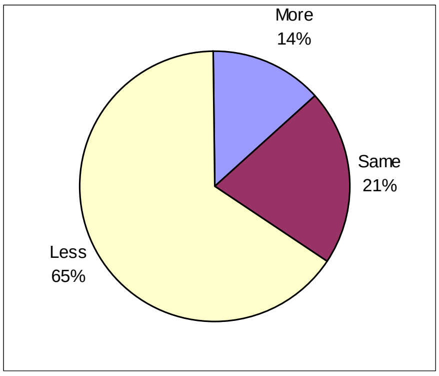
The mood of the pig industry has become much more pessimistic over the past year. In the overall sample in 2007, 57% had the same level of optimism as a year ago, 28% were more optimistic and 15% were less optimistic. The net balance between more and less optimistic is +13 (with a +ve indicating that there are more optimistic respondents than negative respondents). In 2008, only 5% were more optimistic while 78% were less optimistic, giving a net balance of –73.

All sectors have a negative net balance, although processors are slightly less pessimistic than the other sectors – with a net balance of –14. The proportion saying they were less optimistic than a year ago varied within a fairly narrow range for the other sectors, although presumably for different reasons.

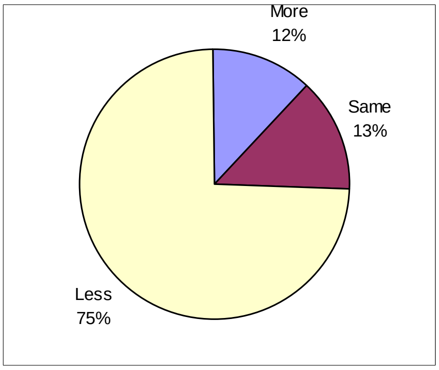
Industry Confidence: Investment in buildings

Q2a: Do you expect to make more or less capital investment in buildings in the next 12 months than you did in the past 12 months?

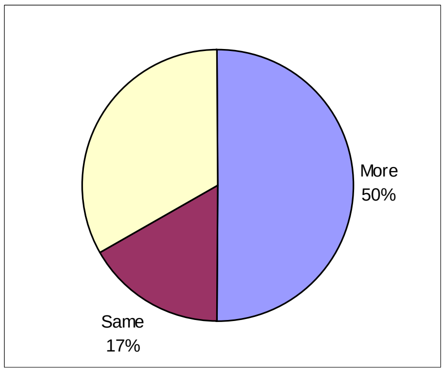
Overall



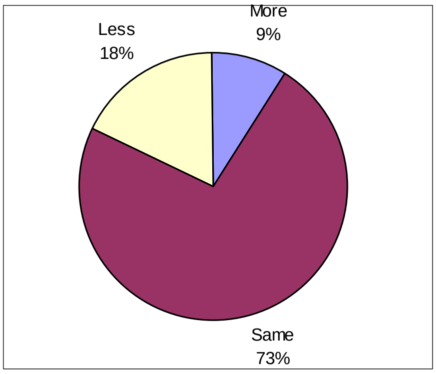
Producers



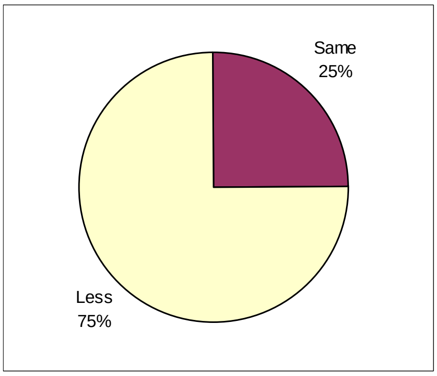
Processors



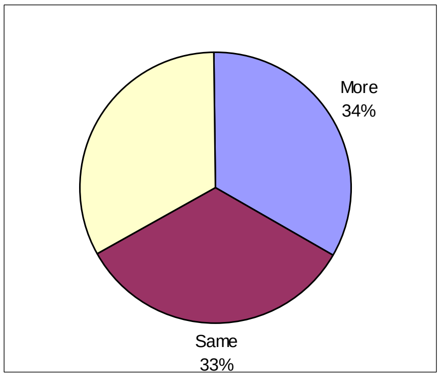
AIG



Vets



Retail/foodservice



Summary of results:

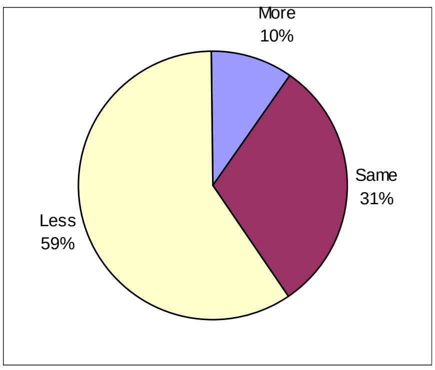
The lack of optimism in the pig industry is having a profound impact on investment in buildings. 65% of respondents expected to make less capital investment over the following 12 months, with just 14% planning to spend more. This gave a net balance of –51, which compares with the overall 2007 figure of +1. However there was a wide variation between sectors.

As in 2007, processors and retail/foodservice were the most confident sectors in terms of spending plans, with 50% of processors and 33% of retail/foodservice respondents predicting increased investment. Producers were the least confident sector, with 75% predicting reduced capital expenditure and 12% increased expenditure. The net balance of –63% indicates that the long-running problem of lack of investment in new buildings on pig farms will continue to get worse.

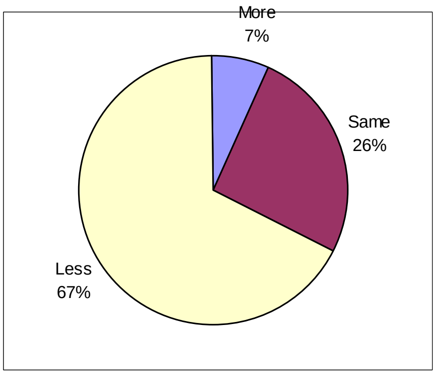
Industry Confidence: Investment in plant and machinery

Q2b: Do you expect to make more or less capital investment in plant and machinery in the next 12 months than you did in the past 12 months?

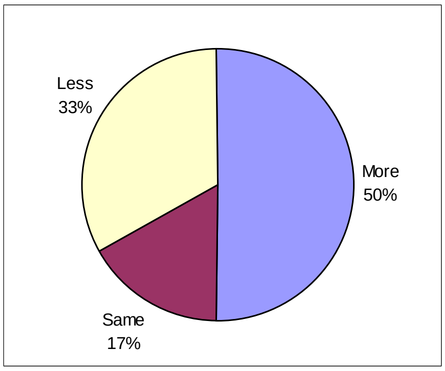
Overall



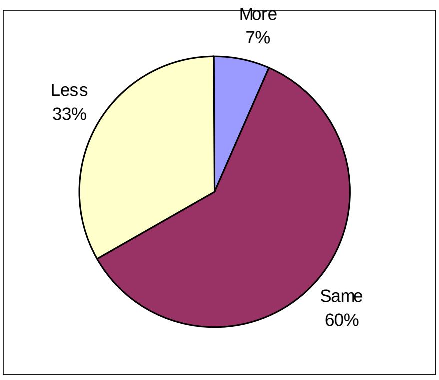
Producers



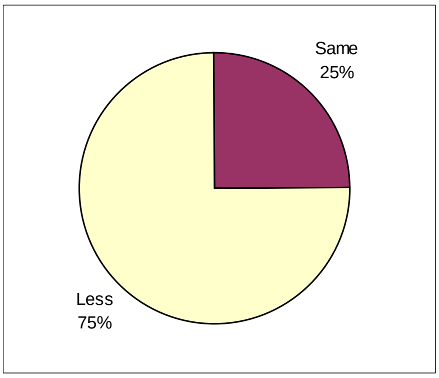
Processors



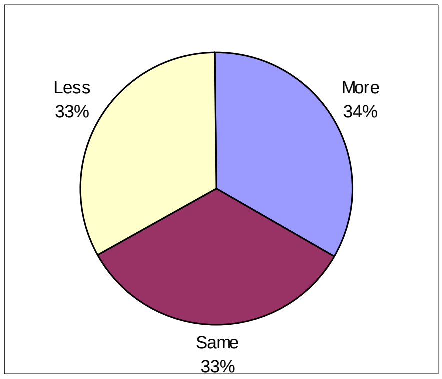
AIG



Vets



Retail/foodservice



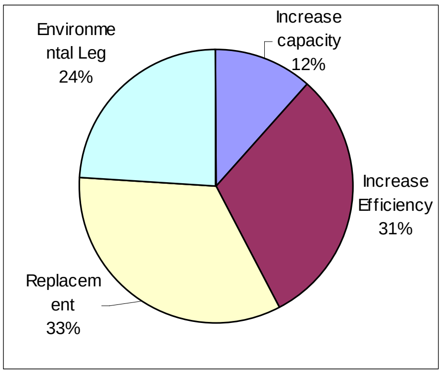
Summary of results:

These results are very similar to those for Question 2a on investment in buildings. Therefore the same comments apply.

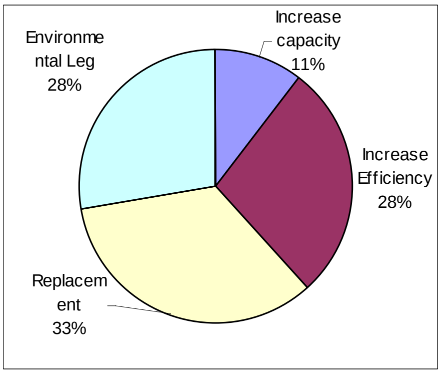
Industry Confidence: Capital expenditure

Q3: What are the main reasons for any expected capital expenditure on buildings, plant or machinery over the next 12 months?

