Biscuits

INDUSTRY PROFILE

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1990–1991

BISCUITS

FOREWORD

In a rapidly changing global trade environment, the international competitiveness of Canadian industry is the key to growth and prosperity. Promoting improved performance by Canadian firms in the global marketplace is a central element of the mandates of Industry, Science and Technology Canada and International Trade Canada. This Industry Profile is one of a series of papers in which Industry, Science and Technology Canada assesses, in a summary form, the current competitiveness of Canada's industrial sectors, taking into account technological, human resource and other critical factors. Industry, Science and Technology Canada and International Trade Canada assess the most recent changes in access to markets, including the implications of the Canada-U.S. Free Trade Agreement. Industry participants were consulted in the preparation of the profiles.

Ensuring that Canada remains prosperous over the next decade and into the next century is a challenge that affects us all. These profiles are intended to be informative and to serve as a basis for discussion of industrial prospects, strategic directions and the need for new approaches. This 1990–1991 series represents an updating and revision of the series published in 1988–1989. The Government will continue to update the series on a regular basis.

Michael Wilson

Michael H. Wilson
Minister of Industry, Science and Technology
and Minister for International Trade

Structure and Performance

Structure

The biscuits industry comprises establishments primarily engaged in manufacturing sweetened and unsweetened biscuits, including such products as plain cookies (sweetened), sandwich cookies, "enrobed" biscuits and crackers (plain, salted and flavoured).

In 1989, there were 38 biscuit manufacturing establishments in Canada. Over 85 percent were located near major markets and near the supply of soft wheat flour in Ontario and Quebec. During the year, shipments were valued at $477 million (Figure 1), and the industry employed 6 249 people.

Ownership concentration is high. The four largest biscuit manufacturers in Canada — Nabisco Brands, Culinar, Dare Foods and Beatrice Foods — account for an estimated 70 percent of total shipments in Canada. Small establishments with fewer than 50 employees account for 30 percent of establishments but contribute less than 1 percent of the value of shipments. The level of foreign ownership greatly exceeds the average for the food and beverage group because of the dominant position of one foreign-owned multinational enterprise — Nabisco.

A series of acquisitions and mergers over the past 10 years has left Nabisco as the major business in the Canadian industry. For example, in 1987, the assets of Interbake (owned by Weston Bakeries) were split between Culinar and Nabisco, with Culinar acquiring the sweet biscuit lines, which fall under the McCormick's brand name. Nabisco (through its Christie Brown & Co. Division) now includes the cracker business of Interbake and the former British-owned Associated Biscuits of Canada (Dad's, Peek Frean and David's brands). It is estimated that Nabisco now accounts for more than 40 percent of sweet biscuit shipments and more than 65 percent of cracker shipments in Canada.

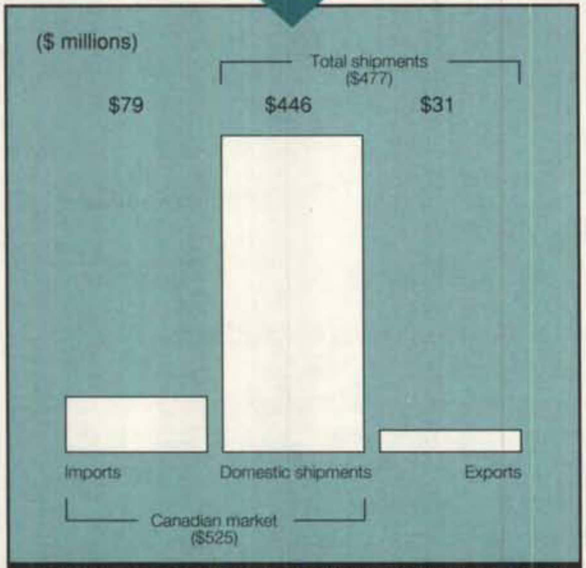

Figure 1 — Imports, Exports and Domestic Shipments, 1989

Figure 2 — Total Shipments and Employment

Imports in 1989 came chiefly from the United States (43 percent). U.S. imports include a range of lower-end products produced under house labels for mass merchandisers. Other major suppliers were the United Kingdom, the Netherlands and Denmark. Typical of the European Community (EC) products are high-quality, butter-based biscuits, which use low-cost, surplus butter, and a variety of specialty crackers. Export trade continues to be primarily directed to the United States, which took 95 percent of the total in 1989.

