

Purchases of Inputs by the Drinks Industry

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Executive Summary

The aim of this report is to identify the role of the drinks industry in purchasing inputs from other producers. A similar analysis was published by DIGI in 2007. The drinks industry includes drinks manufacturing, the on and off licence retail sectors and the wholesale distributors.

There are several alternative ways of measuring the economic impact of an industry including turnover, value added, volume of production, productivity, level and type of employment and wages level. An additional measure is its impact on other sectors through the purchasing of inputs which is its backward linkage. Regardless of performance on value added, productivity or employment the impact of the role in providing markets for other producers is a significant economic issue.

DIGI has published assessments of various aspects of the direct economic benefit of the industry in recent years detailing the employment, output, earnings, exports and tax revenue which derives from the drinks industry. In addition it has identified the major contribution which the drinks industry makes to tourism through profile building, provision of public houses as centres of hospitality, visitor attractions and festival and sports sponsorship. While there is a broad recognition of the industry's role in purchasing certain inputs, barley in beer and spirits production, apples in cider production and milk in liquor production, there has not been a systematic analysis and identification of the overall materials and services purchases undertaken by the drinks industry since the previous DIGI report on purchases in 2007. This report updates the 2007 report on purchases.

The methodology involves use of the two CSO comprehensive data sources, the CIP and the ASI and other CSO material, acquisition of data on the purchasing pattern of public houses and bars as illustrated by enterprise accounts and the provision of information by drinks companies. In some cases detailed information is not available and estimates have to be derived. The basis of any estimate is identified in the text.

The data presented in this report indicates that a substantial purchasing role is played by the drinks industry. In addition to direct economic benefits of 64K jobs, over €1B in exports, €1.8 billion tax revenue in VAT and excise and almost €7B in personal

expenditure (including VAT), the drinks industry is a very substantial purchaser of inputs.

Drinks manufacturing

- Pays €217 million annually in wages and salaries
- Pays €311 million in total labour costs
- Buys €901 million worth of materials for processing annually
- Buys € 33 million of industrial services
- Buys € 587 million of non-industrial services such as, information technology and telecommunications, security, advertising, cleaning, maintenance, accounting and insurance and other services
- Excluding goods bought for resale without processing has a total of €1.558 billion in purchases
- Has invested over €80 million in 2010 and will invest over €450 million over the next few years
- Uses almost 50k tonnes of apples in production, over 200k tonnes of barley and malted barley and over 300 million litres of milk
- Has a high domestic sourced content in purchases of 62% in services and 42% in materials leading to a combined almost €800 million in domestic service and materials purchases
- This domestic content greatly exceeds the domestic content levels of the high technology sectors , chemicals domestic services purchases is 8% of total

The retail /wholesale/on/off sectors

- Pays a wage and salaries bill of €626 million and a total personnel cost of €690 million
- Buy food valued at €243 million
- Spend €583 million on other services and materials apart from food and drink
- Invested €67 million in 2010
- Have retail sales of over €7 billion including food

As identified by the above statistics the drinks industry, both manufacturing and retail play a very substantial role in the procurement of inputs and thereby generates large economic benefits in addition to the direct impact on employment, exports and tax revenue.

1. INTRODUCTION AND METHODOLOGY

The purpose of this report is to identify the scale of inputs purchased by the drinks industry. A similar analysis was published DIGI in January 2007. There are several different measures of the economic contribution of an industry, its employment, its sales or gross output, its value added, its net output and its impact on other sectors through the purchase of inputs. The employments and output/sales characteristics of the drinks industry have been well documented by previous DIGI research. Other DIGI research has identified the contribution of the drinks industry to tourism. The input purchasing role of the industry has not been well documented since the previous DIGI purchases report in 2007 and this report deals with that gap. The purchasing pattern of an industry is its backward linkage with other sectors.

