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1989



# Taste of Tomorrow

*Trends and Outlook in the Food Processing and Beverage Industry 1989*



Canada

# **A Taste of Tomorrow**

## **Trends and Outlook in the Food Processing and Beverage Industry**

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K1A 0H5

February 1989  
No. 1

## **Introduction**

*A Taste of Tomorrow, Trends and Outlook in the Food Processing and Beverage Industry*, is an annual publication prepared by the Food Products Directorate of the Service Industries and Consumer Goods Branch of Industry, Science and Technology Canada (ISTC).

In addition to providing an overview of the state of the industry, the publication will provide key statistics and a short résumé of current trends and prospects in each major sector.

Each edition will contain a commentary on a current topic of interest to everyone in the food and beverage industry.



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## Industry Overview

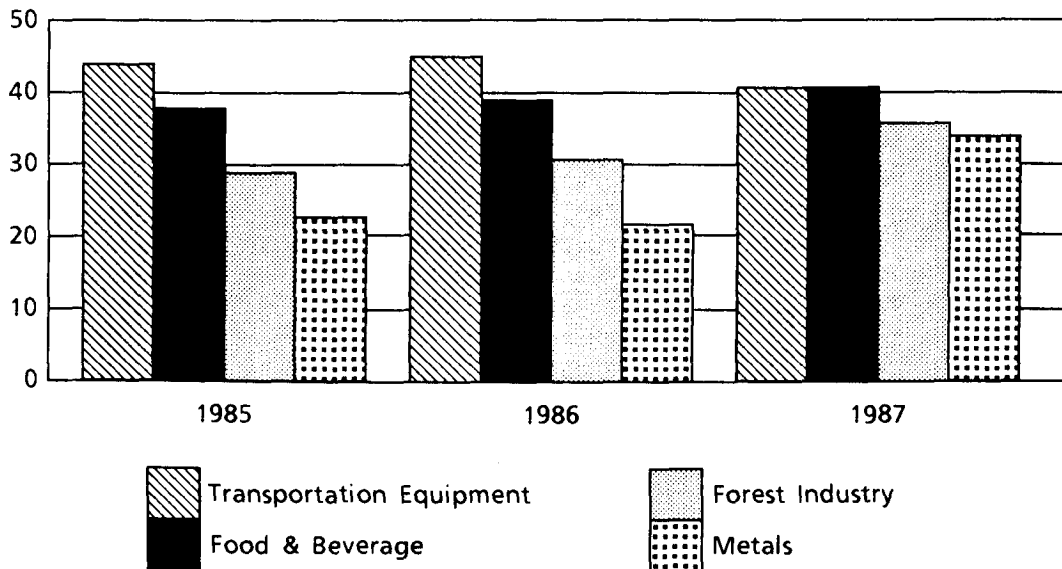
### Significance in the Manufacturing Economy

A dynamic sector and a major contributor to the economy, the food processing and beverage industry is one of Canada's largest manufacturing industries. In 1987, the industry accounted for:

- 16 percent of all manufacturing industries shipments
- 12 percent of manufacturing industries employment
- 6 percent of total manufactured exports

With shipments in excess of \$40 billion in 1987, the food and beverage industry, when compared to other major Canadian manufacturing industries, ranked second after the transportation equipment sector. As a major creator of jobs, the food industry, from producers to retailers, provides employment in both full- and part-time jobs to over a million and a half people. The food processing and beverage industry, in its more than 3 600 plants, has nearly a quarter of a million employees. A further 510 000 Canadian jobs are provided in the primary agriculture and fishing sector, 339 000 in retail food stores and almost 600 000 in the food services industry.

Figure 1  
Major Selected Canadian Industries  
1985 -- 1987  
(\$ billions)



Source: Statistics Canada, Inventories, shipments and orders in manufacturing industries Catalogue No. 31-001 monthly.

## Structure

The industry produces a broad range of products in several key sectors (see Table 1).

Table 1  
Selected Industry Sectors -- 1986  
(\$ millions)

<u>Plants</u>	<u>Sector</u>	<u>Shipments</u>
531	meat and meat products	8597
101	poultry and egg products	1667
390	fishery products	2655
222	fruit and vegetable products	2500
394	dairy products	6590
59	flour and prepared cereals	1395
11	vegetable oil products	732
504	bakery and biscuit products	2016
100	sugar and confectionery products	1520
356	miscellaneous food products*	4154
304	alcoholic and non-alcoholic beverages	5214

(\*includes products such as tea and coffee, dry pasta, potato chips, pretzels and popcorn, spices, condiments, etc.)

The industry consists of firms ranging from large multinational world leaders, to small, more specialized companies. Many food and beverage companies have received international recognition, and several have been nominated for or won, the Canadian Business Award for Excellence. Recent award winners were Inter corps Foods Ltd. in the small business category, Fishery Products International Limited, McCain Foods Limited and Fletcher's Fine Foods Limited for marketing recognition, Export Packers Company for technology transfer, and John C. Risley of Clearwater Fine Foods Inc. for entrepreneurship achievement, to name but a few. Many firms in the industry have also been presented with certificates of merit in most categories.

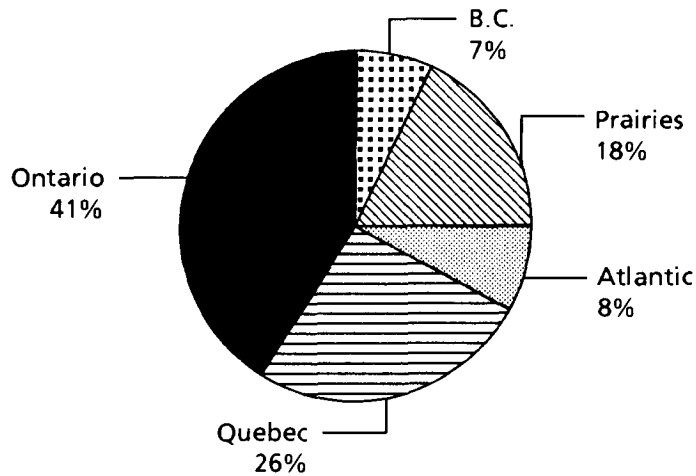
For the most part, food and beverage companies are linked to retailers, food service outlets and ultimately to consumers through an extensive network of wholesale distributors and brokers. While most large food wholesalers are now integrated with major retail chains, they also serve independent stores. Smaller, regional wholesalers and brokers represent a wide range of products and firms.

### Regional Distribution

Primarily oriented towards the domestic market, Canada's food and beverage industry is mature and stable. Although it is concentrated in Ontario, Quebec and the Prairie provinces, it has a nation-wide presence (see Figure 2).



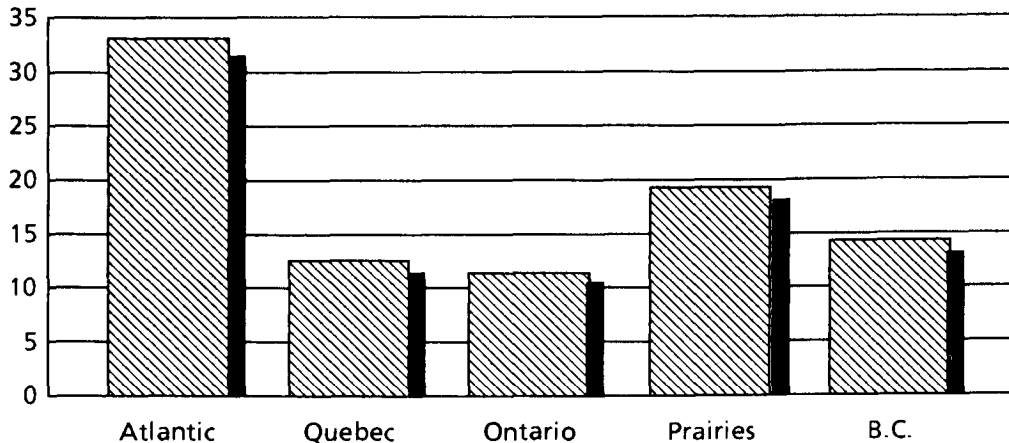
**Figure 2**  
**Regional Distribution of Production**  
(as a percentage of total value of shipments)



Source: Statistics Canada, Inventories, shipments and orders in manufacturing industries Catalogue No. 31-001 monthly.

