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Getting ready to go global
volume VI - value chain elements



Peat Marwick Stevenson & Kellogg
Management Consultants

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Project Report

**GETTING READY TO GO GLOBAL
VOLUME VI—VALUE CHAIN ELEMENTS**

Prepared for

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I

Introduction

This report has been prepared as a guideline for a series of consultations between industry and government that would lead to the development of an industry-intergovernmental strategic plan to address competitiveness concerns in the food processing sector. The consultations will be held on both a regional and national basis to ensure broad participation.

This consultative process is called Getting Ready To Go Global. It recognizes that there is much to be done by both industry and governments to enable the Canadian food processing industry to thrive in an open trading environment. The industry can achieve the necessary level of competitiveness, first, by strengthening its position in domestic markets and, second, by venturing into export markets.

The objective of Getting Ready To Go Global is systematically to identify industry controllable elements and determine where governments and industry can best interact to achieve real gains in competitiveness. This initiative complements efforts to improve government-led activities such as regulatory reform. (For example, under the Agriculture Policy Review and in the Joint Industry-Government Committee on Agri-Food regulation and the work of the Agri-food Competitiveness Council.) Another potential phase could be an ISTC food processing sector campaign which would facilitate specific initiatives if there is strong industry interest and support to do so.

The goal of Getting Ready to Go Global is to generate an industry-led strategic plan for the food processing sector. This plan would include a vision statement and priorities for actions, jointly and severally by both industry and government. Its function would be to guide federal and provincial government departments in their effort to assist the food processing sector to compete in domestic and export markets.

To provide a coherent focus for the consultative phase, Peat Marwick Stevenson & Kellogg prepared this document. It is the result of an analysis of 57 studies undertaken by and for various organizations over the last three years. The analysis suggests broad priorities for action. An important objective of the consultation phase is to confirm these recommendations or derive alternative ones.

II

Methodology

A. Approach

This document presents an analysis of earlier works. It is based upon a comprehensive review and analysis of development needs identified in a varied collection of studies completed over the past three or four years. The industry-controllable development needs identified in those studies provided the starting point for this work; needs related to government policy were explicitly omitted.

The studies included in this analysis were highly diverse. They were sponsored by different organizations at different times in response to individual circumstances and needs; they were also undertaken by a variety of different individuals and organizations. They did not directly address all industry sub-sectors in Canada, nor did they purport to.

B. Methodology

The essential steps undertaken to prepare this document are detailed below. Additional methodological details are presented in Appendix A. These steps were:

- ▶ Review existing reports. (See Appendix B—Bibliography)
- ▶ Record industry-controllable development needs and classify each according to sector, likely impact and timeliness. The four-way analytical framework used for this step is shown in Exhibit II-1 below.
- ▶ Weight needs according to sector shipments and develop a prioritized list of industry-controllable development needs. Such needs were grouped by quadrant consistent with the framework depicted in Exhibit II-1.
- ▶ Identify examples of actions that could potentially satisfy the priority development needs so identified.
- ▶ Catalog existing government assistance programs that in some way now support the food industry, or could potentially be applied to the food industry. (See Appendix C)

- ▶ Classify needs and associated potential actions by geographic area and value chain element.

**Exhibit II-1
Quadrants for prioritizing needs**

Impact	High	<p>Short Term High Impact Q1</p>	<p>Long Term High Impact Q2</p>
	Low	<p>Short Term Low Impact Q3</p>	<p>Long Term Low Impact Q4</p>
		Short	Long

Timeframe

C. Presentation of findings

The findings of this analysis are presented in two ways

1. Geographically—that is, by region of Canada.
2. By value chain element—a concept analogous to the conventional business functions of logistics, operations, marketing, research and development, human resources and business environment.

Findings are presented in six volumes. Volumes I to V present findings according to region. Findings based on value chain elements on a national basis are presented in Volume VI.

This report is Volume VI. It discusses development needs and associated examples relating to all value chain elements.

III

GRTGG Needs And Options For Action For Value Chain Elements

This chapter presents GRTGG priority needs along with selected examples of potential actions.

Exhibits III-1 to III-3 graphically illustrate the position of the priority needs on an aggregate, Canada-wide basis within the four quadrants. The horizontal axis of the bar charts is a quantitative measure of the importance of the need. Thus, the top listed need is the most important.

Exhibits III-4 to III-10 present in tabular form the priority needs with associated examples of potential actions. Each exhibit covers a different value chain element. These actions are intended to facilitate discussion. Most have been drawn from the studies (though the exact wording has been adapted to maintain a consistent format). Options have been left blank intentionally, to be entered during consultations.