The significant role of the industry in purchasing inputs is readily apparent given the nature of its main products. Cider is a major user of apples. The cream liquer producers use large quantities of milk. Beer and whiskey producers are major users of barley. It is not often realised that the backbone of alcohol production materials is agricultural produce. Hence, the drinks industry is an important market for agricultural produce. In addition, in line with other sectors the industry sources a large variety and quantity of industrial and services inputs including equipment maintenance, advertising, security, banking services, packaging, transport and investment goods such as machinery and construction.

Of course, the domestic economic contribution of drinks inputs purchases depends on whether they are imported or supplied from the domestic market. All of the purchases are not sourced from within the economy. For example, sugar is no longer produced in Ireland and has to be imported.

The report is primarily based on an analysis of the two comprehensive CSO datasets relating to industry and services. This is supplemented by data supplied directly by the drinks enterprises, both manufacturing and retail. Because the data is from the CSO Census of Industrial Production and Annual Services Inquiry, it is comprehensive and reliable. It also facilitates comparisons with other industries and with manufacturing

industry as a whole. The CSO agricultural data on supply balance can be used in a very limited way to examine the role of the drinks industry as an outlet for certain agricultural products. Individual company data is presented only where that data has been published or where permission has been given for publication.

2. DATA SOURCES

There are three main comprehensive sources of inputs data; the Census of Industrial Production (CIP) published by the CSO, which includes coverage of both local production units and individual enterprises, the Annual Services Inquiry (ASI), also published by the CSO, which provides data on bar purchases, and the Annual Business Survey of Economic Impact published by Forfás. The CSO publishes data on agricultural market balances which shows the industrial use of agricultural production.

The Forfas survey provides published and generally available data only for an aggregation of food, drink and tobacco. Confidentiality requirements and small sample size prevent the detailed availability of Forfás Irish direct economy expenditure data for the drinks industry on its own. However, Forfas has made available broad estimates of the domestic and import content of the main purchases aggregates for the drinks sector. In earlier years the CSO's Census of Industrial Production (CIP) enterprise survey provided data for the drinks industry as a whole (beverages, NACE sector 11) and for two groupings within the industry; beer, malt spirits in one group and cider, minerals and soft drinks in the other. A broad range of data was available for the two groups but some data such as exports was available only at larger levels of aggregation such as food, drink and tobacco. Because of confidentiality requirements the CSO did not make available any data below the level of the two groupings.

Currently the CIP (the latest CIP refers to 2010) is published in electronic format only and refers to beverages as a whole. There are no sub-sets of the beverages industry published. The CIP presents data on beverages enterprises (eg companies which may have one or more units or establishments) and beverages production units (each separate place of production is a unit).

The coverage and range of inputs data provided by the CSO is much greater for beverages manufacturing than for services related beverages such as bars. The manufacturing enterprise level data cover materials and fuel, industrial services and non-industrial services. Data is also provided for capital assets purchasing and goods intended for resale without additional processing.

The local units' database is now only published for beverages as a whole and not for industries within beverages which was the case in earlier CIPs. This dataset identifies inputs such as industrial materials, industrial services, fuel and power. Non-industrial services are not separately identified in this dataset. Capital assets data is also available. Both datasets provide information on employment and wage bill but there are small differences between the two sources.

The primary objective of the report is to identify input purchasing of the overall drinks industry, not its individual components. Consequently, the more aggregated presentation of the latest CIP compared to previous years does not cause difficulties.

The CIP and the ASI do not provide a breakdown between domestic sourced inputs and foreign sourced inputs. Clearly the details of domestic sourced inputs would be useful in identifying domestic economic impact. The Forfás data does provide this breakdown. As already noted, Forfás domestic inputs data is normally available only at the aggregated food, drink and tobacco level, not at the drinks industry level. However, as noted above, Forfas has provided a limited summary of the domestic component of the drinks industry.