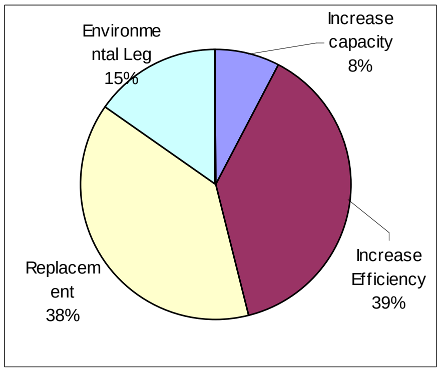
Overall



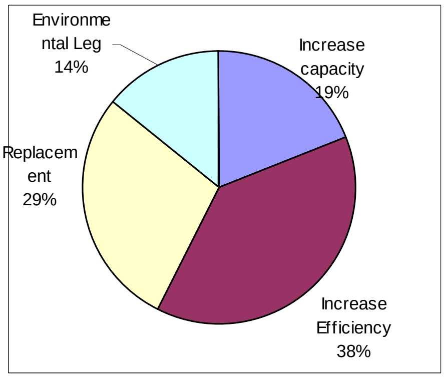
Producers



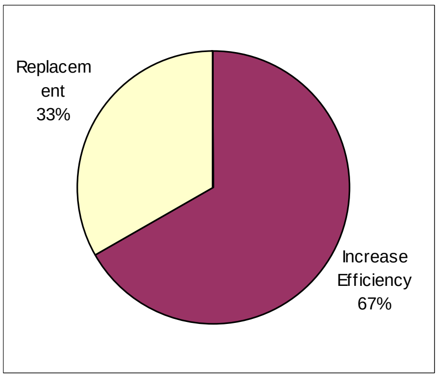
Processors



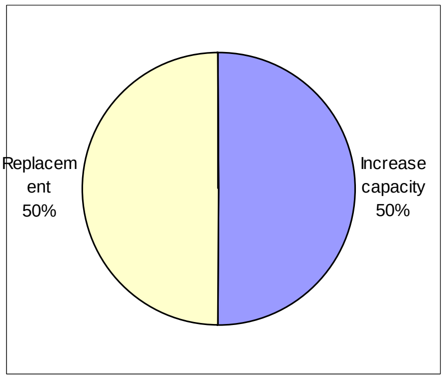
AIG



Vets



Retail/foodservice



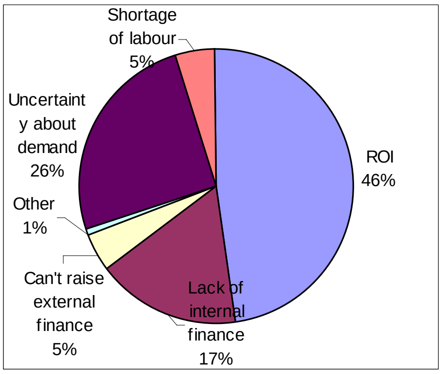
Summary of results:

Overall, the need to replace capital assets continues to be the most important reason for capital expenditure (+33%), followed by increased efficiency (+31%). However, these relativities vary widely between sectors. The combined measures of increasing efficiency and increasing capacity are a useful indicator of economic healthiness of a sector as, unlike, other factors, these are not enforced on a business. Overall these added to 43% in 2008 (46% in 2007) and the individual results are: AIG 57% (39%), vets 67% (42%), producers 39% (43%), retail/foodservice 50% (62%) and processors 47% (70%).

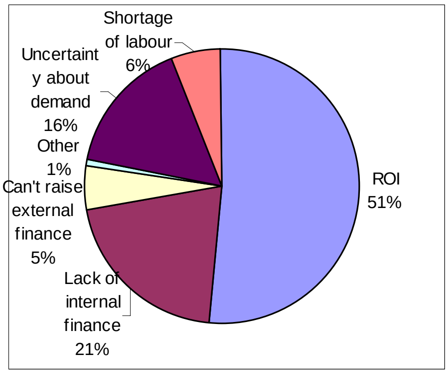
Industry Confidence: Factors limiting capital investment

Q4: What factors are likely to limit your capital investment over the next 12 months?

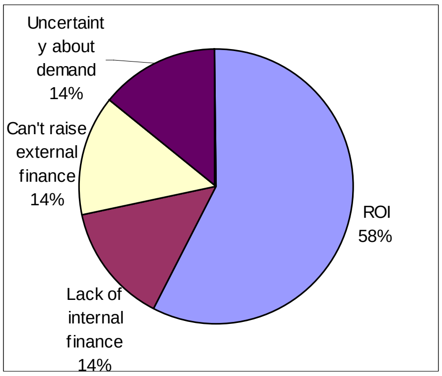
Overall



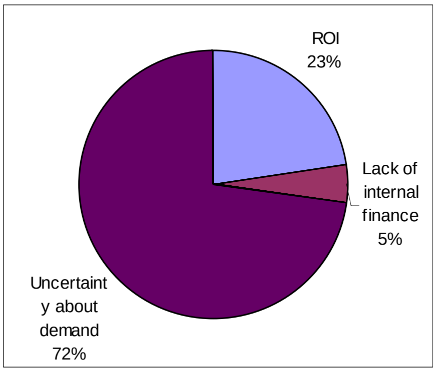
Producers



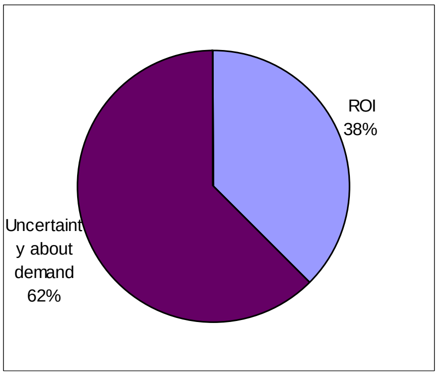
Processors



AIG



Vets



Summary of results:

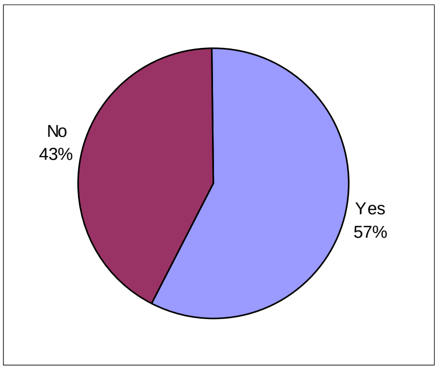
The rate of interest is the single most important factor that can constrain capital investment plans. UK interest rates were on an upward path during 2007 and consequently the proportion quoting the rate of interest as a constraining factor in January 2008 increased from 41% to 46%. Uncertainty over demand was the second most important factor and, at 26% this was also significantly higher than the 21% recorded in 2007.

The rate of interest is less important for AIG and vets than the other sectors. But uncertainty over demand has increased substantially compared with a year earlier in both cases, and is now the most important factor limiting capital expenditure.

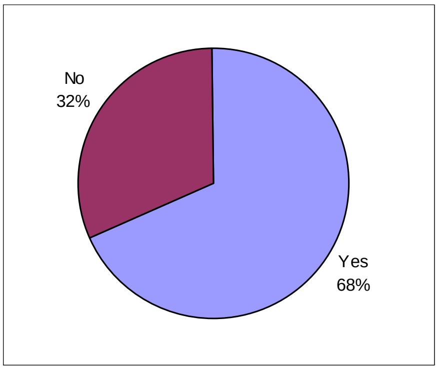
Industry Confidence: Capacity

Q5: Is your business currently running at full capacity?

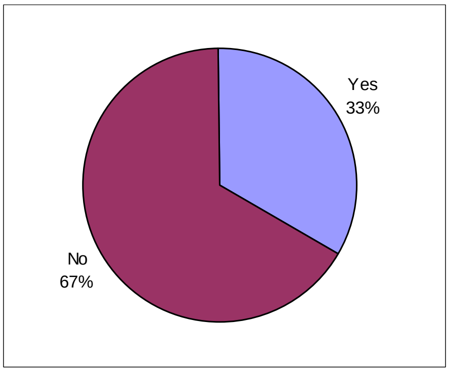
Overall



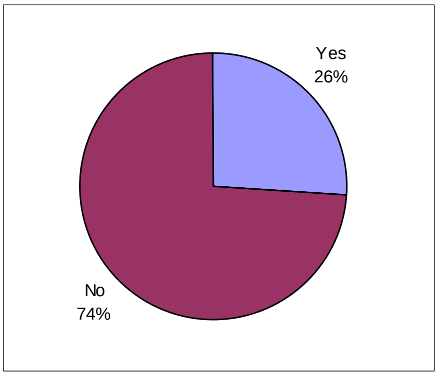
Producers



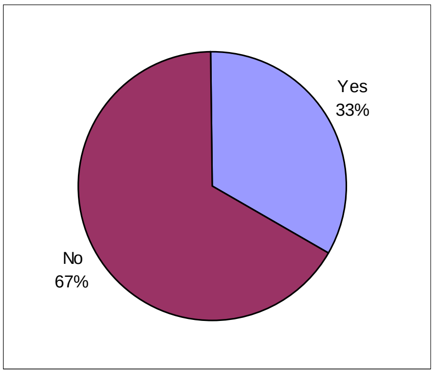
Processors



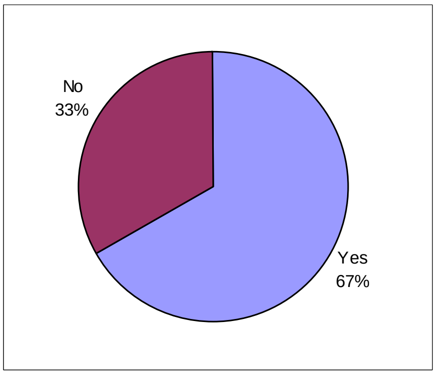
AIG



Vets



Retail/foodservice



Summary of results:

In the overall sample, 57% of respondents indicated they were running at full capacity, slightly down on the 2007 figure. There is a significant difference between sectors for this measure. 68% of producers are running at full capacity but only 33% of processors and 26% of the Allied Industry Group.

Industry Confidence: Capacity

Q6: What would you estimate your current level of production as a percentage of full capacity to be?

Sector	2007	2008		
	Ave	Ave	Min	Max
Producers	92	91	20	100
Processors	91	90	80	100
AIG	76	81	20	100
Vets	88	81	60	100
Retailers/foodservice	80	85	70	100
Total	*89*	*89*		

Summary of results:

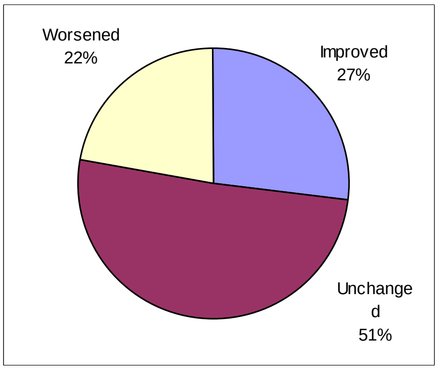
In a dynamic sector such as the pig industry it would be extremely unlikely to find all units operating at near 100% capacity. In fact, this would not be desirable as it would imply a lack of flexibility to adapt to changing market conditions. However the results do appear to indicate a relatively high number are currently operating at full capacity. For the overall sample the figure is 89% in 2008, the same as in 2007. Average capacity in the individual sectors ranged from 81% (AIG and Vets) to 91% for producers. The maximum reported for each category was 100% but producers and AIG both had a very low minimum of 20%. In the case of producers this may be associated with all in – all out systems and the actual timing of the survey.