Exhibit III-1

Ranking of priority needs—Canada .

Quadrant 1—Solutions could be achieved in the short term and have a high impact

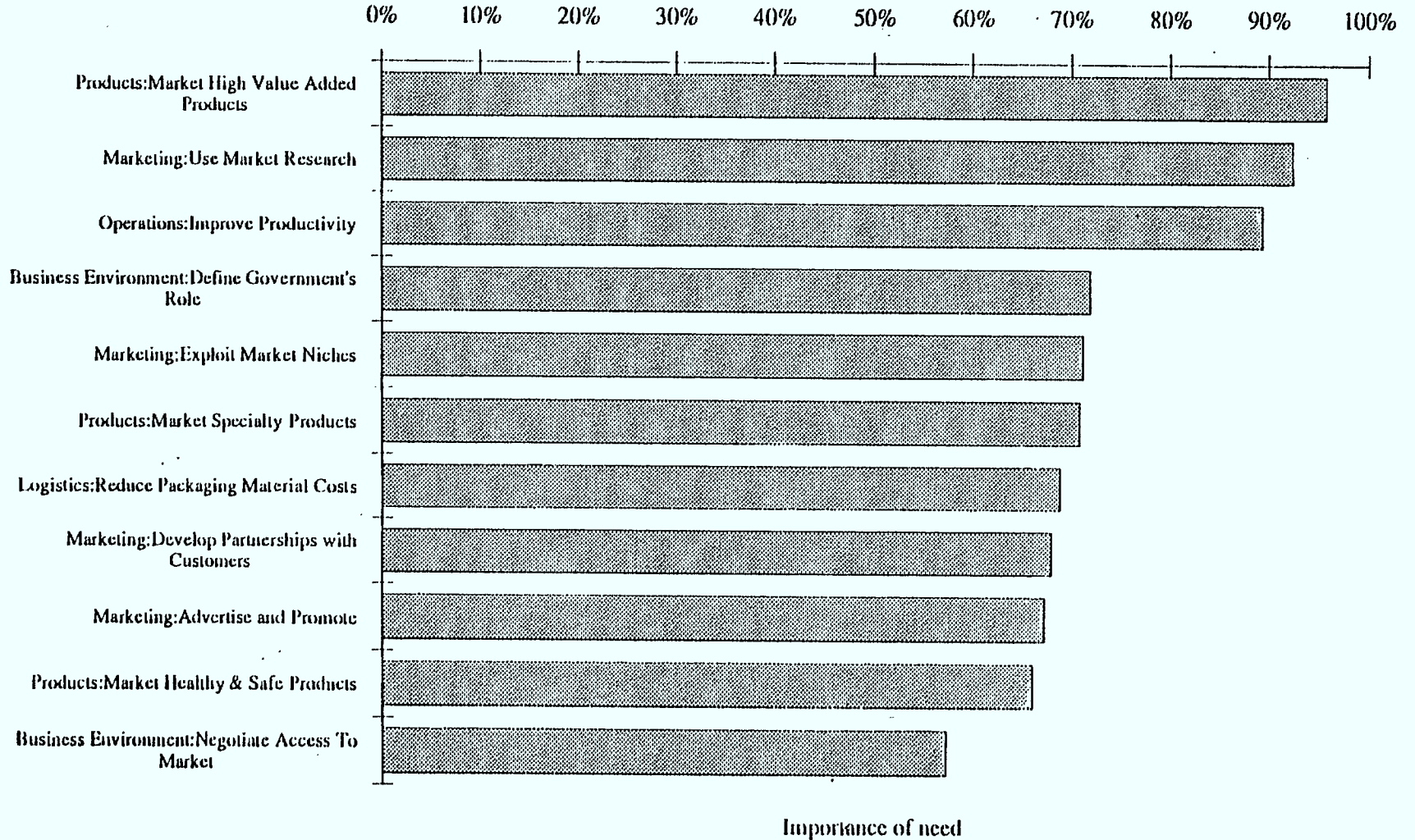


Exhibit III-2