The data on the retail/wholesale side of the industry are not as comprehensive as for manufacturing. The Annual Services Inquiry (ASI) used to include details of purchases of goods for direct resale and purchases of other goods and services up to 2001. The latest ASI refers to 2010. Since 2002 the ASI simply refers to total purchases without the earlier breakdown between purchases for direct resale and other purchases. Our own analysis of public house accounts provides some detail of the different types of purchases and expenditures. The ASI also contains information on capital acquisitions and capital disposals. Information is provided for the bars sector. The restaurant and hotels sectors would also include bar type activities but these different activities within hotels are not identified. There are certain differences between the on-licence market size estimates of the ASI and other sources such as the CSO national accounts data on personal expenditure on alcohol in on-licensed premises. These are discussed in chapter 5. The issue of double counting should be taken into account in assessing the retail purchases activity because the bulk of the expenditure on inputs by public houses is on alcohol

products which are the output of the drinks manufacturing industry. Pubs also use imported drinks products.

The local units' data of the CIP refer to the individual production units or establishments of the enterprise. An enterprise could have several production units. The enterprise data of the CIP refer to individual enterprises, i.e. all the enterprises local units are treated as one enterprise. As already noted, the local unit and enterprise data on inputs are slightly different. Services which are not industrial are identified in the enterprise data but not in the local units data. The turnover and output data are defined in the CIP to include excise. This has to be taken into account when computing ratios, e.g. inputs as a share of total output. In addition the industry employment estimates from the two CIP sources are different.

The main input definitions are:

Fuel and Power: Electricity, Gas, Oil

Materials: Materials for further processing and ancillary materials such as packaging and office supplies

Industrial Services: Work done on commission or contract, repairs and maintenance and research and development

Non-Industrial Services (or general services) Includes hire of plant, rent of premises, insurance premiums, audit, legal, postal, advertising, transport and other charges. This includes bank charges but excludes interest payments.

A substantial part of the manufacturing drinks industry output and purchases are goods which are purchased for resale without further processing. For example, a producer may import beverages to supplement the domestically product portfolio and which is sold on without any further processing.

The differences between units and enterprises in manufacturing are shown below:

Table 2.1 Enterprises and Local Units in the Drinks Industry 2010

Category	Total	Drinks	Total	Drinks	Total	Drinks
	Industry 2008		Industry 2009		Industry 2010	
Enterprises	34		27		26	
Local Units	40		36		31	

Source. CSO CIP

There are 26 beverages manufacturing enterprises and 31 establishments or units. The numbers of both have declined relative to past years. The sector is rationalising to ensure increased efficiency and competitiveness. Some of these enterprises are very large entities.

3. DIFFERENT MEASURES OF ECONOMIC CONTRIBUTION OF AN INDUSTRY AND BACKGROUND OF THE DRINKS MARKET

There are several different measures of the economic role or contribution of an industry. One could refer to the direct employment of an industry but this would not take into account the economic impact of outsourcing. On the output side, one could refer to the total production value (or sales adjusted for stock changes). As the CIP notes “Gross output is not a very satisfactory measure of the relative economic importance or comparative expansion of an industrial sector since only a proportion of its value is actually created within the sector”.

There is also a degree of duplication as one industry, such as baking, uses the output of another industry, such as flour. Net output which identifies the value added to industrial input is regarded as a more appropriate measure of economic significance than gross output

The same broad issue applies to the concepts of production and gross value added used in the Enterprises part of the CIP. Production value is self-explanatory. Subtracting materials, industrial services and non-industrial services results in the gross value added concept which is regarded as a more accurate measure of economic role. It is the gross value added concept which is aggregated to generate GDP. However, in some case, the gross value added concept understates the economic role because of the linkage with other sectors.