Performance

Although the biscuit manufacturing industry is profitable, it serves a mature domestic market. Domestic per capita consumption peaked in the late 1970s and has been static for the past 10 years. This situation is chiefly due to demographic changes such as population aging as well as changes in consumer attitudes towards nutrition. A survey of six major biscuit manufacturing firms, representing over 60 percent of industry shipments, indicates that the median return of 12.9 percent on assets (the ratio of net profits to total assets), based on 1987 operating results, was high relative to that in other food industries.

A series of acquisitions and mergers among the larger industry players over the past 10 years has rationalized Canadian biscuit production, and the industry continues to undergo rationalization and modernization of assets. Dare Foods closed its British Columbia plant in 1989 and Culinar closed its Winnipeg plant (acquired in the Weston purchase) in early 1991. In both cases, the firms are shifting production to existing plant locations in Central Canada that were operating below capacity. A significant investment in the industry is the $50 million modernization of Nabisco's Montreal operations, completed in 1991.

Despite recent rationalization, total employment in the biscuit industry has demonstrated a great deal of stability since 1983 (Figure 2). The 1988 level was almost equal to the average employment for the whole decade. While the number of establishments has been increasing, the number of plants operated by firms with more than 50 employees has dropped. Thus, the growth in establishments has been attributable to the proliferation of smaller plants.

Competition from growing imports and alternative snack foods has also eroded the market for domestic producers. Imported biscuits of all types increased their share of the Canadian market between 1983 and 1989, rising from 6.6 percent to 15 percent over the period. The 1989 value of total imports was $79 million, up from $30 million in 1983. Biscuits also compete with a growing variety of snack items, including granola bars, doughnuts, confectionery and fresh baked goods. These products have grown in variety, providing consumers with new choices while also gradually weakening the demand for biscuits.

Excess production capacity and the static domestic market have created more interest in exporting as the only means of providing growth. The U.S. market, for example, exhibits a growth potential of about 2 percent annually in volume terms. Exports climbed steadily from 7 percent of shipments in 1983 to a peak of 11.9 percent in 1986 and 1987. However,

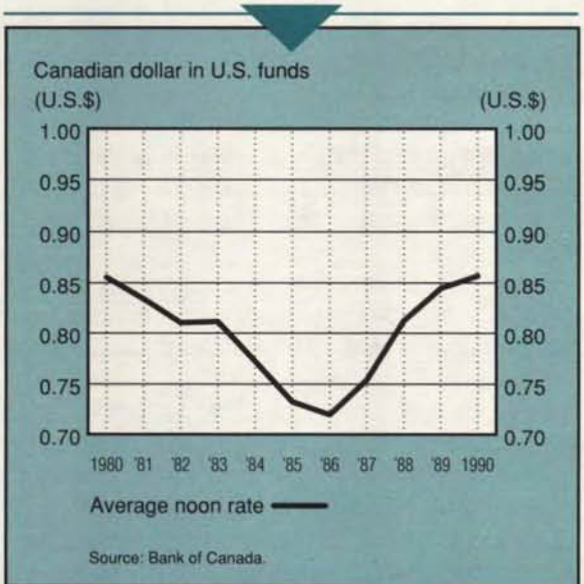

Figure 3 — Canadian–U.S. Exchange Rates

this trend levelled off at 11.6 percent in 1988, with a substantial drop taking place in 1989. The 1989 value of total exports was $31 million, compared with $56 million a year earlier. Canada's traditional positive balance of trade with the United States, which stood at $32.7 million in 1988, turned into a negative balance of $4.4 million in 1989. The total value of manufacturers' shipments dropped significantly from $545 million in 1987 to $482 million in 1988 (Figure 2), and marginally further to $477 million in 1989.