Ranking of priority needs—Canada

Quadrant 2—Solutions could be achieved in the long term and have a high impact

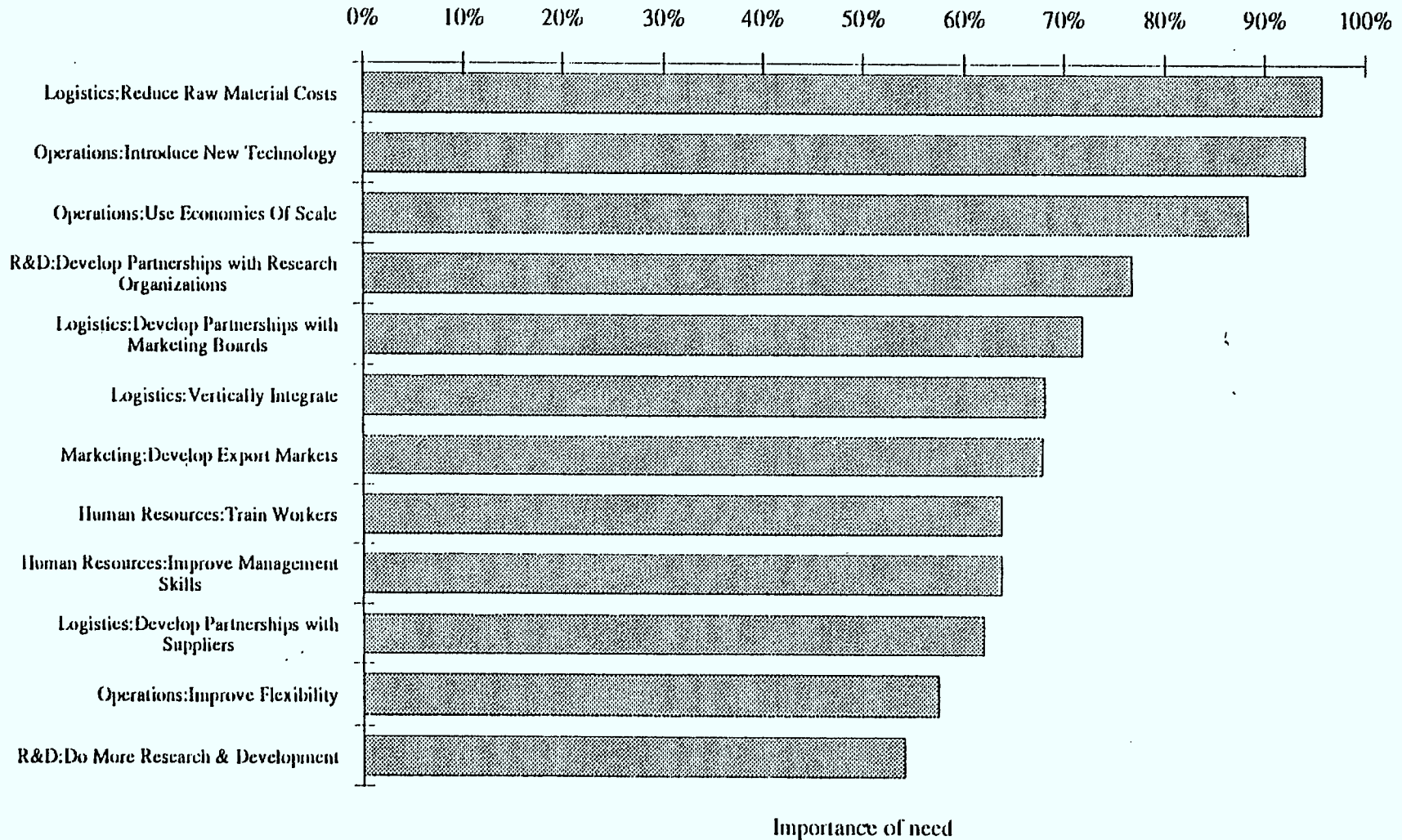
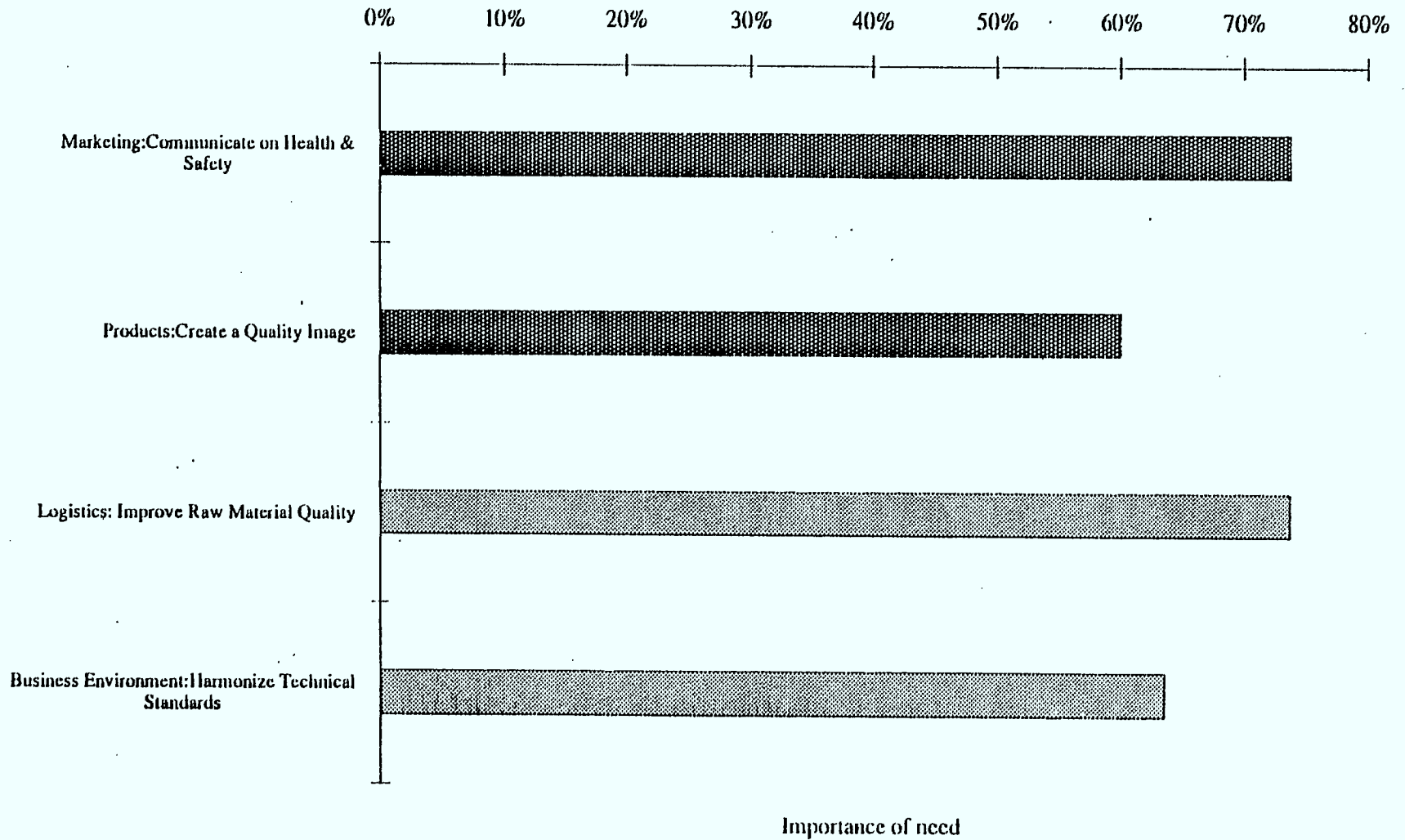