An industry might source a high proportion of its final production value from other producers. In this case, even if its value added is low the sourcing of inputs could result in it having a strong impact on the economy. If there is very little processing of the purchased inputs this would mean that on the value added criterion, there would be a relatively small economic contribution. However the enterprises supplying the low value added industry might depend on that industry for survival. Hence, its economic role is higher because of the linkage effect (supplies output linked to the low valued added industry) than indicated by the low value added level. The purchase activity of an industry is therefore an important measure of its economic contribution. Quite apart

from its value added level and ratio the drinks industry provides an outlet for the products and services of farmers, fruit growers, advertising agencies, bottle manufactures, packaging producers, transport companies, IT firms and so on.

It should also be recognised that the output of the drinks industry is dependant on consumers incomes part of which derives from the activities in the supplying industries and in other industries. It must also be acknowledged that the failure of the drinks industry to buy certain inputs does not necessarily mean that they would not be absorbed elsewhere in full or in part.

The recent profile of the drinks market is presented to provide background in which to examine the inputs/background linkages and to identify the large scale of the direct economic role of the industry. As noted above, the latest CIP is 2010 but various other annual drinks market related data are available for 2011.

Some purchases by the drinks industry are determined by the level of consumption and others are determined by the level of domestic production. Manufacturing inputs such as barley and milk are based on the three domestically produced products of beer, spirits and cider. There are, of course, distribution, transport, advertising and other inputs related to wine and imports of the other three beverages as well as to domestic production. Performance in this “domestic sourced” category was worse than total consumption in 2011. This continues a long term pattern of increases in the import share of consumption. There is not an immediate strong correlation between consumption and production because of the long term nature of some alcohol production processes.

Table 3.1 presents the import/domestic sourced data. The domestic element of consumption was 47% in 2011 and the volume of domestically sourced alcohol declined by 1.5% in 2011 while imported consumption increased by 2.3%.

Table 3.1 Alcohol Consumption 2010/20113 MLPA

	Total Alcohol Clearances MLPA	Domestically Produced Alcohol Clearances MLPA	Imported Alcohol Clearances MPLA
2010	42.2	20.1	22.0
2011	42.3	19.8	22.5
% change	0.2	-1.5	2.3

Source. Revenue Commissioners

The scale of the retail market now outlined.

Table 3.2 Drinks Retail Market 2011 (€B)

	Total Alcohol	On-Licence	Off Licence	Non-Alcohol Beverages	Total Drinks
2011	6.377	4.748	1.629	0.543	6.920

Source National Accounts CSO

The retail market for alcohol and soft drinks is almost €7B (€6.920B). This is comprised of €6.377B in alcohol and €0.543B in soft drinks. The alcohol sales are divided between on-licence sales of €4.748B and off-licence sales of €1.629B. All of these figures include VAT and excise.

The tax receipts make a valuable contribution to the exchequer but including them gives an overstated impression of the role of the drinks retail sector as a source of purchasing from the rest of the economy. It should be noted however that expenditure and output data and individual enterprise accounts which exclude VAT all include excise. Production and ex VAT turnover figures for the drinks manufacturing sector include excise. The “net of “ VAT accounts of public houses include excise in the turnover and purchase of materials data.

The ASI ex VAT turnover and purchases data include excise. However, from a purchasing perspective the excise element does not represent sourcing of inputs from other suppliers.

Because of the services nature of the on-licence sector compared to the off licence sector there is a higher level of inputs purchasing relative to sales in the off-licensed sector. The excise and VAT levels in 2011 are shown below.

Table 3.2 VAT and Excise Receipts 2011 € billion

	Excise	VAT	Total
2011	0.8	1.0 (own estimate)	1.8

Source. Revenue Commissioners

Of the €6.4B alcohol expenditure in 2011, €1.8 billion was VAT and excise. The tax element does not generate purchasing elsewhere in the economy. The volume relating to purchases of materials (alcohol products, food and equipment), purchase of services (advertising, phones, post, distribution, audits, repairs, cleaning) and wages/salaries and profits is €4.6B. This is still a very substantial market. When VAT excluded soft drinks are added to the alcohol the total 2011 expenditure on products, services and incomes by the drinks industry grows to €5.1 billion.