When statistics are compiled by region, the food and beverage processing industry is a major contributor to each province's manufacturing GDP, particularly in the smaller provinces (see Figure 3).

**Figure 3**  
**Food and Beverage Industry as a Percentage of Regional Manufacturing GDP**



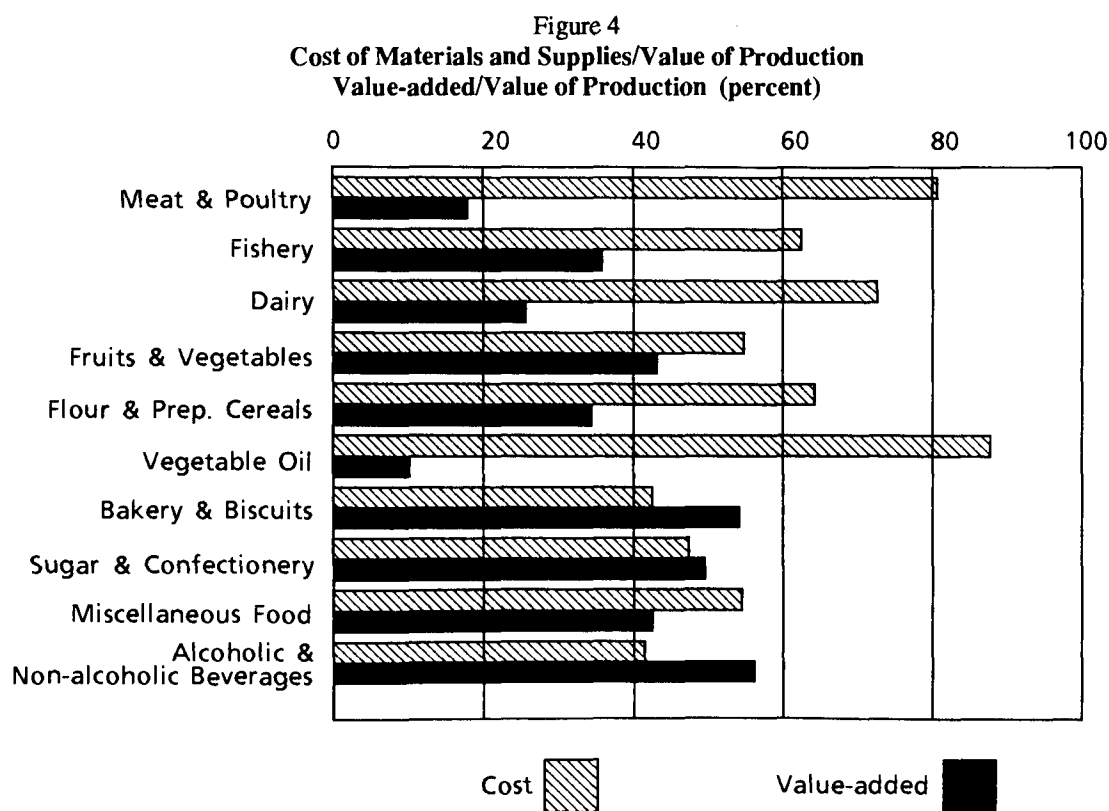
Source: Statistics Canada, Catalogue No. 31-203.

## Costs and Value-added

The major costs for most food processors are raw agricultural and fish products or semi-processed food products, followed by labour, packaging, energy and interest.

The food processing and beverage industry is the packaging industry's primary account. About 60 percent of all packaging and packaging materials sold in Canada, estimated at over \$3 billion in 1987, was consumed by this industry. Packaging costs, and to a lesser extent wages, are proportionately higher for beverage processors than for food processors.

The cost of raw materials and supplies varies depending on the sector, but the average is about 69 percent for the industry. For most processors, such as the red meat and the vegetable oil industries, with relatively high costs in raw materials and supplies, value-added as a percentage of value of production is low as shown in Figure 4.



Source: Statistics Canada, Food Industries, Catalogue No. 32-250.  
 Beverage and Tobacco Industries, Catalogue No. 32-251 annual.

## Investment Activity

New investment in the industry in the form of capital and repair expenditures for 1987 was \$1660 million, an increase of eight percent over the previous year, and estimates for 1988 show an additional increase of 16 percent. Table 2 provides a breakdown of this investment intention.

Table 2  
**Food & Beverage Industry**  
**1988 Investment Intention**  
(\$ millions)

<i>Capital Expenditures</i>	
Construction	281.0
Machinery and Equipment	1175.4
Sub-total	1456.4
<i>Repair Expenditures</i>	
Construction	75.7
Machinery and Equipment	463.9
Sub-total	539.6
<i>Total Capital and Repair Expenditures</i>	
Construction	356.7
Machinery and Equipment	1639.3
Total	1996.0

Source: Statistics Canada, Private and Public Investment in Canada, Revised Intentions (2nd quarter), 1988.

Since 1985, a trend towards levered buy-outs of major U.S. food companies has affected some of their subsidiaries in Canada. These include Beatrice Foods, Standard Brands, General Foods and Carnation. Some of these buy-outs have resulted in mergers -- for example, Nabisco with Standard Brands; others, such as Beatrice Foods, have resulted in the spin-off of subsidiaries. The purchase of Beatrice Foods Canadian operations by Onex Corp. of Toronto is a case in point.

Interest in the North American food market has stimulated investments in Canada by globally oriented companies wanting to position themselves for the Free Trade Agreement (FTA) market and to diversify their sources of raw material. Acquisitions and investments by firms such as Cargill Inc., Elders IXL Ltd. and Hilldown Holdings are good examples. The level of interest by foreign MNEs is a vigorous and positive force for re-orienting the Canadian food industry towards global markets.

Notwithstanding this lively interest in Canadian food companies by foreign investors, Canadians still have a strong involvement in the industry through direct ownership. Indeed, the Canadian-owned companies' share of total sales in the industry in 1984 was 73 percent. However, the recent upturn in investment activity mentioned above could indicate an increase in foreign ownership in selected food sectors in the years ahead.

## **Domestic Market**

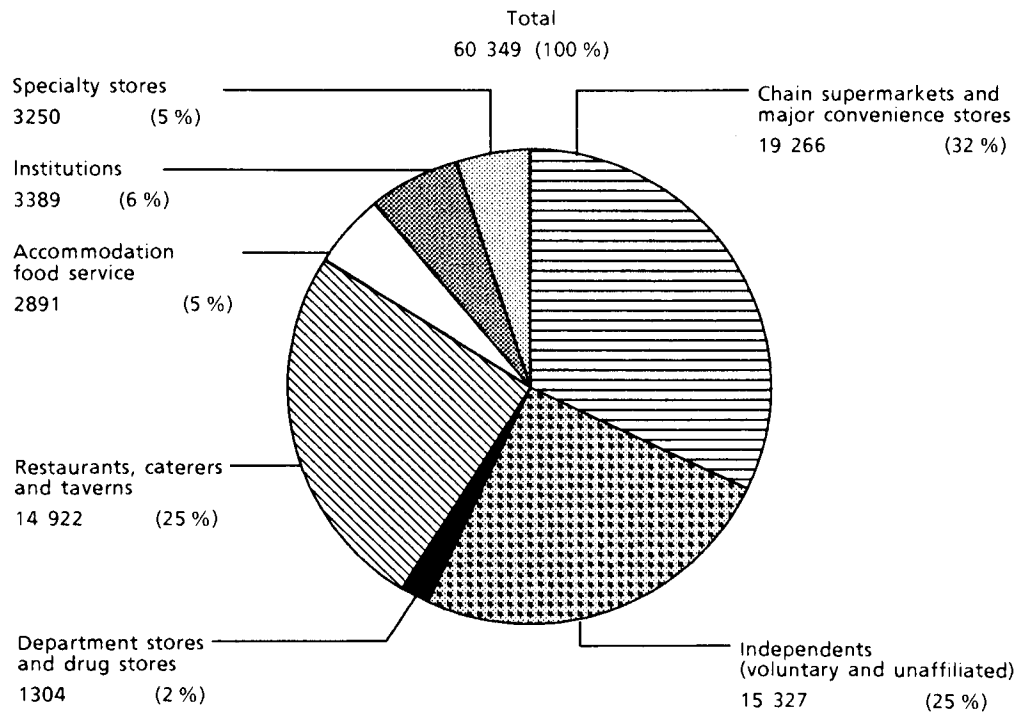
### **Consumer Demand**

Because Canada's population growth rate is slowing down, growth in the domestic demand for food and beverage products is correspondingly modest. However, with the continuing influx of women into the work force, a growing ethnic population and increasingly sophisticated consumers, the industry is finding new markets within the shifts and changes in food preferences and eating habits. Consumers seek unique, fresh and high-quality products that are easy to prepare and match the individual, fast-paced lifestyles of today. Most of the growth in food sales is expected to take place in food service sales and higher value-added products.