Compared with 2007 the average level of production as a percentage of full capacity increased for AIG and retail/foodservice, declined for vets and was little changed for producers and processors.

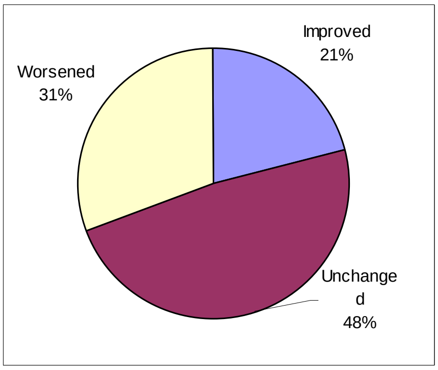
Industry Confidence: Competitiveness

Q7a UK: How would you rate your competitiveness over the past 12 months relative to other UK businesses operating in the same industry/sector as you?

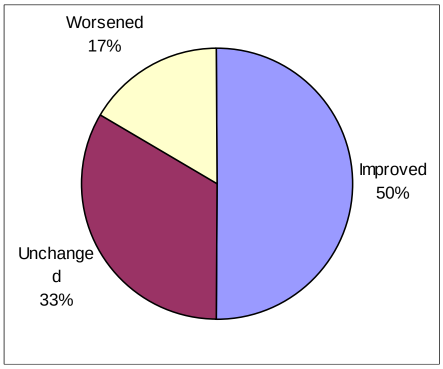
Overall



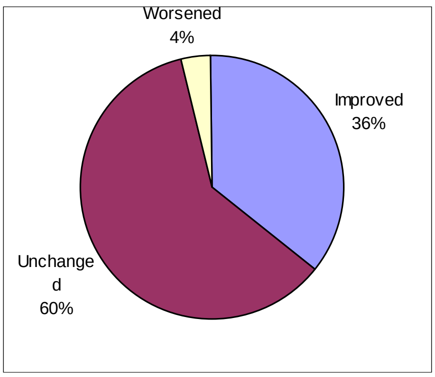
Producers



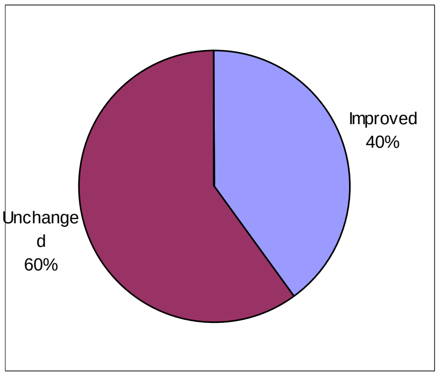
Processors



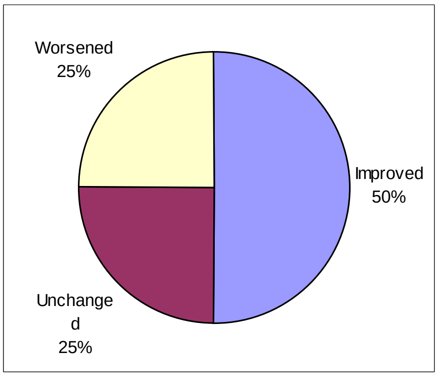
AIG



Vets



Retail/foodservice



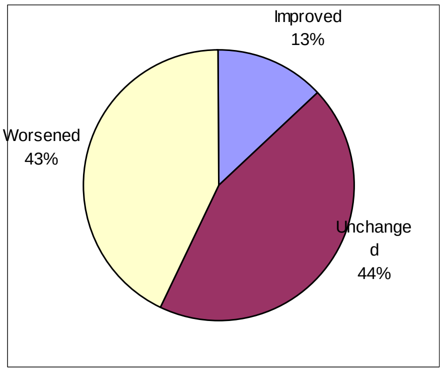
Summary of results:

The majority of respondents (51%) reported unchanged competitiveness against UK competitors. However 27% reported increased competitiveness, compared with only 17% in 2007. Only 21% of producers reported an improvement in relevant competitiveness, but a significantly higher proportion of the other sectors. In the processor and retail/foodservice sectors reported improved competitiveness.

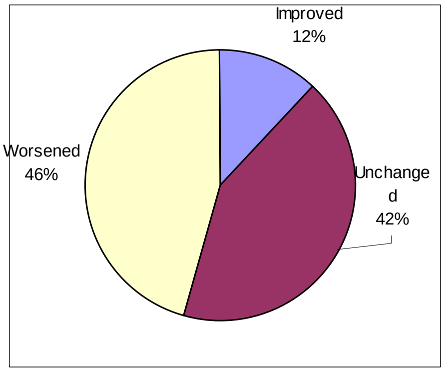
Industry Confidence: Competitiveness

Q7a EU: How would you rate your competitiveness over the past 12 months relative to EU businesses operating in the same industry/sector as you?

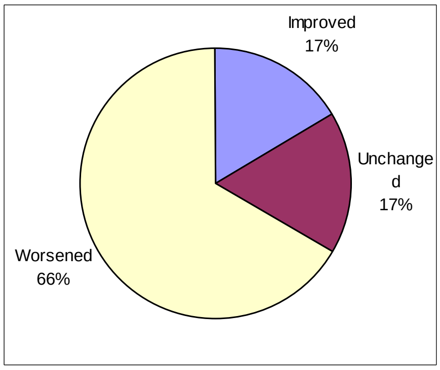
Overall



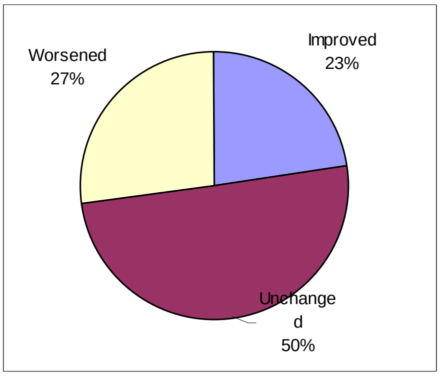
Producers



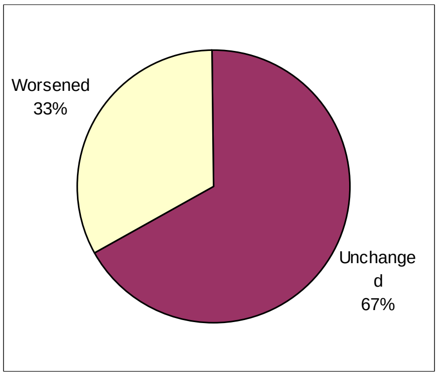
Processors



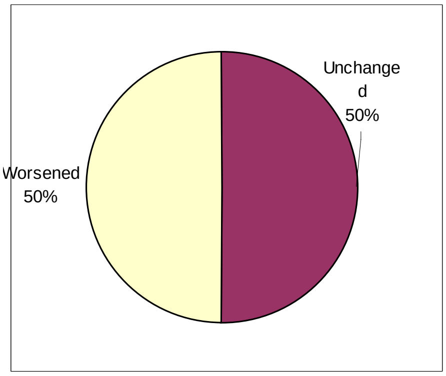
AIG



Vets



Retail/foodservice



Summary of results:

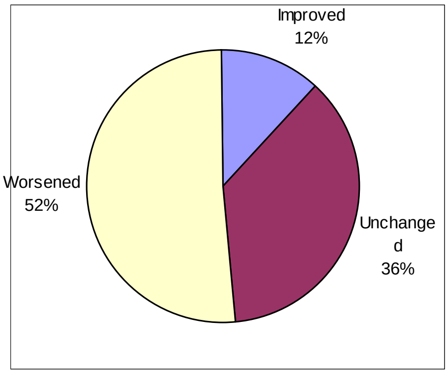
In relation to EU competitors, the overall results show only 13% reporting an improvement in competitiveness and 43% a worsening. The net balance is –30 which is a significant deterioration compared with the –8 recorded in 2007. These results are unexpected, given the weakening of sterling against the Euro over the past year – which would have led to a significant boost to the relative competitiveness of UK businesses, other factors being equal.

Despite the weaker sterling exchange rate, all sectors reported a higher incidence of worsening competitiveness relative to EU businesses than to UK businesses. AIG respondents were relatively bullish, with a net balance of –4, while the net balances in all the other sectors varied between –33 and –50.

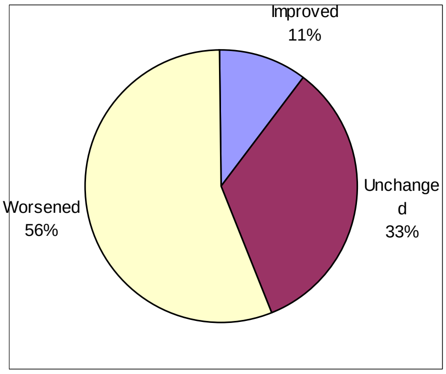
Industry Confidence: Competitiveness

Q7a Non-EU: How would you rate your competitiveness over the past 12 months relative to non-EU businesses operating in the same industry/sector as you?

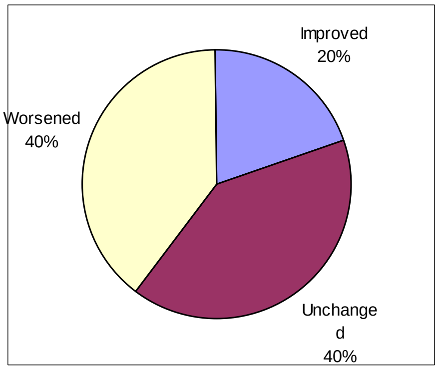
Overall



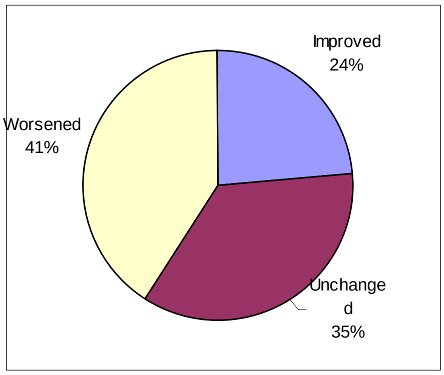
Producers



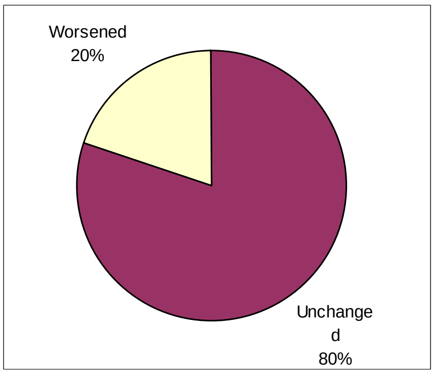
Processors



AIG



Vets



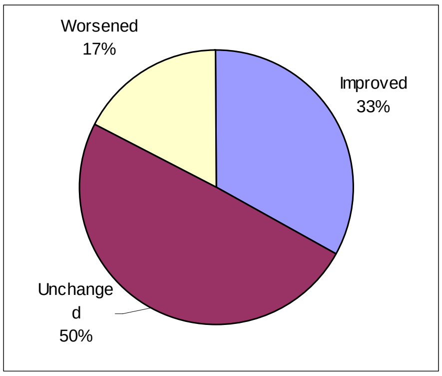
Summary of results:

As in 2007, an even greater proportion of the sample reported worsening competitiveness relative to non-EU businesses. 52% of the overall sample indicated worsening competitiveness (43% in 2007) and just 12% (16%) an improvement, giving a net balance of –40 (-27). The net balance was greatest for producers at –45 (-34 in 2007).