Table 3.3 contains details of the number of retail and wholesale alcohol enterprises.

Table 3.3 Retail Alcohol Enterprises

	Publican on licence	Spirits off licence	Wine off licence	Other on licences such as ships and trains
2011	8523	1722	3405	491

Source. Revenue Commissioners

As shown in Table 3.3 there are thousands of retail drinks enterprises. The publican licences include any bar licences such as in hotels as well as the normal concept of the public house. It is estimated that about 7500 public houses are currently in operation. In addition there are several drinks wholesalers or licensed trade distributors which number about 25.

4. INPUTS PURCHASED BY MANUFACTURING

4.1. Purchasing Pattern of Drinks Manufacturing

The purchasing pattern of the drinks manufacturing industry is shown below (Table 4.1.1). It is necessary to clarify some aspects of the data. Based on the local units data total fuel and materials purchasing in 2010 was €1004.0 million. According to the enterprise based data the total was €938.7 million. Apart from the different reporting units there is the possibility of double counting in that one unit might source from another unit within the same enterprise. We have used the enterprise survey “materials and fuel” total of €938.7 million and the local units fuel and power total of €37.5 million to get the materials only purchases. A fuel/energy total is provided only in the “local units” survey. It is less likely that fuel and power would be sold within an enterprise. On this basis, materials purchases in 2010 by drinks enterprises were €901.2 million.

Table 4.1.1 Purchases by Drinks Manufacturing Industry 2010

	€ million	% Share of Materials & Services Purchase
Materials for Processing	901.2	57.8
Fuel and Power	37.5	2.4
Industrial Services (eg repairs and maintenance)	32.8	2.1
Non-Industrial or General Services (Including, insurance premiums, audit, legal, postal, advertising, transport and other service inputs)	586.6	37.6
Materials & Services Purchases	1558.1	100.0
Goods for resale without processing	237.3	
Total Purchases	1795.4	

Source. Derived from CIP

A substantial part of total purchases is goods for resale without further processing. As noted earlier these would be mainly finished products to increase the product portfolio. As such they would not be purchases as intended for purposes of this report. Excluding this element, the value of goods, services and materials used in the production process was €1558.1 million. Materials (including barley, milk, sugar, packaging, bottles) accounted for €901.2 million or 57.8% of the total. Fuel and power was 2.4% or €37.5 million. Industrial services were 2.1% or €32.8 million. Non-Industrial services (including rent, advertising, postal, audit, transport) accounted for €586.6 million or 37.6% of total materials and services inputs.

Table 4.1.2 presents the inputs purchases in terms of level per person engaged. The enterprises survey employment total of 3560 persons engaged is used to calculate the purchases per person engaged

Table 4.1.2 Input Purchases Per Person Engaged: Drinks 2010

	€K
Materials for Processing	253
Fuel and Power	11
Industrial Services	9
Non-Industrial Services	165
Materials and Services Purchases	438

Source Derived from CIP

The drinks industry was associated with € 438K of materials and services purchases per person engaged. In non-industrial or general services inputs the level was € 165kK, and in materials the level was € 253K.

4.2 Domestic Content of Drinks Industry Purchases

The domestic content of services and non services purchases is shown in Table 4.2.1. The import content ratios are supplied by Forfas.

Table 4.2.1 Domestic content of drinks industry purchases

	Total €M	Domestic content proportion %	Domestic purchases
Materials for processing including energy	938.7	42	394.3
Services	619.4	62	384.0

Source Derived from CIP

Domestic materials purchases amounted to €394.3 million or 42% of total materials purchases. There were €384.0 million of service purchases from the domestic economy. In total there were €778 million materials and services purchases from the domestic economy. The other € 780 million of materials and services were imported. This includes sugar which was sourced domestically when produced in Ireland but must be imported because sugar is not now produced in Ireland. Were sugar to be competitively produced in Ireland again there would a substantial increase in domestic materials purchasing by the drinks industry.