The industry has expressed concern about the relatively higher value of the Canadian dollar in recent periods vis-à-vis the American dollar (Figure 3). On the other hand, under certain economic conditions, it is widely recognized that a significantly lower value is likely to be inflationary. The resulting higher domestic costs and prices can erode, over time, the short-term competitive gains of such a lower-valued dollar.

Strengths and Weaknesses

Structural Factors

The industry rationalization of the past decade has allowed firms to increase their economies of scale. Other strengths are manufacturers' abilities to target niche markets and their cost advantages in certain areas.

The major production costs in the biscuits industry are those associated with labour, packaging and ingredients such as flour, milk, butter, sugar and vegetable oil. Because biscuits generally contain about 20 percent sugar and 70 percent flour by weight, sweet goods derive a competitive advantage from Canadian sugar prices, which are substantially lower than those in the United States. U.S. sugar prices are maintained at a high level to encourage local beet and cane production, whereas Canadian sugar plants operate on world prices. However, U.S. producers can substitute lower-priced high fructose corn syrup (HFCS) for sugar in many applications and have access to world-price sugar for exported products. Canadian milk and butter, on the other hand, while being somewhat less significant raw materials, are more costly than the U.S. equivalents.

The elimination of the two-price system for Canadian wheat in August 1988 and subsequent refinements in the pricing policy of the Canadian Wheat Board (CWB) have had a positive impact on the domestic price of soft wheat, which is used primarily in the production of biscuits. Pricing for soft wheat from Ontario is controlled by the Ontario Wheat Producer's Marketing Board, which generally adjusts its pricing in line with the CWB's announced price movements while maintaining a small premium.

Packaging, which generally represents about 20 percent of the cost of production, has historically been more expensive in Canada than in the United States. Prices of packaging materials are now beginning to equalize with the implementation of the Canada-U.S. Free Trade Agreement (FTA) on 1 January 1989. Canadian wage rates, including fringe benefits, appear to be marginally higher than those in the United States. U.S. processors on average achieve higher productivity per employee than Canadian ones, primarily as a result of their larger-scale operations.

New formulations or flavours are continually being developed in the industry to win the consumer's attention, and they are usually the subject of strong advertising programs. Most product innovations or consumer trends originate in the U.S. market, then quickly spread to Canada. The Canadian products, however, may have subtle differences in taste, such as being less sweet. Even multinational firms adjust some of their recipes to meet local consumer taste preferences.

Advertising plays a significant role in establishing and maintaining market shares for brand-name goods. The industry spends an average of 1.5 percent of the total value of shipments on advertising. In recent years, manufacturers have increased promotional programs with the retail and foodservice sectors by offering in-store specials, volume discounts and promotional allowances. The increased promotional activity reflects the competition among firms vying for retail shelf space. Small or medium-sized firms advertise less than the larger firms, but they tend to cater to regional markets and local taste preferences or to specialty market segments. In this way, they reduce their direct competition with large firms, which have the advantage of well-recognized brand names.

Trade-Related Factors

Biscuits enter the United States duty-free. The EC imposes duties of about 13 percent ad valorem on biscuits and a range of variable taxes on their ingredients. These duties and taxes translate into effective tariff protection of between 30 and 60 percent ad valorem, depending upon the biscuit type. EC tariffs of 5 percent ad valorem are applied on a Most Favoured Nation (MFN) basis to Canadian imports of similar products.

Under the FTA, tariffs for all biscuit types will be removed in 10 annual, equal steps ending in 1998, with the 1991 FTA rate for U.S. biscuits entering Canada standing at 3.5 percent. The agreement also includes an exemption for Canada from any potential quota restrictions that the United States may impose on foods that have a sugar content of 10 percent or less by weight. To impose quota restrictions on Canadian goods, the United States would have to successfully demonstrate that the imported sugar-containing product undermines U.S. sugar policy.