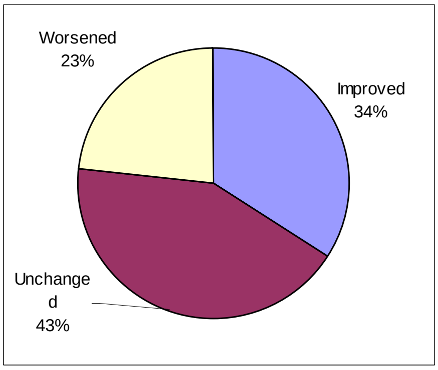
Industry Confidence: Competitiveness

Q7b UK: How would you rate your expected competitiveness over the next 12 months relative to other UK businesses operating in the same industry/sector as you?

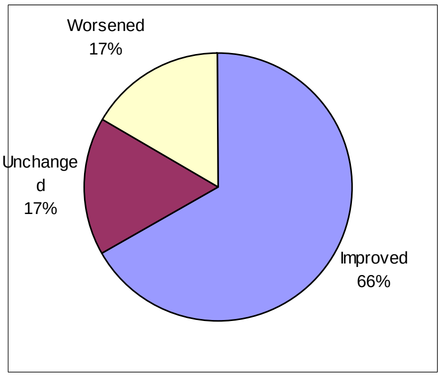
Overall



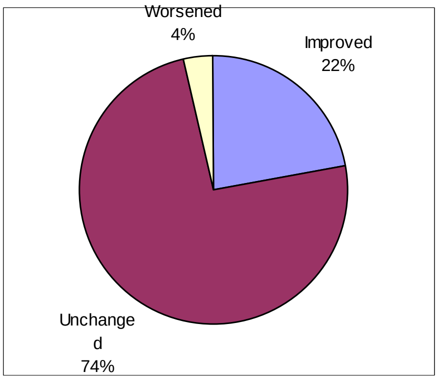
Producers



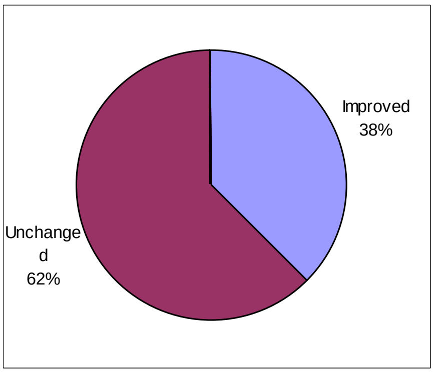
Processors



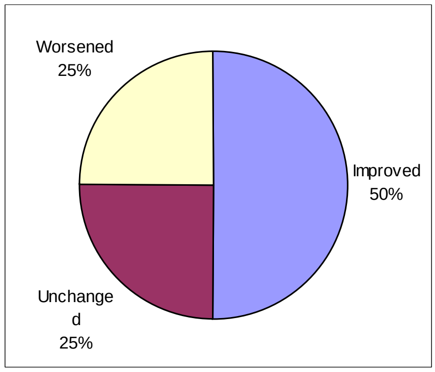
AIG



Vets



Retail/foodservice



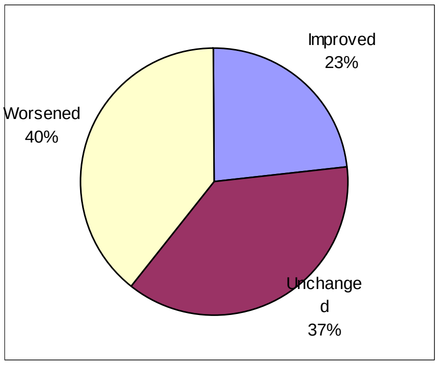
Summary of results:

Businesses gave a relatively optimistic reply to this question, with many expecting to see an improvement. Overall 33% of the sample is expecting to see improved competitiveness and 17% a deterioration, giving a net balance of +16 (+29 in 2007).

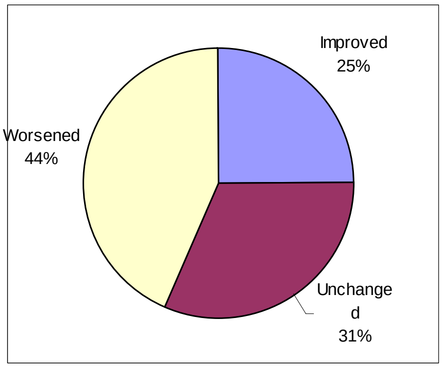
Industry Confidence: Competitiveness

Q7b EU: How would you rate your expected competitiveness over the next 12 months relative to EU businesses operating in the same industry/sector as you?

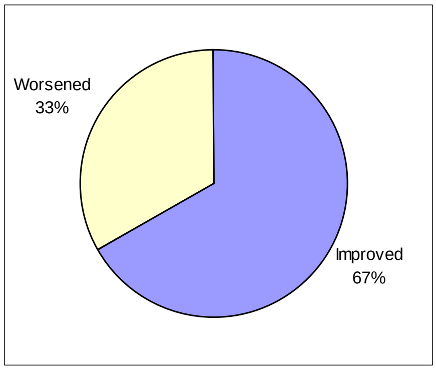
Overall



Producers



Processors



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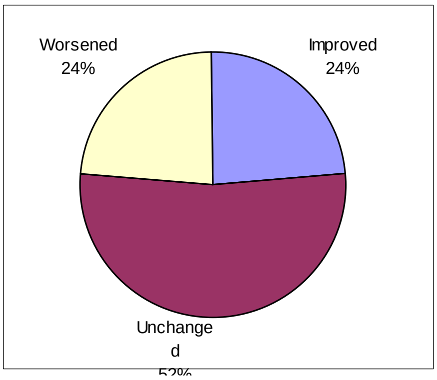
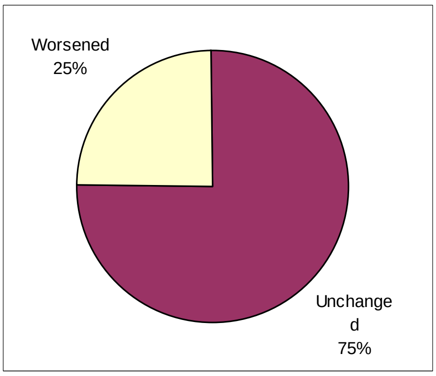


Vets



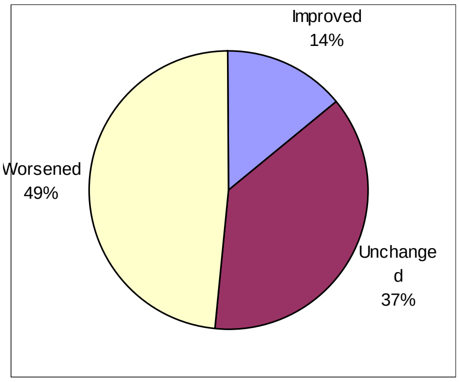
Summary of results:

Respondents reported a deterioration in competitiveness against other EU businesses over the past 12 months, and many clearly expect this trend to continue over the next 12 months. 40% of the overall sample expected worsening performance and 23% an improvement, giving a net balance of –17 (-11 in 2007). Processors were relatively optimistic, with 67% expecting improved competitiveness, while 75% of vets forecast no change.

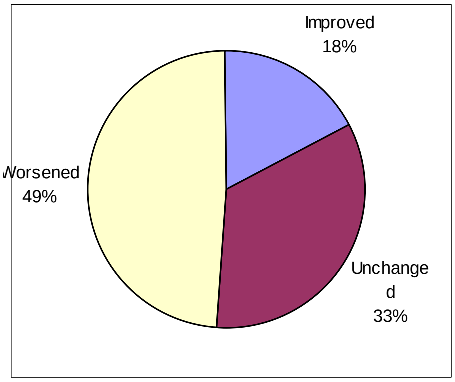
Industry Confidence: Competitiveness

Q7b Non-EU: How would you rate your expected competitiveness over the next 12 months relative to non-EU businesses operating in the same industry/sector as you?

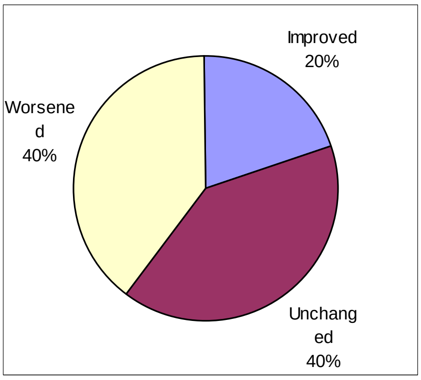
Overall



Producers



Processors



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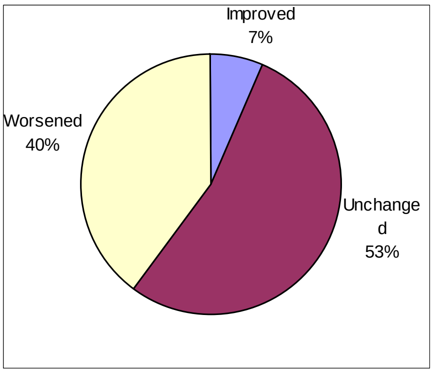
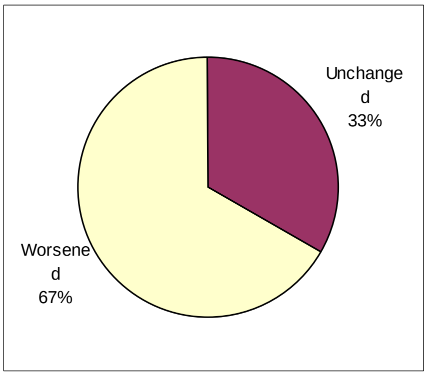


Vets



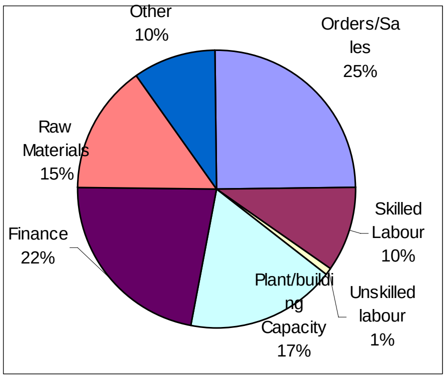
Summary of results:

The overall results are virtually identical to last year. Nearly half the overall sample expects competitiveness against non-EU businesses to deteriorate over the coming year, with just 14% predicting an improvement. The most pessimistic outlook comes from the vets, with 67% expecting a deterioration.