According to Agriculture Canada estimates, food prices were forecast to increase by 2.8 percent in 1988 and by three to five percent in 1989. Prices for retail food are expected to increase at this same rate, while those for restaurant meals could increase by four to six percent in 1989.

Major domestic outlets for the industry, food retail stores and hotels, restaurants and institutions, are illustrated in Figure 5.

**Figure 5  
Domestic Market Sales -- 1987  
By Major Outlet (\$ millions)**



Source: Food In Canada.

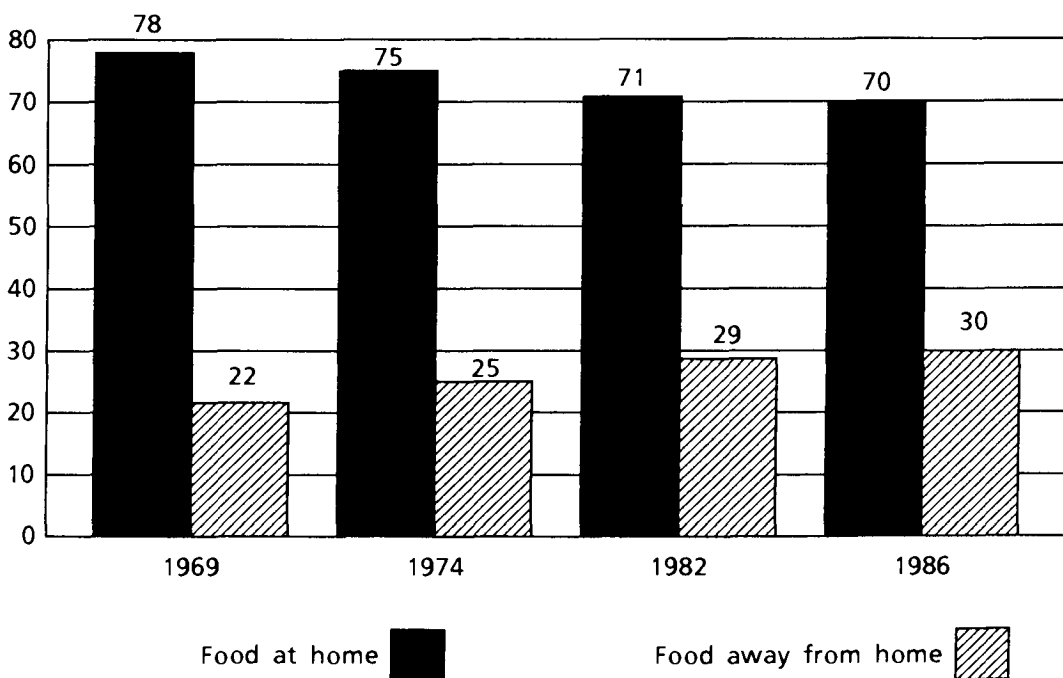
### **Retail Food Stores**

Food sales in the whole Canadian food and beverage retailing universe were almost \$38 billion in 1987. Combination stores, that is major chain and independent supermarkets, accounted for 71 percent of retail food sales followed by grocery, confectionery and sundries stores, the fastest growing category, with 20 percent. The balance is accounted for in "all other" specialty food stores and department stores. Not included in these figures for the total food retailing universe is the marketing of food and beverage products through alternative outlets, such as gas bars and drug stores, that until recently did not sell food. Sales through these outlets are expected to pass the \$1 billion mark in 1988.

### Food Service Sector

Food service sales in hotels, restaurants and institutions, the food and beverage industry's second largest account, were \$21 billion in 1987, an increase of over 25 percent since 1984, and are projected to exceed \$22 billion in 1988. These sales, in a growing market for food products, represent about 35 percent of consumers' total food expenditures. Compared to ten years ago, food consumed away from home is an integral part of today's lifestyle, with the average person eating out 140 times in 1987. The growth in this highly fragmented industry has been in the fast-food market, take-out outlets and catering services. The challenge for food processors in satisfying the food service market will be in providing unique, portion-controlled, high-quality, convenient-to-cook products that eliminate the need for highly trained cooks and chefs.

Figure 6  
Weekly Food Expenditure  
(% of Total)



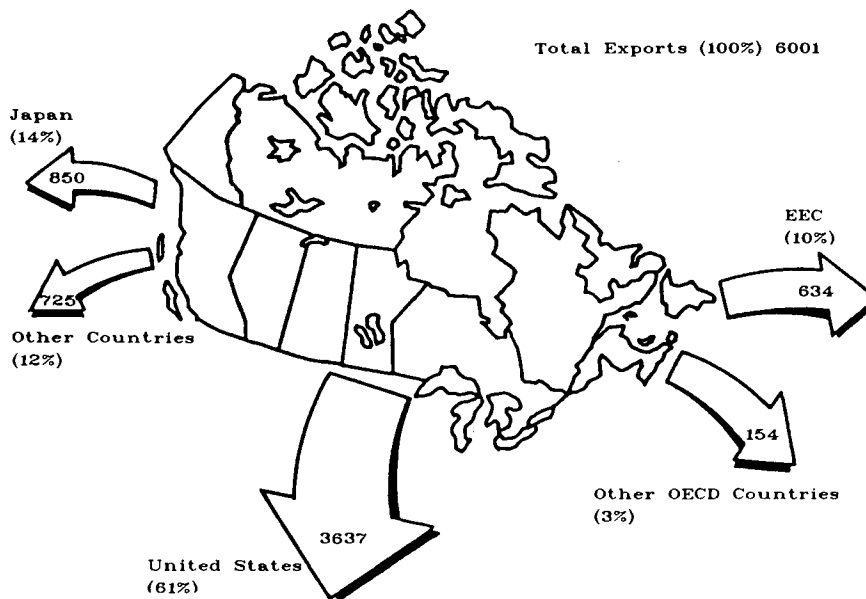
Source: Statistics Canada, Family Food Expenditure in Canada.

### International Trade

On average, approximately 14 percent of the industry's output, over half of which is fish and meat products, finds its destination in foreign markets. In our major market, the United States, Canadian products account for about 15 percent of American imports of food and beverage products. The Free Trade Agreement (FTA), will further facilitate our trading relationship with the United States. The structure of trade with our next two largest partners, Japan and Europe, is changing. Food and beverage exports to Japan have increased by almost 50 percent since 1983, with fish and pork products accounting for nearly 80 percent of the total exports in 1987.

Although today our half-billion-dollar food exports to the European Community are relatively stable, the composition of these exports varies considerably. These changes in the make-up of our trade reflect its commodity basis, where relatively unprocessed products predominate. For example, fish products alone account for 60 percent of the trade flow. Canadian exports of value-added food products are effectively curtailed by the EC's variable import levy system and by differences in food product standards.