Technological Factors

Implementation of efficient production technologies is an ongoing process for medium-sized and large manufacturers and is necessary to keep them competitive in the domestic and export markets. Much of the processing equipment is off-the-shelf and readily available but normally requires significant adaptation to serve the particular needs of individual processors. Technological innovations leading to improvements in flavours and the use of various biscuit ingredients can assist firms in developing higher-quality or even new products. Other innovations such as advanced packaging materials and related technologies can increase the shelf life and avoid breakage of biscuits. These factors are of high priority in a market where shipping distances are great and where concerns for the impact of excessive packaging on the environment are important.

Other Factors

Until recently, manufacturers were hampered by the CWB's two-price policy for wheat when competing with imports. Wheat was traditionally made available at price levels close to those prevailing in the U.S. market for flour-containing products destined for export. However, as a result of changes in CWB and Ontario Wheat Producer's Marketing Board pricing, flour used in biscuits for the Canadian market is now available at prices closer to U.S. levels. Import licences for wheat and flour products are no longer required. The Canadian wheat regulations are being amended under the terms of the FTA following a recent determination that U.S. government support levels for grains are equal to or lower than Canadian government support levels. As a result, processors can freely import flour if they so desire.

Like other Canadian industries, biscuit makers will have to pay close attention to environmental issues and their impact on competitiveness. Many jurisdictions are likely to tighten regulations concerning effluent, air emissions, packaging requirements and other manufacturing practices. Despite the fact that the industry's processing operations are generally considered "clean," tighter domestic regulations could have an impact on international competitiveness. Many firms have already taken steps to modify equipment to comply with or exceed regulations.

A major issue for the industry will be meeting the challenge of the National Packaging Protocol, as developed by the Canadian Council of Ministers of the Environment, which calls for a voluntary reduction of 50 percent of total packaging solid waste by the year 2000. While the industry has already taken steps towards achieving the goal, it must work within the framework of other health and safety standards for its products and must address consumer preferences. Recent innovations are moving the industry in this direction: recyclable plastic cookie trays have been introduced into the marketplace, while many cookie and cracker boxes as well as shipping containers for finished or bulk product are, or soon will be, made of recycled materials.

The industry has brought the matter of improperly labelled imports to the attention of federal regulatory authorities. This is a competitiveness issue in terms of the need to ensure a level playing field in complying with the cost of doing business in Canada. In the longer term, the FTA states that the two countries will work towards harmonization of all standards, including packaging and labelling regulations, and committees have been set up to examine these issues.

Evolving Environment

Except for the dip in 1988, Canadian per capita consumption of biscuits has been reasonably stable in recent years, with only a few cookie product categories and some cracker types demonstrating growth by displacing more traditional industry goods. The lack of growth in consumption can be attributed largely to changing Canadian demographic characteristics and overall slow population growth. An older population is now concerned with caloric intake, while a reduced school-age population requires fewer bag lunches. Another important element of the flat market is the increased proportion of family food expenditure on meals in restaurants, where biscuits are not normally served.

At the time of writing, the Canadian and U.S. economies were showing signs of recovering from a recessionary period. During the recession, companies in the industry generally experienced reduced demand for their outputs, in addition to longer-term underlying pressures to adjust. In some cases, the cyclical pressures may have accelerated adjustments and restructuring. With the signs of recovery, though still uneven, the medium-term outlook will correspondingly improve. The overall impact on the industry will depend on the pace of the recovery.

In response to growing consumer awareness of a healthy diet, biscuit manufacturers have already introduced a variety of whole wheat, lightly salted or cholesterol-free crackers. A synthetic fat substitute recently approved in the United States could play a role in the future development of low-calorie, low-fat products to meet consumers' demands for healthier foods. A similar development could occur with the expected approvals for low-calorie artificial sweeteners that are heat-stable and capable of being used in baking. Manufacturers of these additives are currently seeking Canadian approvals, a circumstance that could broaden the market.

Competitiveness Assessment

More rationalization is expected in the Canadian biscuits industry. Larger plants provide opportunities for economies of scale and scope. Many of the small to medium-sized plants will attempt to compete on the basis of fast, flexible operations geared to specialty products and niche markets, with a variety of products formulated to meet regional taste preferences and the Canadian market's brand-name loyalty and local allegiance to small firms. Lower sugar costs for Canadian processors, along with competitive flour pricing, help to bring the costs of production in Canada in line with those of U.S. producers.