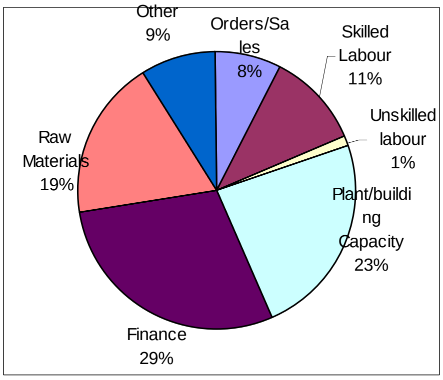
Industry Confidence: Factors limiting output

Q8: What factors are likely to limit your output over the next 12 months?

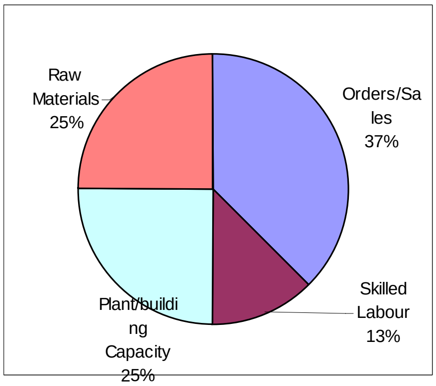
Overall



Producers



Processors



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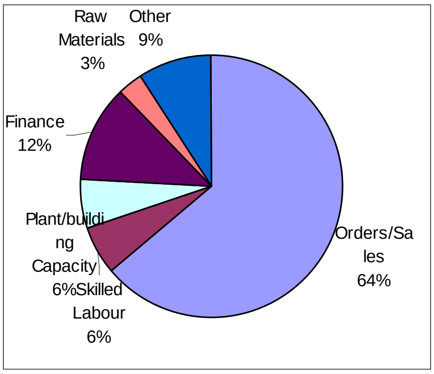
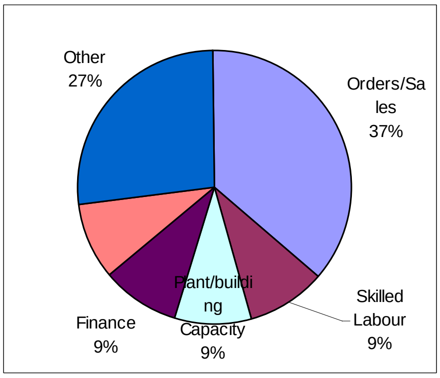
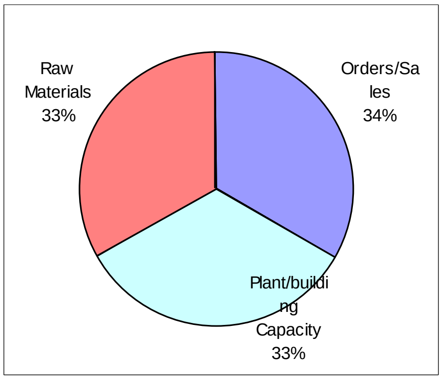


Vets



Retail/foodservice



Summary of results:

The importance of finance as a limiting factor has doubled in the past year to 22% and problems with supplies of raw material have also become more acute. The importance of plant/building capacity has, however, fallen

Factors likely to limit output: 2006 and 2007 comparisons

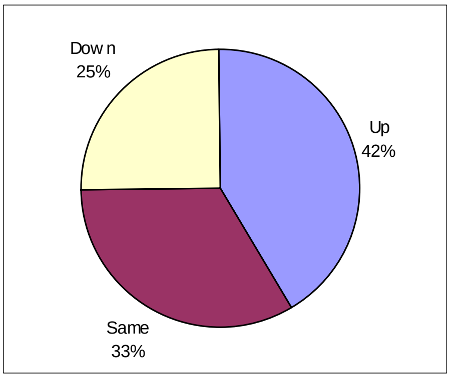
	2007	2008
Orders/sales	22	25
Skilled labour	15	10
Plant/building capacity	31	17
Finance	11	22
Raw materials	6	15
Other	15	11

The mix of factors likely to affect output varied greatly between the different sectors. For example, finance as a factor accounted for 29% of producers (16% in 2007) which was much higher than for any other sector.

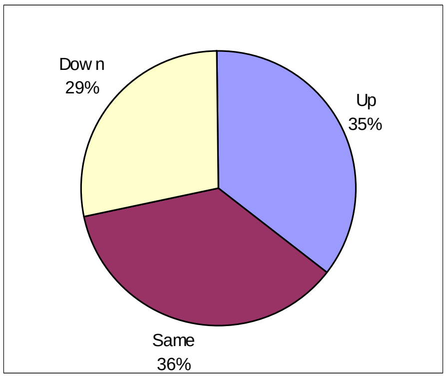
Industry Confidence: Prices

Q9: How do your average selling prices in the last three months compare with those in the same period a year ago?

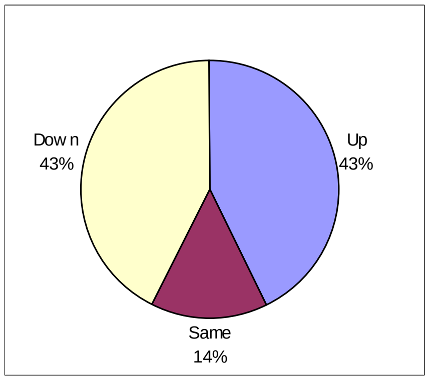
Overall



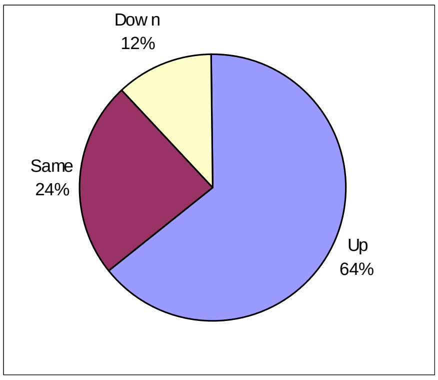
Producers



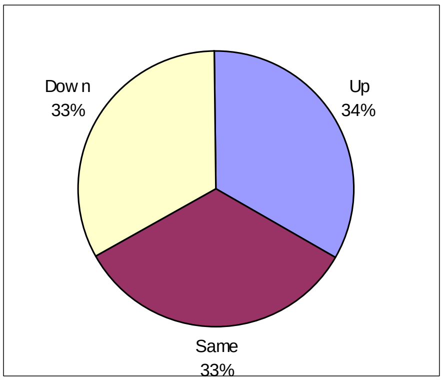
Processors



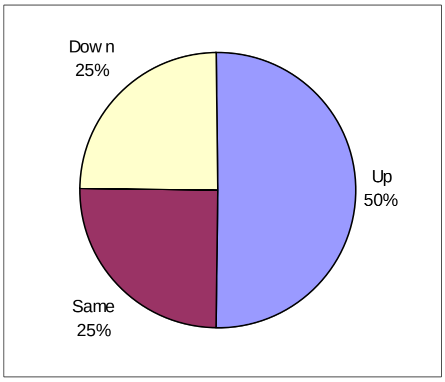
AIG



Vets



Retail/foodservice



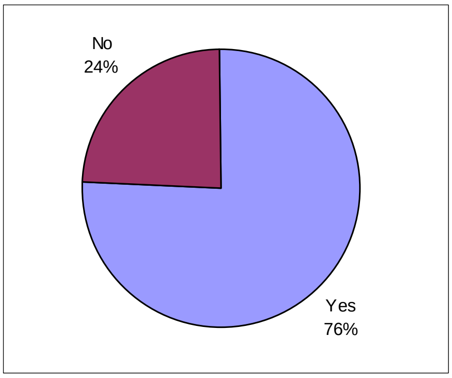
Summary of results:

In the overall sample, 42% (58% in 2007) reported an increase in prices and 25% (13%)a decline in prices, giving a net balance of +17 (+45). The proportions of producers and vets reporting lower prices, higher prices or no change were fairly evenly distributed. Significantly higher proportions of AIG, processor and retail/foodservice respondents reported higher prices. However 43% of processor respondents also reported lower prices.

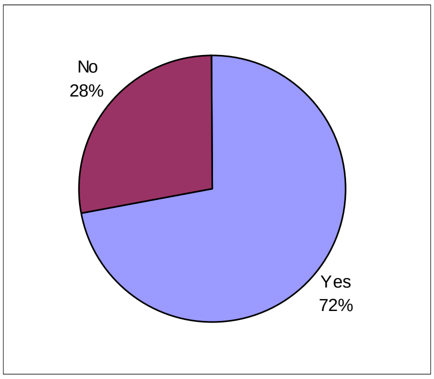
BPEX Quality of Service: Contact with BPEX

Q10a: Have you had any contact with BPEX in the past 12 months?