Exhibit III-3

Ranking of priority needs—Canada

Quadrant 3—Solutions could be achieved in the short term and have a low impact (dark grey) and

Quadrant 4—Solutions could be achieved in the long term and have a low impact (light grey)



**VALUE CHAIN ELEMENT
PRODUCTS**

Exhibit III-4
Priority needs
Value chain element—Products

Priority need for food processors	Action/Initiatives	Report ref.
<p>1. Products: Market specialty products</p> <p>Need: To develop and market specialty products that satisfy specialized consumer needs.</p> <p>Rationale: To increase sales of high margin products.</p>	<p>Options:</p> <p>Examples:</p> <ul style="list-style-type: none"> • Develop cooperative approaches to new product development. 	19,43
<p>2. Products: Market healthy and safe products</p> <p>Need: To develop and market products that address consumers' concerns and to inform consumers about health and safety.</p> <p>Rationale: To increase sales and improve consumer confidence.</p>	<p>Options:</p> <p>Examples:</p> <ul style="list-style-type: none"> • Develop a response strategy to manage crises in food quality and safety issues. This would build on existing food recall programs with GPMC. • Should involve stakeholders including representatives from industry, labour, consumer groups, media, government. 	24.
<p>3. Products: Market high value added products</p> <p>Need: To develop, manufacture and market products that have higher real and perceived value-added, including further processed and convenience products.</p> <p>Rationale: To increase sales and to improve margins through higher price recovery.</p>	<p>Options:</p> <p>Examples:</p> <ul style="list-style-type: none"> • Focus on technology commercialization and technology transfer to improve the potential for adding value in plants; and, increasing production flexibility to allow for the efficient production of a variety of products. • Provide market research and new product development ideas for higher value added products. 	6