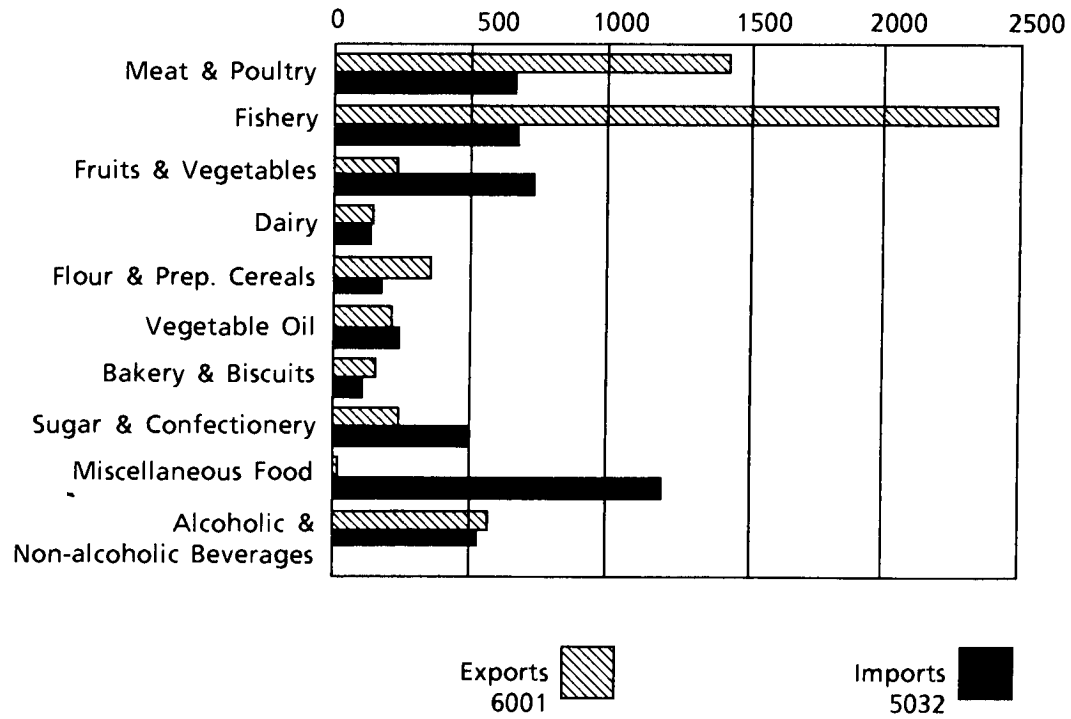
**Figure 7**  
**Destination of Exports of Canadian Food and Beverage Products**  
**(\$ millions, 1987)**



Source: Commodity Trade by Industrial Sector, ISTC.

Because of our climate as well as consumer desires for variety and new tastes, imports account for about 12 percent of the domestic market on average. About one third of processed food and beverage imports are tropical products such as tea, coffee, sugar, spices and prepared fruits and vegetables. While Canadian exports are heavily weighted towards commodity products such as fresh pork and frozen fish, imports are a more balanced mix of value-added products.

**Figure 8**  
**Exports/Imports of Canadian Food and Beverage Products**  
**Selected Industry Sectors - 1987**  
**(\$ millions)**



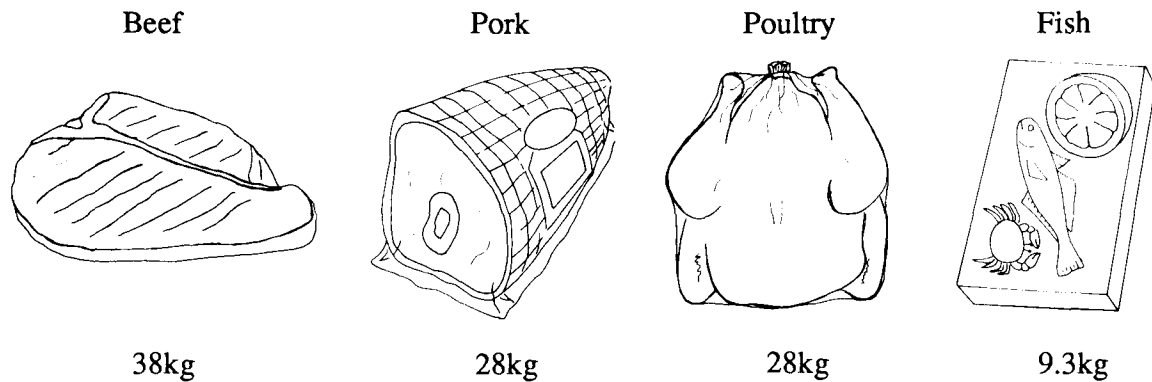
Source: Commodity Trade by Industrial Sector, ITC

## Statistics and Trends

### Meat and Poultry Products

- The largest employer in the food industry complex, the meat and poultry products industry, provides jobs for 40 000 people in some 630 plants.
- With sales of more than \$10 billion in 1986 and an estimated \$11 billion in 1987, meat and poultry products account for 25 percent of the total food processing and beverage industry shipments.
- Apparent per capita consumption of red meat in Canada has declined by eight percent during the period 1980 to 1987, while apparent per capita consumption of poultry products increased by 18 percent, and another popular protein food, fishery products, increased by 15 percent over the same period.

Figure 9  
1987 Per Capita Consumption for Selected Protein Products

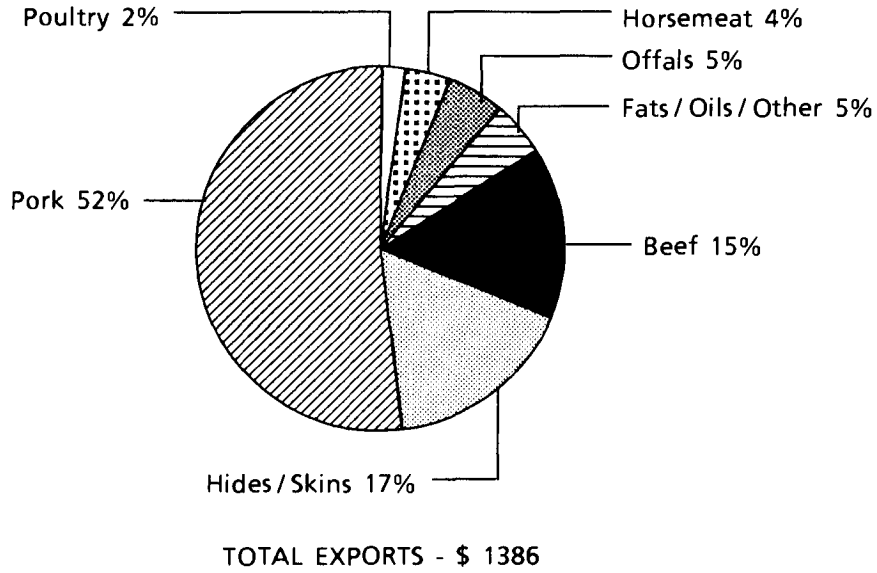


Source: Statistics Canada, Apparent Per Capital Consumption.

- Important to international trade, meat by-products (offals, hides and skins, fats, oils, etc.) represent 27 percent of total exports.



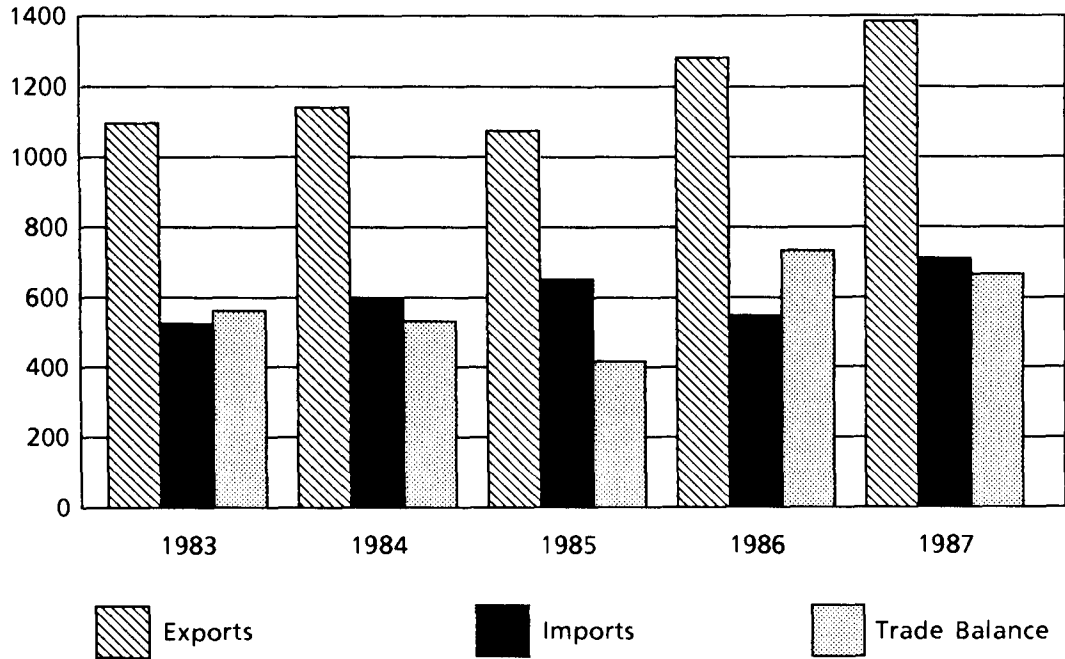
**Figure 10**  
**Meat And Poultry Exports -- 1987 by Commodity**  
**(percent)**



Source: Compiled by ISTC using Statistics Canada

- With exports of meat and poultry products valued at \$1386 million in 1987, Canada had a positive trade balance of \$669 million.
- About 64 percent of exports are destined for the United States.
- Japan, a growing market for pork and beef products, receives 14 percent of Canadian meat exports.