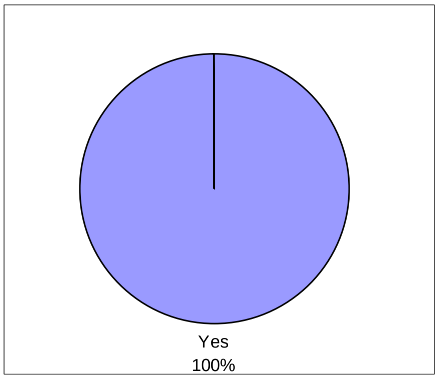
Overall



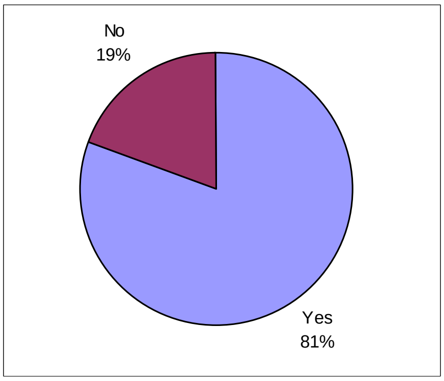
Producers



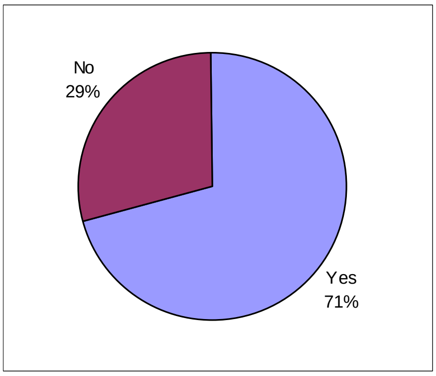
Processors



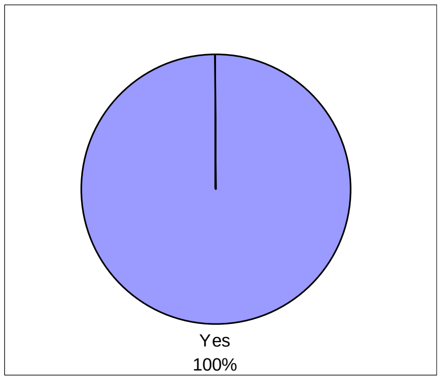
AIG



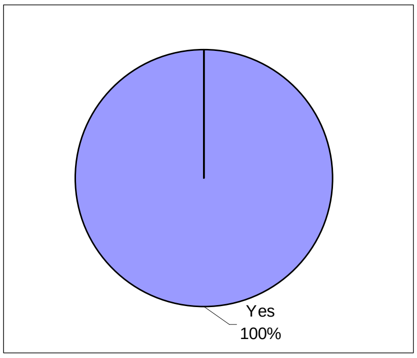
Vets



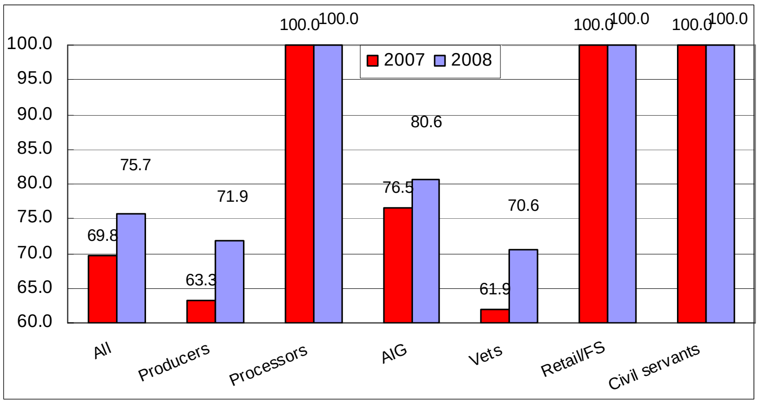
Retail/foodservice



Civil Servants



% who had contact with BPEX in previous 12 months



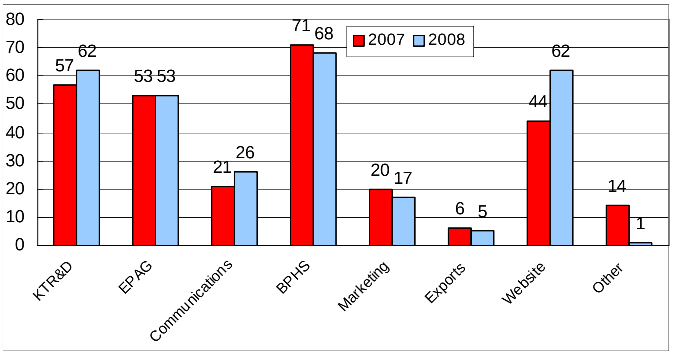
Summary of results:

BPEX is continuing to reach a wider proportion of its potential market. 76% of the overall sample has had contact with BPEX over the past year, up six percentage points on the year before. There was increased contact for all sectors which were not already at 100%, with particularly marked growth rates for producers and vets.

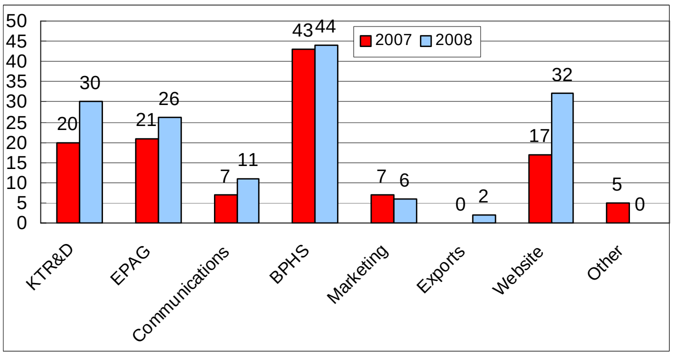
BPEX Quality of Service: Contact with BPEX

Q10b: If you have had contact with BPEX in the past 12 months, what services have you used?

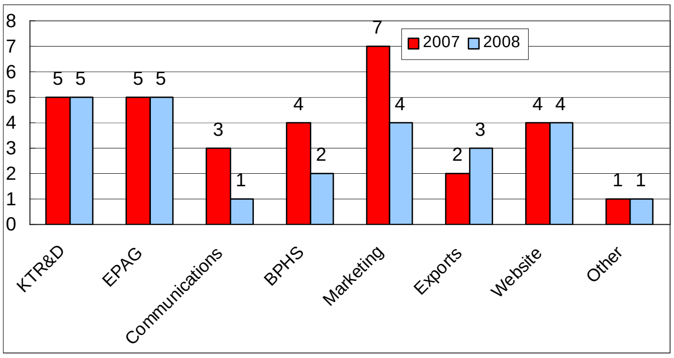
Overall



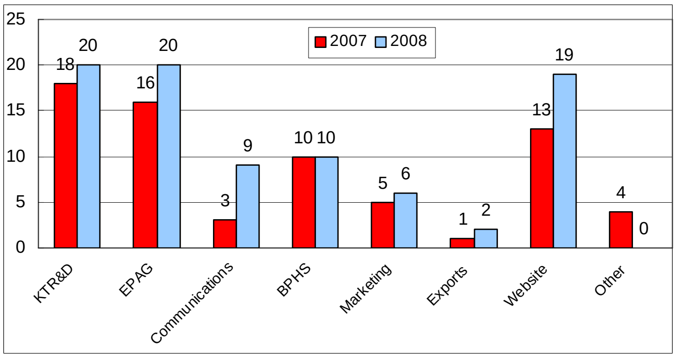
Producers



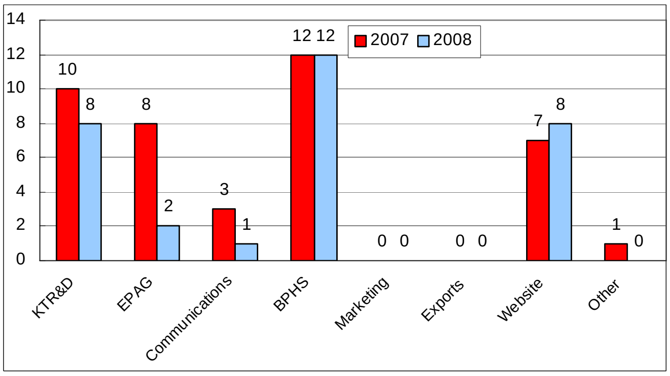
Processors



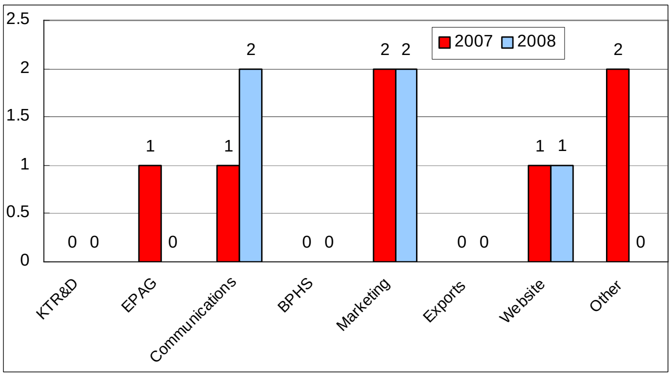
AIG



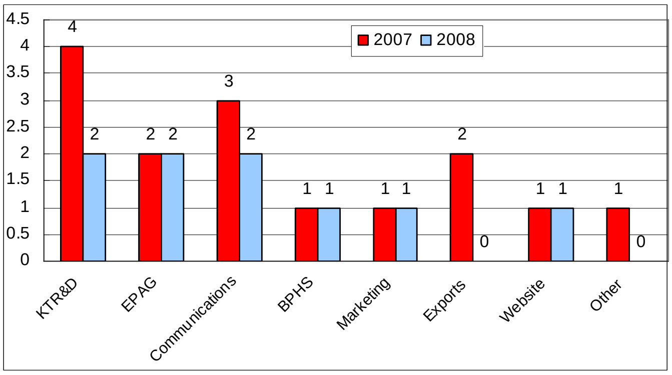
Vets



Retail/foodservice



Civil Servants



BPEX Quality of Service: Contact with BPEX

Q10b (cont):

Summary of results:

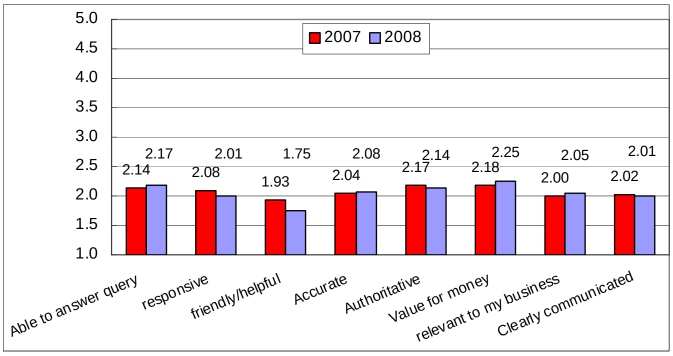
The profile of the services used by BPEX customers will vary over time in response to changes in the range of services. In the overall sample, the proportion using the enhanced Knowledge Transfer services increased from 57% to 62%. The most marked increase in usage has been for the BPEX website, and the recent redesign of the website to make it more useful to BPEX customers is likely to mean that the 2009 survey will record a further increase.

As with the answers relating to the factors limiting output, the answers to this question will also be influenced by the nature of the sector. Thus, producers and vets are particularly interested in the British Pig Health Scheme (BPHS) while processors and those in the retail/foodservice sector find BPEX's marketing work more relevant. Knowledge transfer and EPAG are the most widely used area for processors and those in the AIG group.