The domestic content of materials purchasing for a range of industries is shown in Table 4.2.2

Table 4.2.2 Domestic Materials Purchases-Various Industries 2010

	€M All materials purchases	€M Domestic materials purchases	% domestically sourced
Drinks	938.7	394.3	42
Textiles, clothing etc	132.2	11.7	9
Wood	312.8	207.9	66
Chemicals	6378.8	410.6	6.4
Computer, electronic and optical	3084.2	216.4	7.0
Manufacturing	24520.1.	9155.9	37

Source Forfas ABSEI and CIP

The drinks domestic proportion of materials purchasing compares favourably with several of the leading industrial sectors. The drinks figure of 42% compares with below 10% for textiles, chemicals and computer/electronics and with 37% for manufacturing as a whole. The wood and wood products industry which sources a very high proportion of its logs from Ireland has a higher domestic materials proportion of 66%.

The drinks services purchases are compared to manufacturing and selected other industries in table 4.2.3.

Table 4.2.3 Domestic Services Purchases-Various Industries 2010

	€M All services purchases	€M Domestic services purchases	% domestically sourced
Drinks	694.4	384.0	62
Textiles, clothing etc	53.6	32.2	60
Wood	139.5	123.4	88
Chemicals	13956.4	1117.7	8
Computer, electronic and optical	2369.8	402.2	17
Manufacturing	23451.8	5536.2	24

Source Forfas ABSEI and CIP

The drinks domestic services purchases share is 62%. This is far higher than for manufacturing as a whole 24% and is far higher than the high technology industries also. The chemicals share is 8% and the computers/electronics share is 17%. At the other extreme, wood and wooden products source 88% of all their services requirements from the domestic economy.

4.3 Wages and Salaries

The wages and salaries position of the drinks industry is shown in Table 4.3.1.

Table 4.3.1 Wages and Salaries in the Drinks Industry 2010

	2010 €M
Wages and salaries	216.6
Other labour cost	94.1
Total labour cost	310.6

Source CIP

Wages and salaries amount to €216.6 million. Other labour cost (including employers PRSI contributions and pensions) were €94.1 million and total labour cost was €310.6. These data are based on the enterprises part of the CIP. The local units' part of the CIP reports a wages and salaries bill of €237.4 million but does not give other labour cost information.

4.4 Investment Purchases

The drinks industry provides a market for investment goods or capital assets. The investment purchases can be divided between plant, machinery, equipment and vehicles, buildings and other construction work and other (including land).

In 2010 the drinks industry spent €82.2 million on capital assets. Plant, machinery and vehicles made up 71.5 % of this and building and construction was 7.8 %.

Table 4.4.1 Capital Asset Expenditure Drinks and Total Manufacturing 2010

	Drinks
Capital Assets Exp. €M	82.2
Plant & Equipment €M	58.8
Building/Construction €M	6.4
Other €M	16.9

Source Derived from CIP

Substantial investment expenditure will continue to arise in the future. The drinks industry will engage in substantial capital investment over the next 3-5 years of over €450 million. This is to meet growing export demand.

Table 4.4.2 Capital Expenditure Trends-Drinks Industry

	2008	2009	2010
Plant Machinery	58.7	49.5	58.8
Buildings & Construction	12.9	11.4	6.4
Other	35.4	34.1	16.9
Total Drinks	107.1	94.9	82.2

Source CIP

There has been continuing substantial investment expenditure over the past few years; €107 million in 2008, €95 million in 2009 and the already mentioned €82.2 million in 2011 despite the very poor overall economy and domestic market.

4.5 Purchases from Agriculture

The drinks industry consumes large quantities of barley, milk, sugar and fruit. Almost 50k tonnes of apples are used in the production of cider. Over 200k tonnes of barley is used annually in the production of whiskey and the different beers. Over 90% of this is sourced on the island of Ireland. About 45k cows are needed to produce the more than 300 million litres of milk which is used for the different Irish cream liqueurs produced on the island of Ireland. These individual inputs are already included in the value of materials purchases identified in section 4.1.