**Figure 11**  
**Meat and Poultry Products**  
**Exports/Imports/Trade**  
**(\$ millions)**

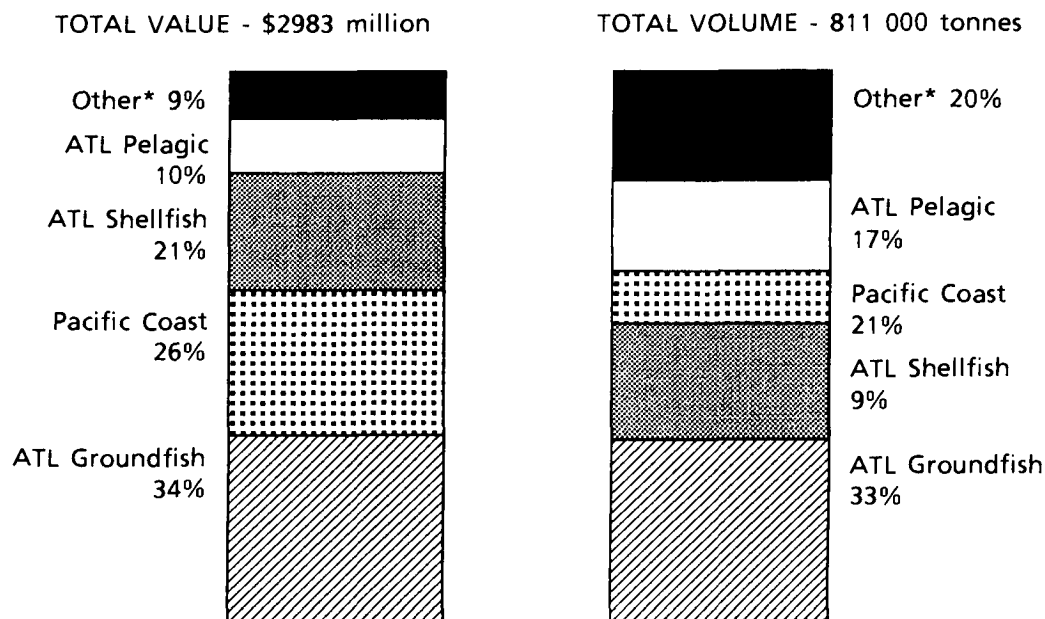


Source: Commodity Trade by Industrial Sector, ISTC.

## Fishery Products

- Fish processors employ about 27 000 people and ship products worth \$3.0 billion in four distinct sectors: Atlantic groundfish (primarily cod), shellfish, pelagics (herring) and Pacific species (primarily salmon and herring roe).

Figure 12  
Production of Fishery Products by Category -- 1986  
(percent)

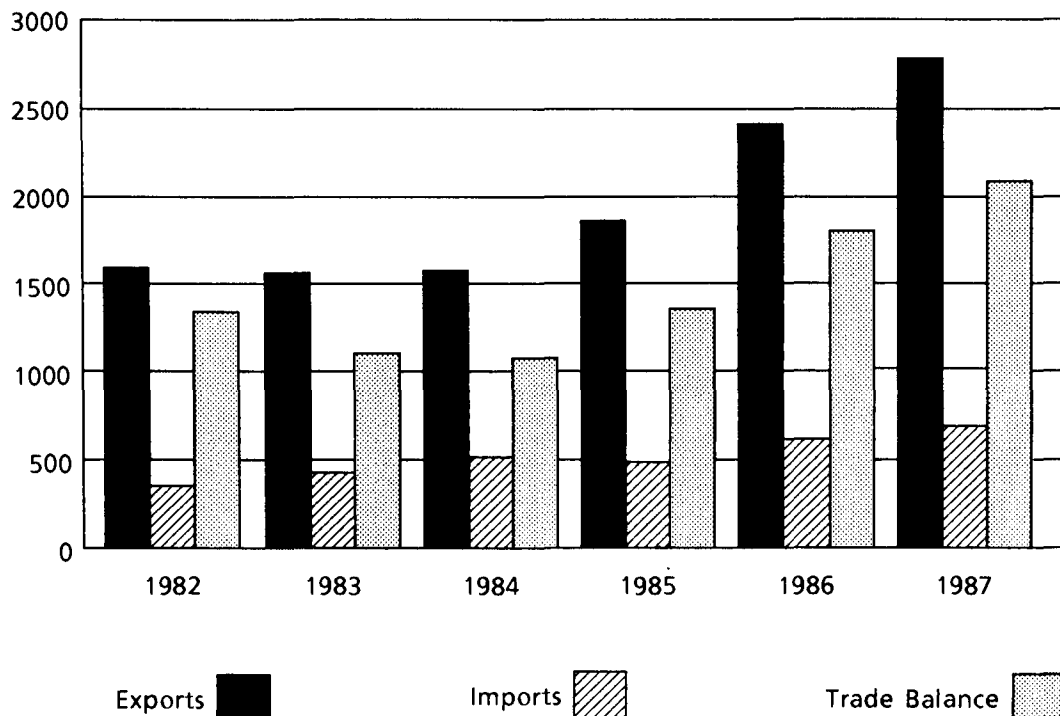


\* includes Inland Fisheries meal and oil.

Source: Fisheries and Oceans

- Canada is the world's largest exporter of fish, closely followed by the United States and Denmark.
- In 1987, more than 80 percent of the Canadian production went to foreign destinations (\$2.8 billion): fish product exports account for 40 percent of all food exports.
- Imports reached nearly \$700 million in 1987, primarily species not harvested or processed in Canada, and the positive trade balance continues to grow.
- The United States is Canada's most important export market for fish products, taking about 60 percent of total exports; per capita consumption of fish in the United States has increased in recent years from 5.8 kg in 1980 to 7.0 kg in 1987.
- Canada's second- and third-ranking destinations are Japan and the European Community.

Figure 13  
Fishery Products Trade --1982-87  
(\$ millions)

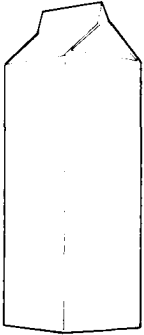
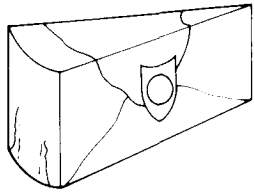


Source: Commodity Trade by Industrial Sector, ISTC.

## Dairy Products

- The dairy products industry has 25 500 employees in more than 390 plants to process raw milk and cream into fluid milk and cream, natural and processed cheese, creamery butter, condensed and evaporated milk, milk powder, ice cream, yogurt, frozen desserts and yogurt-based fruit drinks.
- Shipments in 1986 totalled \$6.8 billion, ranking dairy products second after meat in total value of food and beverage production.
- Per capita consumption of dairy products remains stable, but fat-reduced milk products are gaining at the expense of standard milk.
- Growth opportunities exist for new varieties of specialty cheeses, fat-reduced dairy products, quality ice cream/frozen desserts and dairy-based fruit juices and drinks.

**Table 3  
Per Capita Consumption  
Selected Dairy Products  
(retail weight)**

	1970		1986
<b>Litres</b>			
partly skimmed milk -- 2% butterfat	30		63
standard milk -- 3.5% butterfat	59		30
fluid cream	3.4		4.3
<b>TOTAL</b>	<b>92.4</b>		<b>97.3</b>
<b>Kilograms</b>			
variety cheeses	1.5		4.4
processed cheese	2.0		2.7
cheddar cheese	1.9		2.7
cottage cheese	0.9		1.3
<b>TOTAL</b>	<b>6.3</b>		<b>11.1</b>

- Exports represent only three percent of total shipments in the industry, and imports account for two percent of the domestic market; international trade in dairy products is limited by many countries using a range of regulatory measures which include import controls coupled with domestic price-support systems.