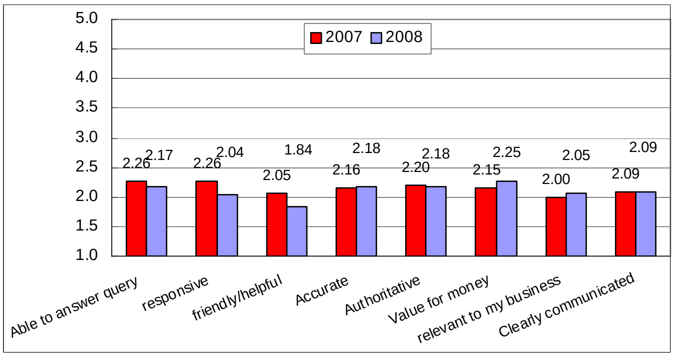
Quality of Service: Service quality

Q11a: For those using BPEX services during the past 12 months, please rate your quality of service?

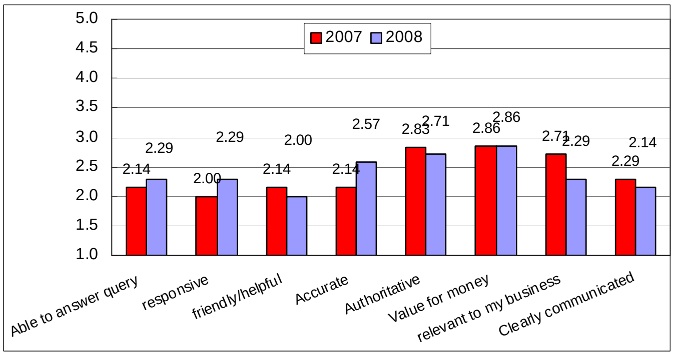
Overall



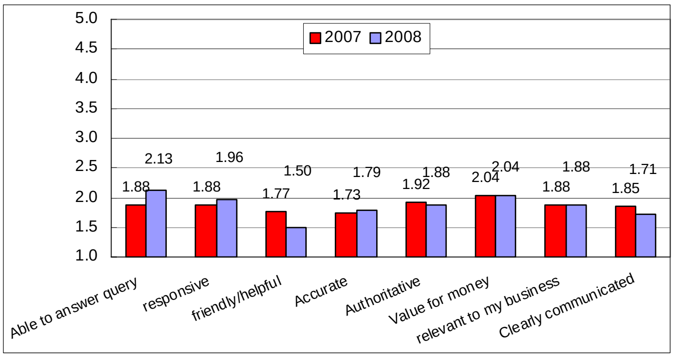
Producers



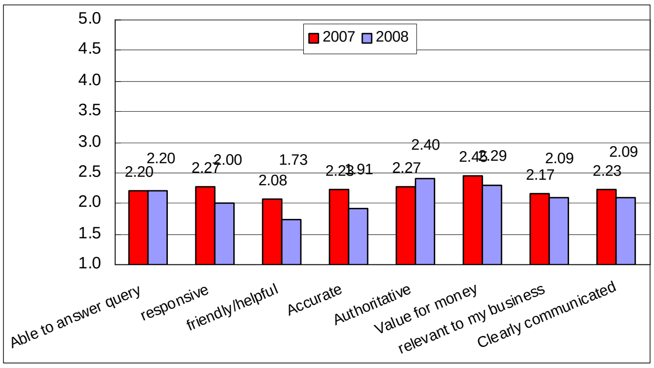
Processors



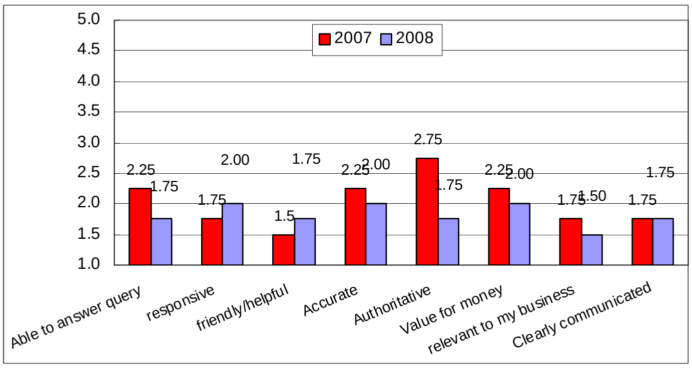
AIG



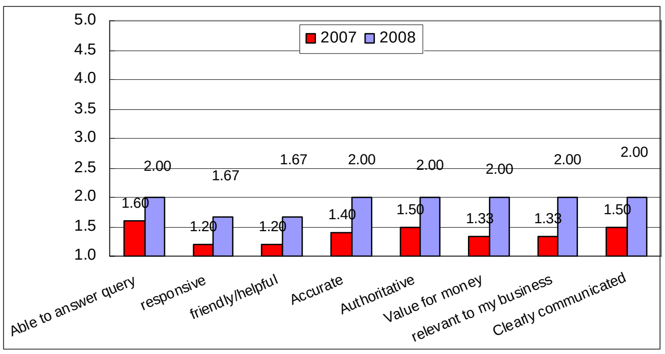
Vets



Retail/foodservice



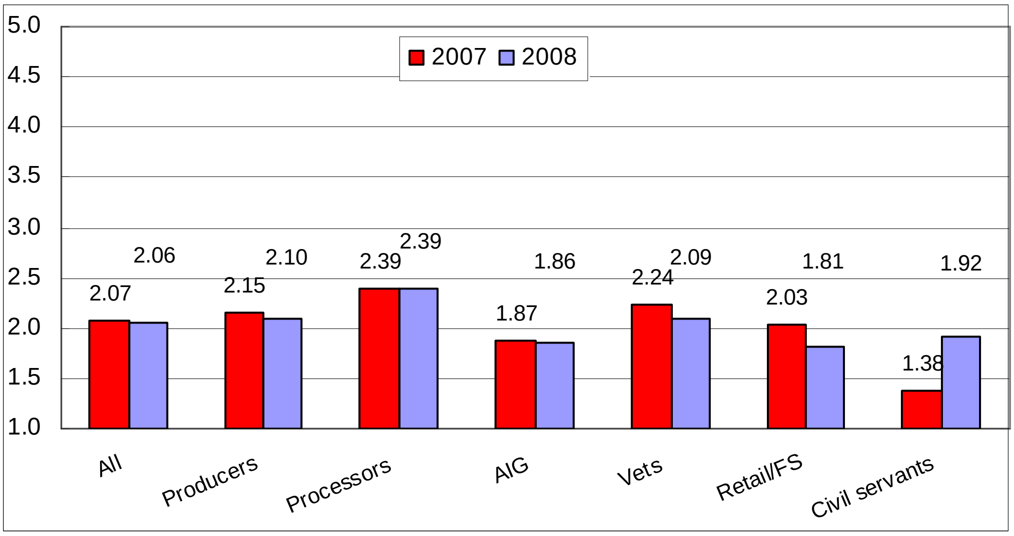
Civil Servants



BPEX Quality of Service: Service quality

Q11a (cont):

Average ratings analysed by group



Summary of results:

Those respondents who use BPEX services were asked to rate the quality of service on a scale ranging from 1 (excellent) to 5 (bad).

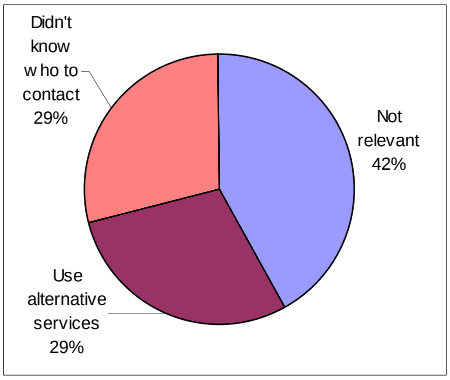
The average responses for the individual measures of service quality in the 2007 base year were good, mainly been grouped around 2. In general, there was little change between 2006 and 2007. The most marked improvement, and the best score, was for friendly/helpful, which declined from 1.93 to 1.75. On the other hand, the score for value for money increased from 2.10 to 2.25.

The overall average across all the measures was hardly changed in 2007, at 2.06. The best scores all less than 2 – came from AIG, retail/foodservice and civil servants. The average processor score, at 2.39, was the worst.

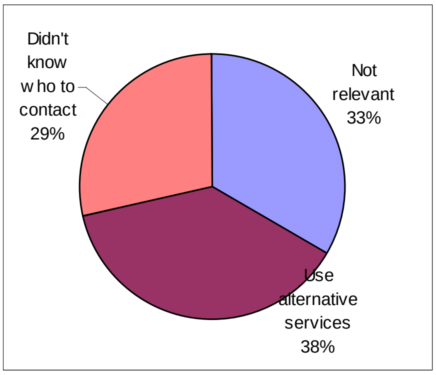
Quality of Service: Reasons for not using BPEX

Q11b: Which best describes your reason for not using BPEX services during the past 12 months?

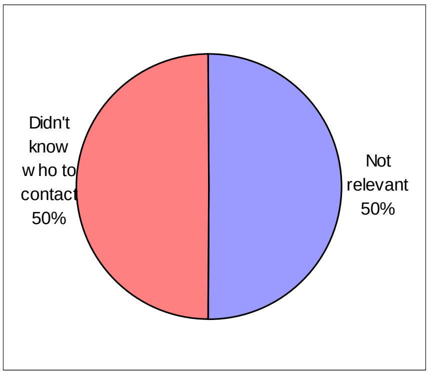
Overall



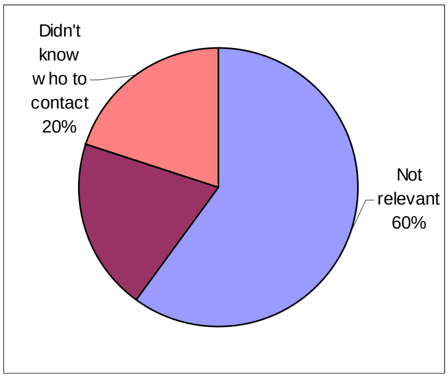
Producers



AIG



Vets



Summary of results:

24% of respondents had not used BPEX services in the previous 12 months (Q10a). Although this is down from the 30% recorded in 2007, there is clearly further room for improvement. The responses to this question can give an indication as to how BPEX can increase its uptake of services within the industry.