5. INPUTS PURCHASED BY THE RETAIL AND WHOLESALE SECTORS

5.1 Introduction

The retail sector of the drinks industry is a very substantial amount of economic activity and purchases from other sectors. There are over 8500 bars and over 1,700 full off-licences and many more wine only retailers generating alcohol sales of € 6.4 billion and soft drinks sales of € 0.5 billion (inclusive of VAT and excise) (soft drinks include the portion sold in non alcohol outlets) in 2011 according to CSO data. Excluding VAT and excise the level of expenditure is in excess of €5 billion. The Annual Services Inquiry contains data for wages and salaries, value of total purchases, and gross value added. In addition capital investment expenditures are available.

The main item of purchases by public houses is beverages followed by food. Bars also purchase substantial service inputs including advertising, insurance, light, communications, cable TV , music rights, live entertainment, cleaning, security, accounting services and repairs. The bar beverages purchases are already included in the output of the drinks manufacturing sector. In addition to drink products produced in Ireland the retail sector purchases imported products. These are sourced both from manufacturers (this relates to the manufacturing figure for goods bought for resale without processing) and from the other distribution channels.

The available official statistics do not separately identify drinks, food and other purchases. We have estimated the relevant ratios.

An assessment of a sample of public house accounts was undertaken to identify representative ratios of purchase to sales to obtain input purchase levels. These are intended to be broadly indicative only. There are substantial variations across the pub population in food to drink ratios, gross margin ratios and expense to sales ratios.

The industry has generally regarded the desirable gross margin to be at least 50% and ideally well into the 50s but that is under pressure from the current weak economic climate. Our assessment identified gross margins ranging from 64% to 40% with an

average of about 55%. The ASI measure of gross margin was 55% in 2008, 56% in 2009 and 57% in 2010 and an average over the three years of 56%.

5.2 Investment expenditure

Investment expenditure by bars was €258.3M in 2003.

Table 5.2.1 Investment Expenditure (Capital Acquisitions) by bars

	2008	2009	2010
€M	352.0	79.2	66.8

Source ASI

There was a very high level of investment in 2008 at over €350 million. This includes both refurbishment/construction and acquisition of premises. As the economy deteriorated since 2008, this level declined greatly to €79.2 million in 2009 and €66.8 million in 2010. The 2010 level of almost €67 million is still substantial for a sector undergoing a substantial decline. There was a capital asset disposal total of €23.3 million in 2010 along with the acquisition total of almost €67 million. The net investment in bars was € 43.5 million.. Total retail investment would be much greater than this, because there was investment in both the non public house bar sector and the in the off licence sector.

5.3 Purchases by the Retail Sector

Purchases as a per cent of turnover (excluding VAT) according to ASI were 68%, 66% and 66% between 2008 and 2010, an average of 67%. This measure includes both goods and services acquired for resale and for operating purposes. Based on our examination of public house accounts goods for resale was about 52%. The estimated “selected” category of other purchases was 16%. This category excluded depreciation and interest. This would give a total of 68% of sales for all purchases. This estimate is well aligned with the bigger ASI survey. Based on the two sources we have selected the ASI total purchases to sales and divided it between alcohol/food and other services in the ratio found in our sample.

On average this implies the 66% for 2010 being divided 50% as the alcohol/food inputs ratio to sales and 16% of sales as the services/other goods inputs. The ratios for each of the years as a shown in Table 5.3.1

Table 5.3.1 Estimates of Purchases as % of Sales

	2008	2009	2010
Total Purchases as % of Sales (ASI)	68	66	66
Estimated food & drink % of sales	52	50	50
Drink purchases as % of sales	43	43	43
Food purchases as % of sales	8	7	7
Estimated other purchases as % of sales	16	16	16

Source Derived from various sources

Based on the above estimates in Table 5.3.1 the actual purchases can now be estimated using the ASI total purchases as a base.