Exhibit III-4 (cont'd)

Priority need for food processors	Action/Initiatives	Report ref.
<p>4. Products: Create a quality image</p> <p>Need: To convey to the consumer an image of quality, for individual products, for the subsectors, and for Canada's food processing sector as a whole.</p> <p>Rationale: To increase both company and subsector sales.</p>	<p>Options:</p> <p>Examples:</p> <ul style="list-style-type: none"> • Advertise and promote products as being high quality, for example, Ontario pork promotions. Exploit Canadian image. 	<p>PMS&K</p>

**VALUE CHAIN ELEMENT
OPERATIONS**

Exhibit III-5
Priority needs
Value chain element—Operations

Priority need for food processors	Action/Initiatives	Report ref.
<p>1. Operations: Improve flexibility</p> <p>Need: To develop the capability to respond more quickly to changes in products and product mix.</p> <p>Rationale: To increase sales by superior speed to market and to improve productivity by maximizing throughput of short production runs.</p>	<p>Options:</p> <p>Examples:</p> <ul style="list-style-type: none"> • Study mechanisms to improve the capital base in order to diversify and further develop secondary processing. <p>Concepts here include: production-level based incentives for converting raw material, investment capital through tax deferral or other mechanisms, participation debentures based on future commitment of raw products, and participation contracts tied to final export markets.</p> <ul style="list-style-type: none"> • Support accelerated development of EDI networks throughout food processing and retailing sectors in Canada. 	<p>33</p>
<p>2. Operations: Improve productivity</p> <p>Need: To focus on the myriad of small improvements in areas such as line balancing, work methods, scheduling, etc.</p> <p>Rationale: To improve output per unit of input.</p>	<p>Options:</p> <p>Examples:</p> <ul style="list-style-type: none"> • Implement computerized production scheduling decision support systems. 	<p>PMS&K</p>

Exhibit III-5 (cont'd)

Priority need for food processors	Action/Initiatives	Report ref.
<p>3. Operations: Introduce new technology</p> <p>Need: To accelerate the introduction of new technology in many areas including processing and packaging equipment, information technology and process control.</p> <p>Rationale: To improve productivity, reduce input costs and improve margins.</p>	<p>Options:</p> <p>Examples:</p> <ul style="list-style-type: none"> • Support demonstration projects for rapidly developing technologies: <ul style="list-style-type: none"> - Assist feasibility studies. - Funding to reduce risk. - Monitor new technology performance. • Provide assistance with the capital needs of small and start-up operations. • Provide design assistance to small companies with machinery and equipment problems, particularly packaging equipment. This service can be part of an on-going technical assistance project, but requires engineering expertise. • Add to the IRAP funding possibly through the provinces to jointly fund R&D. • Provide financial support for a network or networks of food research centres made up of: university food science departments, food technology centres and other publicly funded laboratories. 	<p>43</p>

Exhibit III-5 (cont'd)

Priority need for food processors	Action/Initiatives	Report ref.
<p>3. Operations: Introduce new technology (cont'd)</p> <p>Need: To accelerate the introduction of new technology in many areas including processing and packaging equipment, information technology and process control.</p> <p>Rationale: To improve productivity, reduce input costs and improve margins.</p>	<ul style="list-style-type: none"> - There should be an increase in research funding on "post-farm-gate" issues to enhance the competitiveness of value adding activities. - Access of small and medium-size food firms to the expertise and facilities should be improved in order to promote adoption of process technology, no matter where it is developed. - The network should develop research and technology transfer programs that focus on problems of particular benefit to commodity producers—e.g. "a red meat research network", within the broader network. - Governments' infrastructure for gathering information should be utilized to find information on emergent food technologies including technologies being employed in competitor or customer nations. This information should be used in developing the technology transfer and research programs of the network(s). • Provide a summary report on new technologies presented at food conferences such as Anuga, SIAL. 	
<p>4. Operations: Use economies of scale</p> <p>Need: To develop operating strategies that exploit economies of scale.</p> <p>Rationale: To improve capacity utilization and productivity.</p>	<p>Options:</p> <p>Examples:</p> <ul style="list-style-type: none"> • Investigate technology that can reduce production economies of scale so companies can achieve efficient operations at lower volumes. 	<p>PMS&K 19</p>