## Industrial Ingredients

- Employing an estimated 18 000 employees in more than 600 plants, ingredient companies produce sugar, flour, starch, malt, vegetable oils, milk powders, meat extracts, spices, flavourings and many other essential products used to manufacture value-added products (baking goods, biscuits, cereals, pasta, confectionery, snack foods and several beverages).
- The feed industry, a crucial component of the animal protein industries, provides feed ingredients and complete feeds to the meat, poultry and dairy complex.
- With an estimated value of \$5 billion, industrial ingredients products have a relatively low value-added component when compared to downstream industries. For example, the value-added component for flour is 20 percent while that of bakery products is 54 percent. Earnings increase through volume of sales and reliability of markets.
- Concentration of production is a characteristic of the sectors listed in Table 4. With the exception of the feed industry, the remaining basic sectors are dominated by relatively few companies -- for example, there are only three sugar refiners, three maltsters and three major flour millers.

Table 4  
**Industrial Ingredients In Selected Sectors**

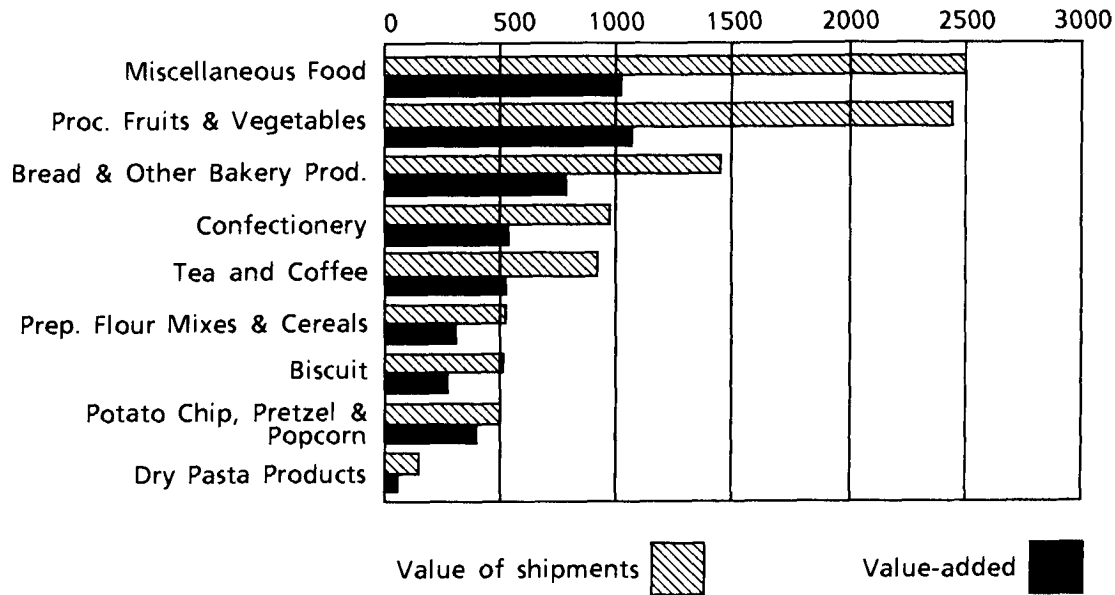
Selected Sectors (1986)	# of Plants	# of Employees	Value of Shipments (\$ millions)
cereal grain flour	40	2932	867
vegetable oils	11	1052	732
starch	9	1000	75
cane and sugar beet	8	1915	466
malt	3	500	200
feed	550	9400	2600

- The cost of raw materials, usually about 70 percent of the total value of shipments, is crucial to the competitiveness of ingredients. The industry, therefore, is highly sensitive to international agricultural commodity prices and substitutions of other ingredients.
- Total exports of major industrial ingredients -- flour, sugar, vegetable oils and feed -- valued at almost \$600 million in 1987, account for an average of 12 percent of total value of shipments of these products; approximately 50 percent of exports are destined for the United States.
- Imports of these items, on average, account for 14 percent of the Canadian market.
- Canada has a positive trade balance for flour and feed products and a negative trade balance for sugar.

### **Packaged Grocery Products**

- Employing more than 93 000 people in nearly 1 500 establishments across Canada, this food group comprises five major sectors: processed fruits and vegetables, prepared flour mixes and breakfast cereals, bakery and biscuit products, confectionery, dry pasta, snack foods and miscellaneous products, including such items as condiments, baby foods and dehydrated soups.
- Valued at more than \$14 billion in 1986, packaged grocery products, traditionally a major value-added group, is a sector where explosive growth in product introduction is taking place. These food items typically contain a wide variety of raw ingredients.

Figure 14  
Value of Shipments and Value-added  
Selected Packaged Grocery Products -- 1986 (\$ millions)



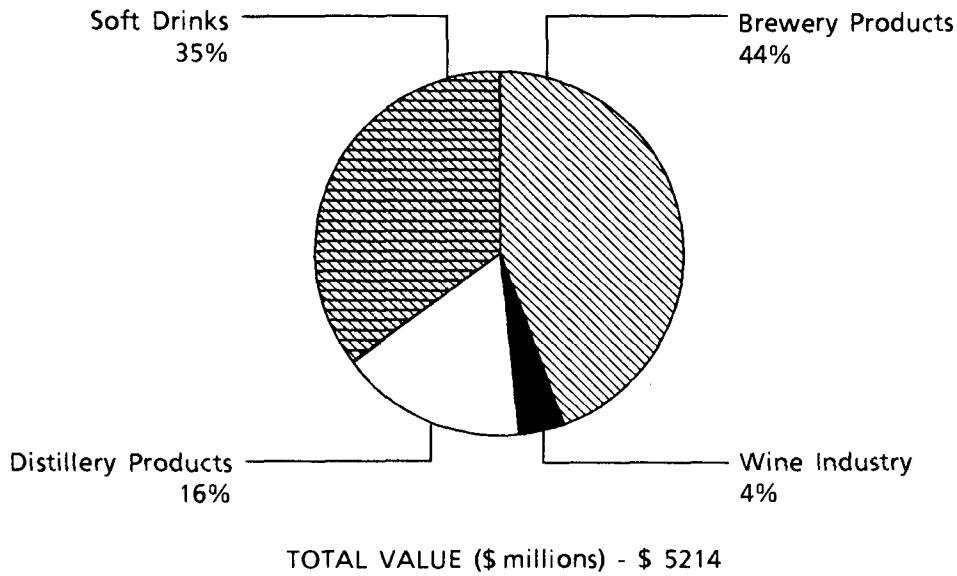
Source: Statistics Canada, Census of Manufactures.

- Companies in this food group range in size from small businesses to large multinational corporations and can be characterized by nationally and internationally recognized brands and product differentiation.
- Total exports of packaged goods are relatively modest when compared to some primary processed products such as meat and fish products; however, exports are significant in some product categories, namely, confectionery, prepared cereal products and some frozen items.
- Imports of food products for this sector, valued at \$2.4 billion in 1987, are significant and account for almost 50 percent of all Canadian food and beverage imports. Items of particular importance (and for the most part not produced in Canada) are tea, coffee, cocoa, orange juice, tropical fruits, vegetables and juices and out-of-season processed fruit and vegetable products. As a result of brand loyalty and geographic identification, many niche markets exist for other imported products such as jams, biscuits and confectionery.

## Beverages

- The beverage industry employs about 31 000 people in more than 300 establishments, 14 percent of the total food processing and beverage industry employment.
- With sales of beverages in the order of \$5.2 billion in 1986, the industry comprises four major sectors: soft drinks, distillery products, brewery products and wines.