Before doing this it is necessary to compare the CSO national accounts on licence expenditure with the ASI total for the narrower category of bars. In the following we assume a food share of national bar sales of 15%.

Table 5.3.2 Estimates of Alcohol Expenditure in Bars 2010 € billion

National Accounts, CSO. Personal On-licence	4.748
Alcohol expenditure (incl. VAT)	
(excluding VAT)	3.924
adjusted for food	4.616
ASI Bar Turnover	2.670

Source ASI, authors estimates, CSO national accounts division

The national accounts personal expenditure on alcohol in on-licensed premises adjusted for food amounts to € 4.616 billion and excluding VAT and this is a very surprising 73% above the ASI total. The ASI includes 6577 enterprises compared to the licences based estimate of 8405 which is 28% above the ASI coverage. Even if the licence data are confined to public houses the estimated total is about 7500 which is 14% above the ASI coverage. It seems reasonable to assume that the ASI data understate the scale and role of the bar sector. We have increased the ASI estimates of sales and inputs by 30% to arrive at the overall sectors total. This is based on the regular revisions of the national accounts data which occur in later years and the gap between licence- based numbers of enterprises and ASI numbers. Also, it is desirable not to derive an estimate which overstates the purchases impact.

Table 5.3.3 Estimates of Inputs Purchased by On Licensed Premises

	€B
ASI Sales	2.670,
Adjusted Sales (Table 5.3.2)	3.471
Alcohol & Food inputs	1.736
Other inputs	0.555
Alcohol	1.493
Food	0.243

Source Authors estimates

As derived from the methodology discussed above sales in licensed premises in 2010 were €3.471B excluding VAT. This was comprised of alcohol/drinks purchases of €1.736B, food input purchases of €243 and other input purchases (services etc) of €555M.

Table 5.3.4 Labour Costs-Bars 2010 (€M)

Wages & Salaries	569.5
Personnel Costs	627.7

Source ASI.

The bar sector pays a very large pay bill. In 2010 the total labour cost was €627.7 million and the wages and salaries component of this was €569.5 million.

These labour costs are based on the bars definition in the ASI. As already discussed official estimates of total on licence personal expenditure on alcohol from national accounts data are higher than the ASI sales data. On that basis the ASI bar labour costs are also an underestimate of the labour fund associated with the wider on licence sales.

The above estimates refer to the retail on licence segment of the distribution industry. The off licence and wholesale sectors also procure inputs and pay wages. Based on estimates of employment in these sectors a conservative estimate would be that an additional 10% should be added to the retail wages bill and 5% to the services/ materials inputs to account for these. This brings the wages level to €626 million, the personnel cost to €690 million and the services/materials other than alcohol and food to €583 million for the total retail and wholesale sectors.

CONCLUSIONS

Previous DIGI reports have identified the direct economic benefits which derive from the drinks industry in terms of employment, output, exports and tax revenue and the positive impact which the sector has on tourism. An industry also contributes to the economy through its procurement from other suppliers. As identified in this report, mainly through the use of official CSO data and identified assumptions where data is insufficient the drinks industry is a major purchaser of goods and services. This is true of both the manufacturing and retail sectors of the industry. The analysis shows that the manufacturing sector in the drinks industry pays €217 million in wages and salaries, buys €901 million annually in materials, buys €33 million in industrial services and €587 million in other services and will invest over €450 million over the next few years.

Over 200k tonnes of barley is used annually in the production of whiskey and the different beers. About 45k cows are needed to produce the more than 300 million litres of milk which is used for the different Irish cream liqueurs produced on the island of Ireland. Almost 50k tonnes of apples are used in the production of cider

The retail/wholesale drinks sector sectors pay wages and salaries of €626 million and spends €583 million on services and materials other than food and drink. The on licence sector buys about €243 million in food inputs annually and invested €67 million in 2010.