VALUE CHAIN ELEMENT
LOGISTICS

Exhibit III-6
Priority needs
Value chain element—Logistics

Priority need for food processors	Action/Initiatives	Report ref.
<p>1. Logistics: Develop partnerships with marketing boards</p> <p>Need: To form close ties with marketing boards.</p> <p>Rationale: To ensure marketing boards and food processors recognize, in a balanced way, the needs of all elements of the supply chain.</p>	<p>Options:</p> <p>Examples:</p> <ul style="list-style-type: none"> • Widen membership of the Farm Products Marketing Commission to include representatives from the food processing, retailing and service industries. 	<p>PMS&K</p>
<p>2. Logistics: Develop partnerships with suppliers</p> <p>Need: To form close relationships with suppliers other than marketing boards.</p> <p>Rationale: To assist in the process of improving service and quality from suppliers.</p>	<p>Options:</p> <p>Examples:</p> <ul style="list-style-type: none"> • Encourage greater cooperation and consultation among all participants of the food chain. Such cooperation and consultation should include: <ul style="list-style-type: none"> - Wider representation of the membership of the Farm Products Marketing Commission to include representatives from the food processing, retailing and services industries. - The establishment of Commodity Advisory Committees to address specific producer-processor issues and concerns. 	<p>24</p>

Exhibit III-6 (cont'd)

Priority need for food processors	Action/Initiatives	Report ref.
<p>2. Logistics: Develop partnerships with suppliers (cont'd)</p> <p>Need: To form close relationships with suppliers other than marketing boards.</p> <p>Rationale: To assist in the process of improving service and quality from suppliers.</p>	<ul style="list-style-type: none"> • Form an agri-food competitiveness council to be established for a period of three years. During its life, it would: <ul style="list-style-type: none"> a) Work with governments to establish procedures that implement the action recommendations (i.e. human resource audit, food research network, etc.). b) Spin off responsibility for the action functions to appropriate bodies. c) Initiate and carry out the monitoring and information function. d) Initiate the process of legislative review <p>The council would be made up of farmers, processors, distributors, consumers and the public.</p>	<p>24</p>
<p>3. Logistics: Improve raw material quality</p> <p>Need: To work with suppliers and marketing boards to improve quality of raw materials.</p> <p>Rationale: To ensure raw materials comply with processors' specifications.</p>	<p>Options:</p> <p>Examples:</p> <ul style="list-style-type: none"> • Build partnerships among suppliers, processors and marketing boards to ensure quality of raw materials and to offer foreign customers the assurance of stability of supply. <p>Involve processors and commodity marketing organizations.</p>	<p>14,51, PMS&K</p>
<p>4. Logistics: Reduce packaging material costs</p> <p>Need: To explore all opportunities to access competitively priced packaging materials and also to reduce excess packaging where possible.</p> <p>Rationale: To reduce input costs.</p>	<p>Options:</p> <p>Examples:</p> <ul style="list-style-type: none"> • Establish an industry consortium for packaging development and export products packaging development. 	<p>PMS&K</p>

Exhibit III-6 (cont'd)

Priority need for food processors	Action/Initiatives	Report ref.
<p>5. Logistics: Reduce raw material costs</p> <p>Need: To access to competitively priced raw materials.</p> <p>Rationale: To reduce input costs.</p>	<p>Options:</p> <p>Examples:</p> <ul style="list-style-type: none"> • Publish Canadian ingredient suppliers directory for worldwide use. • Develop database of worldwide ingredient suppliers. 	<p>PMS&K</p>
<p>6. Logistics: Vertically integrate</p> <p>Need: To link up with firms along their supply chains.</p> <p>Rationale: To reduce costs and improve performance across the entire supply chain.</p>	<p>Options:</p> <p>Examples:</p> <ul style="list-style-type: none"> • Exploit EDI and customer/supplier partnerships through TQM. 	<p>PMS&K</p>