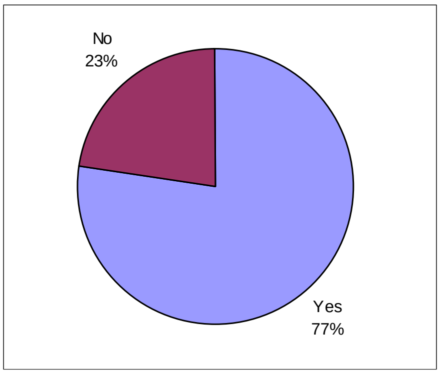
There are predominantly three reasons for not using BPEX services. Overall, 42% (46% in 2007) of respondents felt that BPEX was not relevant to their business, 29% (29%) did not know who to contact and 29% (17%) used alternative services. Although increased uptake of BPEX services would inherently mean that alternative services would decline, some further investigation into why this increased so much in 2007 is probably merited.

No respondents ticked the following possible categories for not using BPEX services: Unable to help with query, too slow to respond, not as helpful as in the past

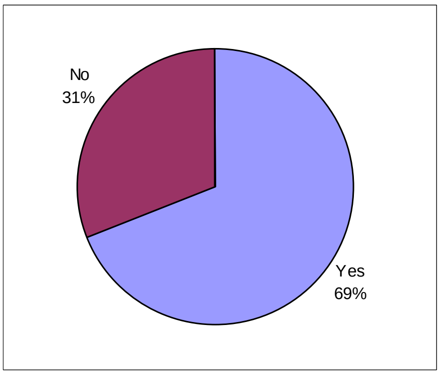
BPEX Quality of Service: Future contact with BPEX

Q12a: Do you think you will use BPEX services in the next 12 months?

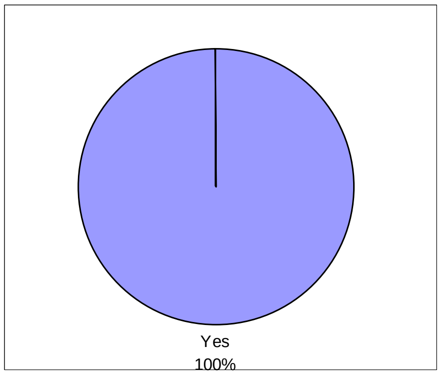
Overall



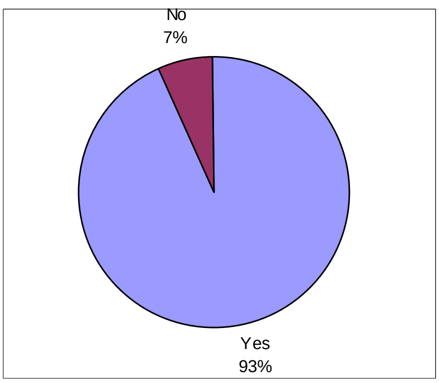
Producers



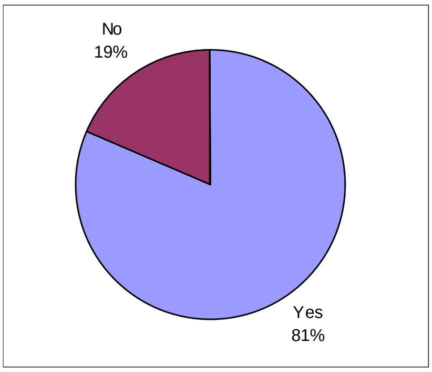
Processors



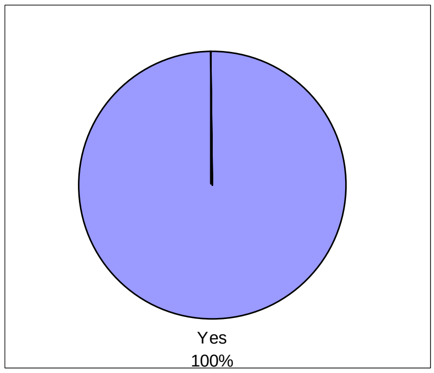
AIG



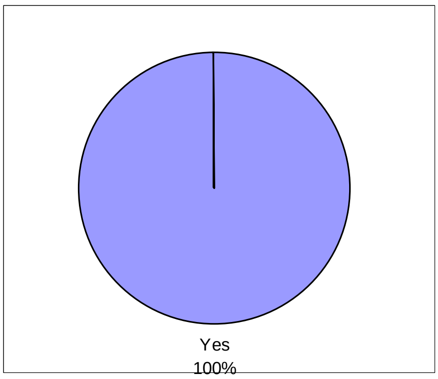
Vets



Retail/foodservice



Civil Servants



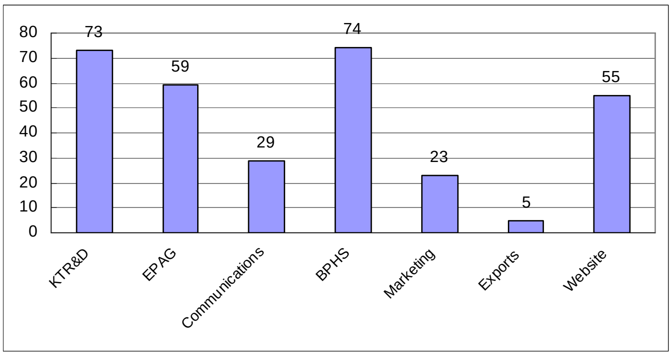
Summary of results:

77% of respondents expect to use BPEX services over the next 12 months, little different from the 76% who used them in the previous 12 months. Producer usage is forecast to decline from 72% to 69% but AIG usage is expected to increase from 81% to 93% and vets usage from 71% to 81%.

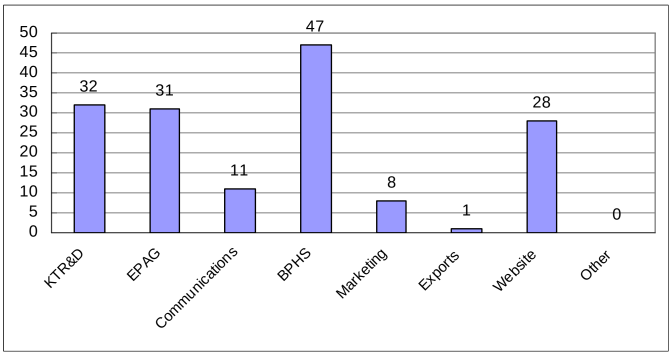
BPEX Quality of Service: Future contact with BPEX

Q12b: If yes, which type of services will you use?

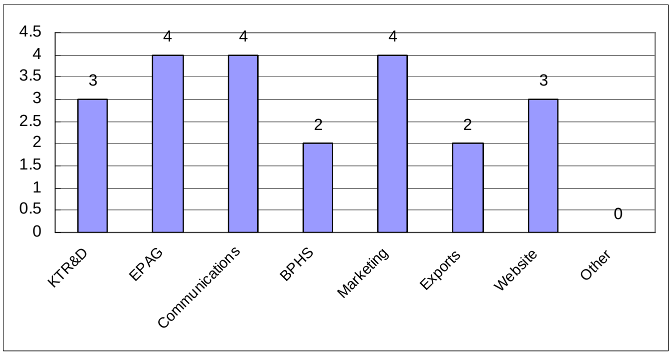
Overall



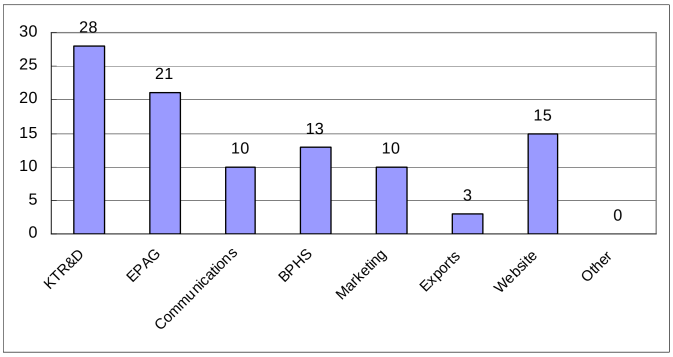
Producers



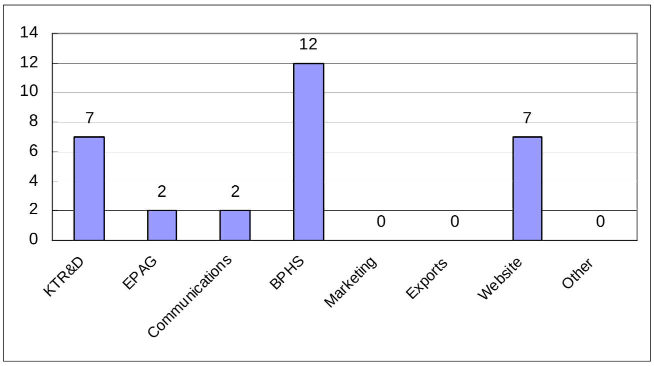
Processors



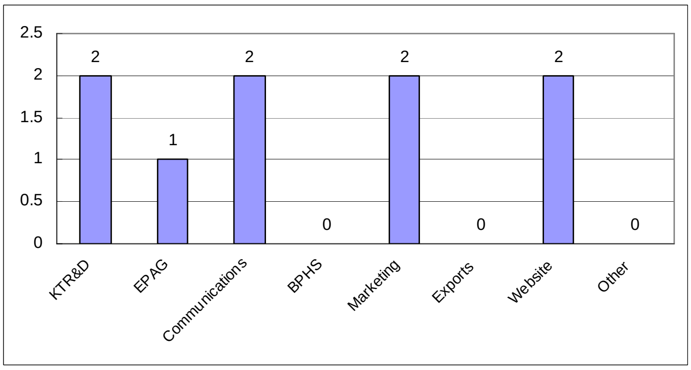
AIG



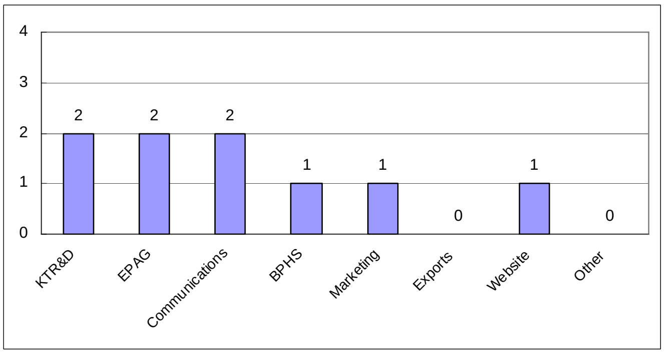
Vets



Retail/foodservice



Civil servants



BPEX Quality of Service: Future contact with BPEX

Q12b (cont):

Summary of results:

The answers to this question indicate increased usage compared with the previous 12 months for KT, EPAG, Communications, BPHS and Marketing. Exports are unchanged while the score for the Website is down. However, the website has been redesigned since the Survey was carried out in January, so a current survey would probably produce a more positive score.

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25 April 2008