**Figure 15**  
**Market Share by Value of Shipments**

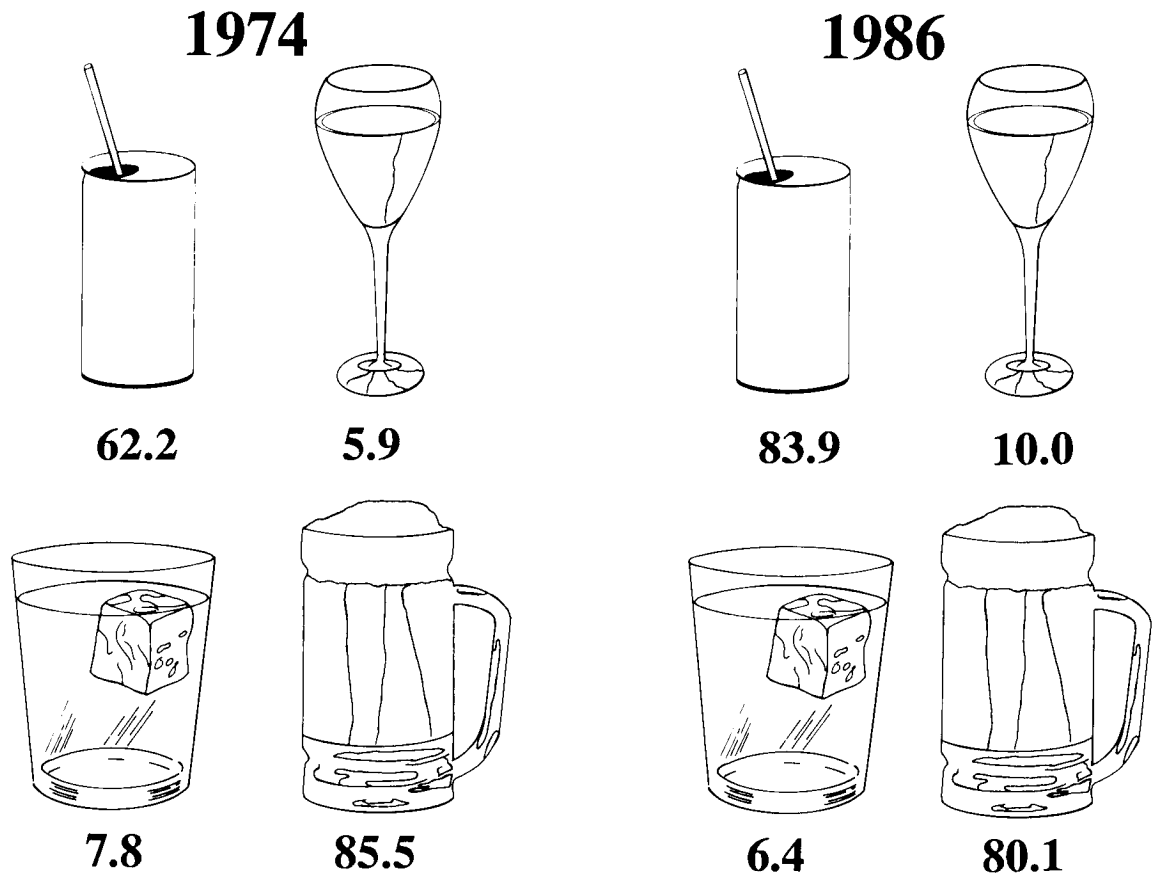


Source: Statistics Canada, Census of Manufacturers, Annual.

- Total beverage consumption is increasing at an annual average of three percent; but, within the sectors, consumption of wine, soft drinks and bottled water is exceeding this average. Consumption of beer and distilled beverages has declined in volume, from 93.6 litres per capita in 1974 to 86.5 litres in 1986 (see Figure 16).

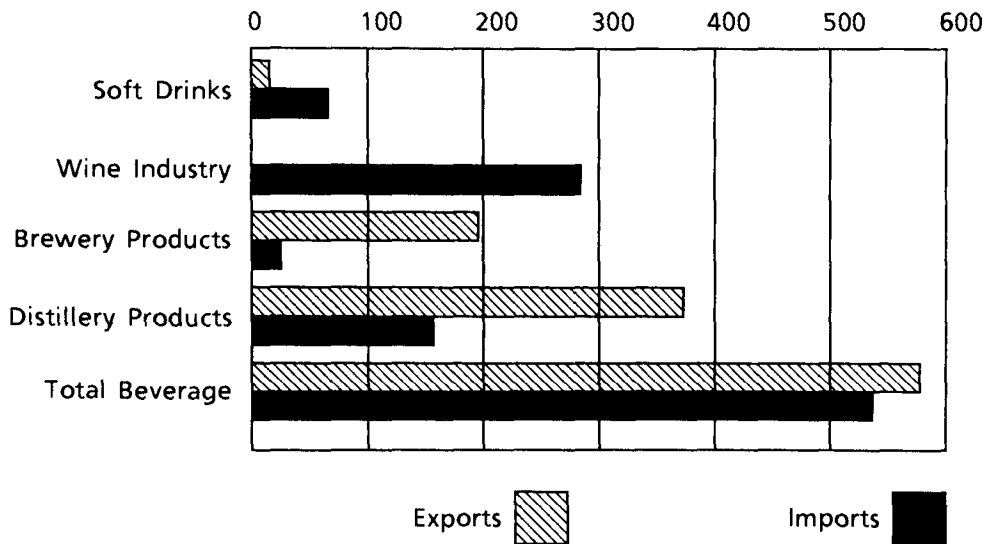


**Figure 16  
Per Capita Consumption  
Beverage Products (litres)**



Source: Statistics Canada, Apparent per capita consumption, Catalogue no. 32-229 and 32-230.

**Figure 17**  
**Exports/Imports of Beverage Products**  
**1987 (\$ millions)**



Source: Commodity Trade by Industrial Sector, ISTC.

- Exports, primarily distillery and brewery products, were valued at almost \$580 million in 1987 giving the Canadian beverage industry a positive trade balance of \$40 million. About 90 percent of beverage exports are destined for the United States, and 75 percent of all beverage imports, mostly wine products, are from the EC.

## **Value-added Appeals to Consumers and Shareholders Alike**

### **A Sign of the Times**

Canadian eating habits and food preferences have undergone dramatic transformations in the last ten years, and by all indications, an acceleration of this trend can be expected in the years ahead. Changing demographics, work force shifts, new family structures and varying lifestyles are creating both pressures and opportunities in the industry. The companies best prepared to meet this challenge are those that quickly and creatively respond to today's marketplace, and plan ahead for tomorrow's shoppers. A stroll through the contemporary supermarket will leave one overwhelmed by the extensive selection of further-processed products. Equally impressive is the number of unique eating experiences offered by the food service sector. With increasing interaction between producers, processors, retailers and the food service sector, products are being delivered that complement the lifestyle, preferences and patterns of today's consumer. Developing and marketing food items that have a fresh image and are top quality, portion-controlled, ready-to-serve or microwaveable, have created a high-stakes contest for food processors.

### **Today's Consumer -- A Mixed Grill**

Spontaneous and individualistic, the consumer increasingly controls what food products will be carried by food stores and the food service sector. Social changes have turned the manufacture of food and beverage from a product-driven to a market-driven business. The "one size fits all" notion cannot be applied to the more sophisticated and diverse demands of today's consumer.

Population growth in Canada has slowed to less than one percent per year. Nevertheless, large-scale changes in age distribution, such as the decline in the younger age groups, the

baby-boomer bulge and the increase in the elderly population, are creating a shift in food buying patterns and, in turn, in profitable opportunities.

The continuing rise in the number of women working outside the home as well as the declining size of the family means that fewer households are involved in meal preparation on a regular basis. Where time often replaces money as the most limited resource, food preparation has increasingly been transferred from homes to food service outlets. For those meals still prepared at home, consumers are looking to processors and marketers for shortcuts.

International travel, media exposure, spill-over from the United States and the influence of Canada's multicultural population have resulted in more adventurous food tastes. A growing variety of recipes involving new ingredients and techniques are borrowed from Asian, Mexican, Italian, Cajun and other foreign cuisines.

Awareness of the nutritional and health effect of both food and beverage products adds another important element to the demand equation. There is increased interest in fibre, high-protein, calcium-enriched products that are also salt-, cholesterol- and calorie-reduced. As a result of today's high levels of consumer awareness and available disposable income, expectations of product quality and demands for more product information are rising. The manner in which the Canadian food processing and beverage industry reacts to the variety of consumer preferences will influence its growth performance and opportunities in the free-trade environment.