VALUE CHAIN ELEMENT
MARKETING

Exhibit III-7
Priority needs
Value chain element—Marketing

Priority need for food processors	Action/Initiatives	Report ref.
<p>1. Marketing: Advertise and promote</p> <p>Need: To use advertising and promotion effectively and efficiently.</p> <p>Rationale: To increase sales by communicating with consumers and creating brand recognition.</p>	<p>Options:</p> <p>Examples:</p> <ul style="list-style-type: none"> • Develop an advertising campaign to help develop commodity specific markets like existing campaigns for beef, pork, Ontario wine. 	<p>PMS&K</p>
<p>2. Marketing: Communicate on health and safety</p> <p>Need: To develop campaigns that inform and educate consumers on product health, nutrition and safety.</p> <p>Rationale: To increase sales by improving consumer confidence.</p>	<p>Options:</p> <p>Examples:</p> <ul style="list-style-type: none"> • Communicate on food safety information, particularly with respect to ingredients and new production processes. This is critical to avoid mistrust or misconceptions. Consumers desire more information in non-technical language on additives in food products, shelf-life, nutrient retention, treatment of fresh fruits, and avoidance of fats and oils. 	<p>24</p>

Exhibit III-7 (cont'd)

Priority need for food processors	Action/Initiatives	Report ref.
<p>3. Marketing: Develop export markets</p> <p>Need: To develop markets in the US and elsewhere.</p> <p>Rationale: To increase sales and to develop the scale and global mindset necessary to compete in Canada.</p>	<p>Options:</p> <p>Examples:</p> <ul style="list-style-type: none"> • Increase export market awareness and inform companies about existing government programs in export promotion in small and medium size companies. Establish an Export Marketing Council to foster strategic planning and private sector co-operation to export Canadian food products. • Develop a consortium approach, led by industry, to long-term market development of Canadian food products e.g. grains, oil seeds. Such a consortium would selectively develop markets through investment, foreign trade representation, contractual linkages as necessary and play a leadership role in developing longer term market strategies. • Investigate how to increase Canadian penetration in U.S distribution and hotel, restaurant and institutional markets at the final products level. 	<p>24</p>
<p>4. Marketing: Develop partnerships with customers</p> <p>Need: To develop partnerships with their customers.</p> <p>Rationale: To foster a more productive trading environment founded on mutual understanding of requirements and capabilities.</p>	<p>Options:</p> <p>Examples:</p> <ul style="list-style-type: none"> • Arrange a secondment program where a company employee spends time in a customer's purchasing department advising on optimal purchasing policies. • Develop customer round tables to discuss non-price issues such as EDI and service levels. 	<p>PMS&K</p>

Exhibit III-7 (cont'd)

Priority need for food processors	Action/Initiatives	Report ref.
<p>5. Marketing: Exploit market niches</p> <p>Need: To develop and market products that exploit market niches.</p> <p>Rationale: To increase sales of value added products aimed at specific target markets.</p>	<p>Options:</p> <p>Examples:</p> <ul style="list-style-type: none"> • Link up with governments' multiculturalism initiatives to source ideas for developing and marketing ethnic foods. 	<p>PMS&K</p>
<p>6. Marketing: Use market research</p> <p>Need: To understand the value of market research and use it effectively.</p> <p>Rationale: To ensure that products and services satisfy the needs of the consumers to whom they are targeted and the companies that distribute them.</p>	<p>Options:</p> <p>Examples:</p> <ul style="list-style-type: none"> • Undertake specific consumer and market research on selected export market niches. Provide education on using market research that leads to new product development. 	<p>19,24, 33,34, 43,51</p>

VALUE CHAIN ELEMENT
HUMAN RESOURCES

Exhibit III-8
Priority needs
Value chain element—Human resources

Priority need for food processors	Action/Initiatives	Report ref.
<p>1. Human resources: Improve management skills</p> <p>Need: Stronger managers with better marketing and business management skills, with technical know-how and with an understanding of quality as it relates to products and processes.</p> <p>Rationale: To utilize available resources better and more creatively.</p>	<p>Options:</p> <p>Examples:</p> <ul style="list-style-type: none"> • Set up focal point to monitor long term education needs and capabilities and, as one method of meeting the needs, promote exchange fellowships and scholarships between Canadian and appropriate foreign universities for studies in food technology. • Provide training to managers on competitive assessments, performance measurement and performance benchmarking. • Coordinate sector specific seminars about new and emerging processing technologies for small and medium-sized food processors. Use applied researchers and marketing specialists. • Develop seminars on strategic planning and market research for smaller food processors. • Set up a world class business school/executive series, e.g. food stream at Guelph and Western MBA, and include domestic and export marketing skills in curriculum. 	