The industry will have to continue its present pace of modernization and product development over the short term in order to regain and maintain its competitive edge with U.S. producers.

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PRINCIPAL STATISTICS[a]

	1973	1983	1984	1985	1986	1987	1988	1989
Establishments	40	27	30	31	34	33	38	38
Employment	7 862	6 449	6 445	6 369	6 268	6 424	6 512	6 249
Shipments ($ millions)	187	454	490	494	520	545	482	477

[a]See *Food Industries*, Statistics Canada Catalogue No. 32-250, annual (SIC 1071, biscuit industry).

TRADE STATISTICS

	1973	1983	1984	1985	1986	1987	1988[a]	1989[a]
Exports[b] ($ millions)	16	32	39	54	62	65	56	31
Domestic shipments ($ millions)	171	422	451	440	458	480	426	446
Imports[c] ($ millions)	7	30	41	46	50	53	64	79
Canadian market ($ millions)	178	452	492	486	508	533	490	525
Exports (% of shipments)	8.3	7.0	8.0	10.9	11.9	11.9	11.6	6.5
Imports (% of Canadian market)	3.9	6.6	8.3	9.5	9.9	9.9	13.0	15.0

[a]It is important to note that data for 1988 and after are based on the Harmonized Commodity Description and Coding System (HS). Prior to 1988, the shipments, exports and imports data were classified using the Industrial Commodity Classification (ICC), the Export Commodity Classification (XCC) and the Canadian International Trade Classification (CITC), respectively. Although the data are shown as a continuous historical series, users are reminded that HS and previous classifications are not fully compatible. Therefore, changes in the levels for 1988 and after reflect not only changes in shipment, export and import trends, but also changes in the classification systems. It is impossible to assess with any degree of precision the respective contribution of each of these two factors to the total reported changes in these levels.

[b]See *Exports by Commodity*, Statistics Canada Catalogue No. 65-004, monthly.

[c]See *Imports by Commodity*, Statistics Canada Catalogue No. 65-007, monthly.

SOURCES OF IMPORTS[a] (% of total value)

	1983	1984	1985	1986	1987	1988	1989
United States	33	26	22	24	28	34	43
European Community	56	62	68	66	60	50	30
Asia	5	5	5	4	3	4	4
Other	6	7	5	6	9	12	23

[a]See *Imports by Commodity*, Statistics Canada Catalogue No. 65-007, monthly.

DESTINATIONS OF EXPORTS[a] (% of total value)

	1983	1984	1985	1986	1987	1988	1989
United States	95	98	97	97	97	96	95
European Community	0.4	1.0	0.1	0.2	0.1	1.0	2.5
Asia	–	–	1.1	1.0	1.0	0.1	0.3
Other	4.5	1.0	1.8	1.8	1.9	3.0	2.2

[a]See *Exports by Commodity*, Statistics Canada Catalogue No. 65-004, monthly. Columns may not add to 100 due to rounding.

REGIONAL DISTRIBUTION[a] (average over the period 1986 to 1988)

	Atlantic	Quebec	Ontario	Prairies	British Columbia
Establishments (% of total)	3	24	52	9	12
Employment (% of total)	X	30	57	X	X
Shipments (% of total)	X	35	43	X	X

[a]See *Food Industries*, Statistics Canada Catalogue No. 32-250, annual.
X: confidential

BIG COOKS

MAJOR FIRMS

Name	Country of ownership	Location of major plants
Beatrice Foods Inc.	United States	Kitchener, Ontario Cambridge, Ontario Edmonton, Alberta
Culinar Inc.	Canada	Montreal, Quebec Saint-Lambert, Quebec London, Ontario
Dare Foods Limited	Canada	Kitchener, Ontario
Nabisco Brands Ltd.	United States	Montreal, Quebec Joliette, Quebec Toronto, Ontario
W & H Voortman Limited	Canada	Burlington, Ontario

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