### **Technology -- Package, Bag and Cook It -- Quick !**

Basic processing methods such as smoking, drying and fermenting, have hardly changed

over the centuries, while the more recently developed techniques such as freezing and irradiating, have been around since the 1940s. Benefits from research in biotechnology may be realized at the primary level, but not in the short term. What is really new is the advance in products and systems which support food preservation, retail purchase and convenience cooking.

Today's industry must manufacture products that not only taste good but also add shelf-life, enhance appeal and shorten cooking time.

A wide variety of packaging options is available. Although the food processing industry still use old standbys such as glass and metal containers, they have been rapidly adopting flexible packaging (aseptics, retort pouches and dual-ovenable paper), microwaveable containers, aluminum cans and plastics, plastic laminates and specialty films.

The use of information and vision technologies at the supermarket to bring about just-in-time inventory control and faster service to customers, is forcing food suppliers to take into account the retailer's hourly grasp of customer preferences and product profitability.

The widespread use of microwave ovens in Canadian homes has opened opportunities for processors to reformulate and increase their value-added product lines.

## **Market Forces -- Between a Rock and a Hard Place**

Market pressures on the food processing and beverage industry are felt all along the food chain -- from the farm gate or fishing wharf to the retail stores or food service outlets.

Overshadowed by stable growth which reflects Canada's slowing rate of population increase, the industry faces a saturated market. As well, the market is highly uncertain, characterized by fast-paced taste revolutions and input-price fluctuations. Prices for eggs, poultry and milk are regulated by marketing boards in Canada's

supply management system. Fruit and vegetable prices are set by provincial marketing agencies. Distribution costs are relatively high, given the country's geography and population concentrations. The small domestic market has limited the development of economies of scale opportunities (which will expand as the FTA takes effect). High marketing costs, pressures from imports and the increasing clout of the retail and food service sectors are factors which add stress as products proceed along the chain towards the consumer.

## **How is the Industry Responding? -- More Bang for the Buck**

Some companies favour asset restructuring through mergers, joint ventures and acquisitions, or by major expansion and modernization of plants leading to rationalization and more efficiency. A few recent examples are Nabisco Brands Limited's acquisition of Interbake Foods Ltd., the joint venture between Molson Breweries and Kirin Beer, and new investment by Campbell Soup Company Limited, Canada Malting Co. Ltd. and Quaker Oats Canada.

A second area to which companies are turning for sales expansion is the export market. Successful ventures have demanded quality products and follow-through on buyers' needs. A case in point: because pork processors supplied brochures in Japanese and catered to the Japanese preference in specialty cuts, the industry increased its share of Japan's food imports from Canada. Playing in the international arena can help to improve capacity utilization, gain global recognition and increase profits.

Other companies are listening as never before to intelligence gathered at the check-out counter. Working with their distribution links, they are putting attractive new products on the shelves in the expectation of increasing bottom-line growth through diversification. For them, value-added products are the prime area for innovation because substantial reductions in their production costs are stymied by market

constraints and the natural limits implicit in existing processing technologies.

## **The Smorgasbord -- What's New on the Buffet?**

Here is a sampling of sector developments.

**Meat** -- The red meat industry's main product is fresh and frozen commodity meats, a factor which has historically limited the industry's after-tax profit on sales to one percent on average. However, the continuing shift to boxed beef since the 1970s has helped to move meat processors towards more profitable value-added products. A more recent approach to meat marketing emphasizes case-ready products -- individually packed cuts of beef and pork which have been trimmed at the plant to retailers' specifications.

Today's lean, well-trimmed meat products are more in tune with consumers' preferences and healthier lifestyles. Opportunities exist in both retail and food-service sales for new top-quality, single-portion meat products, requiring less preparation time and often including spices or sauces. Sausage products, being easily modified, are continually emerging in new forms and flavour combinations to satisfy a variety of tastes.

**Poultry** -- The poultry industry is aggressively pursuing a product diversification strategy. New categories include frozen entrees and specialty cuts ranging from stuffed and marinated chicken parts to fajitas and kebabs. Chicken sold in the form of restructured meat products such as nuggets and patties, has gained wide acceptance, particularly in the fast-food business.

**Dairy** -- Supported by dairy farmers through generic milk advertising campaigns which stress the nutritional benefits of milk products, dairy processors have increased product lines by introducing fat-reduced milk, yogurt and cheese products, new variety cheeses and dairy-based natural fruit drinks.

Although the bulk ice cream market for volume users is typified by few product changes, tight profit margins and slow growth, the more profitable fad-driven novelty segment has grown an estimated 50 percent in the past five years. In this category, premium ice cream products and innovative items in a wide variety of flavours and shapes are now available, including sandwiches, sundaes, products on sticks and ice-cream desserts.

**Fishery Products** -- A broad range of fishery products, such as frozen fillets, smoked, pickled and canned items, is marketed in both fresh and processed forms. In response to strong consumer interest in seafood, most supermarkets are now selling fresh fish and shellfish through fish boutiques, staffed with specially trained personnel who are knowledgeable about preparation methods. Following the convenience trend, fish processors, in addition to marketing traditional pre-cooked, breaded and battered products, are placing a growing emphasis on microwaveable fish entrees and other higher value-added items. The transfer of surimi (minced fish) technology from Japan started a new trend towards marketing imitation shellfish products such as crab legs and claws.

**Industrial Ingredients** -- Companies which produce food ingredients for other food processors are increasingly diversifying the product lines away from basic products such as sugar, flour and cornstarch towards a new range of engineered products. Through the use of novel processing technologies these companies now offer numerous alternative sweeteners, substitutes for fat, textured vegetable proteins, natural flavourings and colouring and an array of custom-designed enhancers, conditioners and extenders. The commitment to research and development typical of these firms has permitted them to tailor products for food processors who are now selling to an increasingly sophisticated and demanding market.

**Beverages** -- The market for beverages is somewhat seasonal and highly segmented. The demand for diet drinks which began in the early 1960s expanded the market in both the alcoholic and non-alcoholic segments. Based on appropriate product positioning and supported by large advertising budgets, some beverage

companies continue to match products to today's lifestyles, resulting in a proliferation of new flavours and blends. These range, in the alcoholic sector, from blush and light wines and spirits-based coolers to premium beers and, in the non-alcoholic sector, from flavoured bottled waters to exotic fruit juices and flavoured drinks.

**Packaged Grocery Products** -- Inherently more flexible in concept than many other foods, packaged grocery products are frequently reformulated in image and content. For example, in an attempt to regain ground from the move to fresh, or what appears to be fresh, some canned food companies are re-positioning traditional products such as soups. The new versions are formulated from "gourmet" recipes and come with an enhanced image of wholesomeness. In the convenience food sector, a large number of familiar products such as cake mixes, flavoured popcorns, sauces and dips, have been modified for microwave cooking. Taking advantage of the somewhat ironic demand for both high- and low-calorie confectionery, processors are catering to both ends of the spectrum, from gourmet chocolates to diet jams and desserts.

Bakers and biscuit manufacturers are creating new fibre-filled products in an acknowledgement of health concerns. Heat-stable artificial sweeteners just coming out of the research lab will enable bakers to expand their product offerings for the calorie counters. As well, wholesale bakers are fulfilling the consumer's desire for fresh baked goods by supplying frozen, pre-formed products to retail, in-store bakeries.

Tasty ready-to-cook prepared meals and side dishes using traditional and international recipes are already on shelves, and chilled foods are next in line to win a niche in the market for quality, convenience foods.

## **Food for Thought**

Although not all companies need to create new products to capitalize on current market trends,

most are examining their options in relation to the emerging consumer environment.

Each company, having unique strengths and weaknesses, is the best judge of its own capabilities and market opportunities. Manufacturers must make a thorough assessment before a business plan is developed. For those who are unfamiliar with the process but want to improve their performance by exploring new avenues to market value-added products, the experience will appear expensive and complex.

Producing a new product may require the acquisition of special equipment. Adequate financial resources are needed for researching, testing and developing a prototype. Creating product awareness for the new entry as well as the cost of advertising and promotion requires up-front marketing investment.

These are only a few general factors a firm must consider before launching a new product. While significant value-added opportunities continue to emerge in the food industry, not all companies have the need, interest or capability to exploit them. To those that do, the challenge awaits.

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