Exhibit III-8 (cont'd)

Priority need for food processors	Action/Initiatives	Report ref.
<p>2. Human resources: Train workers</p> <p>Need: Workers well trained in the areas of quality, problem solving and process control. A prerequisite for this training is basic literacy and math skills.</p> <p>Rationale: To improve productivity.</p>	<p>Options:</p> <p>Examples:</p> <ul style="list-style-type: none"> • Establish a provincial Processing Training Advisory Committee to: <ul style="list-style-type: none"> - Provide advice, counsel and direction to the provincial Government regarding the determination of the technical education and training requirements of the food processing industry. - Identify the technical education and training opportunities currently available in the province to the food processing industry. - Evaluate the technical education and training programs available to food processors in the other provinces of Canada and in the United States. • Use the community college network to provide on-the-job training for food plant personnel in such areas as quality assurance, machine maintenance, microbiology, etc. • Establish a joint union-management committee to look at specific training issues such as literacy and numerical computation skills. • Upgrade the skills of our human resource base at the production level. If we are to increase the complexity and value added in our processing plants, we will need to find ways to considerably upgrade skills. • Provide incentives to food processing firms to hire food technologists. 	<p>PMS&K 14</p>

VALUE CHAIN ELEMENT
RESEARCH AND DEVELOPMENT

Exhibit III-9
Priority needs
Value chain element—Research and development

Priority need for food processors	Action/Initiatives	Report ref.
<p>1. R&D: Develop partnerships with research organizations</p> <p>Need: To lever their own resources by developing partnerships with research organizations.</p> <p>Rationale: To gain access to leading technology at low cost.</p>	<p>Options:</p> <p>Examples:</p> <ul style="list-style-type: none"> • Support independent product development laboratories. 	24,33,43
<p>2. R&D: Do more research and development</p> <p>Need: To take more initiative and commit more resources to focussed research and development.</p> <p>Rationale: To enhance self-reliance and to gain competitive advantage through product and process improvements.</p>	<p>Options:</p> <p>Examples:</p> <ul style="list-style-type: none"> • Increase emphasis on all R&D including technology transfer and diffusion not just basic R&D. To be part of ICAST. • Pursue new markets for existing products and new product development along with the development of existing markets. In order to do this, other activities will be required: <p>For external markets the international contacts need to be more fully developed and maintained.</p> <p>Research and development work needs to be prioritized and the appropriate technologies developed and installed.</p> <p>Packaging, handling and distribution systems need to be developed.</p>	14

VALUE CHAIN ELEMENT
BUSINESS ENVIRONMENT

Exhibit III-10
Priority needs
Value chain element—Business environment

Priority need for food processors	Action/Initiatives	Report ref.
<p>1. Business environment: Define government's role</p> <p>Need: To help define government's role as a facilitator in attempts to make the industry more competitive.</p> <p>Rationale: To achieve a more appropriate and effective working arrangement that foster competitiveness.</p>	<p>Options:</p> <p>Examples:</p> <ul style="list-style-type: none"> • Identify opportunities for import replacement and export development and create market development programs. • Provide information continuously on interest rates, exchange rates, inflation and price differences for production inputs between Canada, the United States and other competing countries. This is necessary to indicate where market forces are not working to equalize input prices and to assist in finding ways to equate them. • Expand the information and contact base by: <ul style="list-style-type: none"> - Foreign trade missions. - Cost sharing programs. • Review and report on other small countries' agri-food industry and how it works together. Specifically focus on European experiences and plans for 1992. 	<p>51</p>

Exhibit III-10 (cont'd)

Priority need for food processors	Action/Initiatives	Report ref.
<p>2. Business environment: Harmonize technical standards</p> <p>Need: To have input into the harmonization of technical standards.</p> <p>Rationale: To increase subsector and company sales volume by helping to develop labelling, packaging, and other standards that facilitate international trade.</p>	<p>Options:</p> <p>Examples:</p> <ul style="list-style-type: none"> • Speed up the process of harmonization of standards under Canada-US Free Trade Agreement and GATT negotiations, and create a mechanism to compare the differences between Canada, US and Europe. Set up a fast track procedure to resolve time-sensitive issues involving regulation of standards as well as an appeal process to deal with longer-term regulatory issues. 	<p>51.6</p>
<p>3. Business environment: Negotiate access to market</p> <p>Need: To be more involved in planning and developing access to export markets.</p> <p>Rationale: To increase sales volume by participating at an earlier stage, and in more of the process, of export market development.</p>	<p>Options:</p> <p>Examples:</p> <ul style="list-style-type: none"> • Take a proactive marketing approach to US market. Use MIATCO as an example. 	<p>PMS&K</p>

