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Taste of Tomorrow

Trends and Outlook in the Food Processing and Beverage Industry 1990



Canada

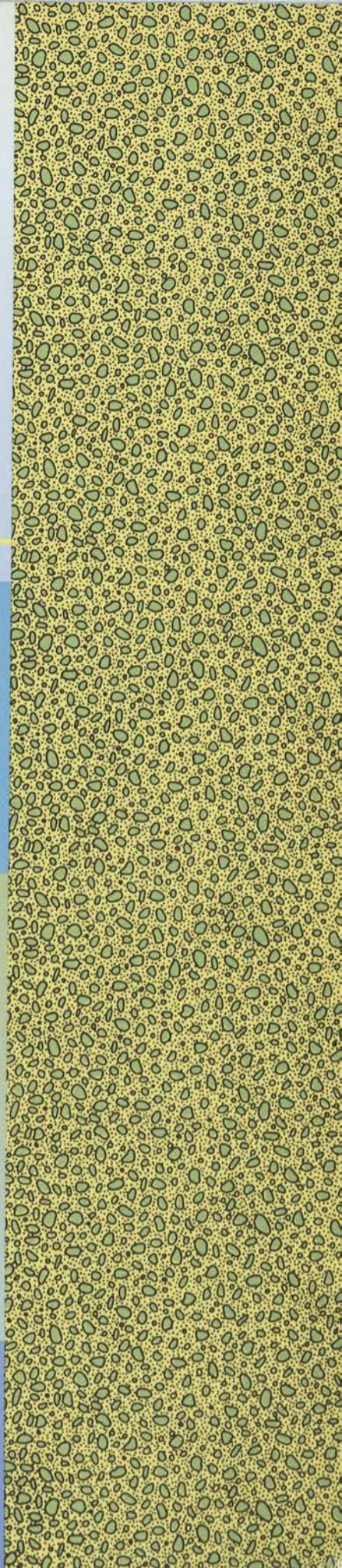


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INTRODUCTION

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 Industry, Science and Technology Canada (ISTC). It provides an overview of the state of the industry, key statistics, and a short résumé of current trends and prospects in each major sector. Where actual figures were not available, the data is based on estimates.

Each edition of this publication features a section on a current topic of interest to everyone in the food and beverage industry. This year, it's an analysis of the global food market.

It should be noted that references to particular firms or corporate strategies in no way represent endorsements. In addition, any such references are intended to be illustrative, not all-inclusive.

More detailed information is available on specific food and beverage industries in ISTC's *Industry Profiles*. These publications have been prepared for the following food and beverage industry sectors:

Bakery Products	Fishery Products — Pacific Coast
Biscuits	Flour Milling
Brewing	Fruit and Vegetable Processing
Cane and Beet Sugar Processors	Malting
Confectionery	Meat and Meat Products
Dairy Products	Oilseed Crushing
Distilling	Poultry and Egg Processing
Fishery Products — Atlantic Groundfish	Soft Drink Manufacturers
Fishery Products — Atlantic Pelagics	Starch
Fishery Products — Atlantic Shellfish	Wineries

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INDUSTRY OVERVIEW

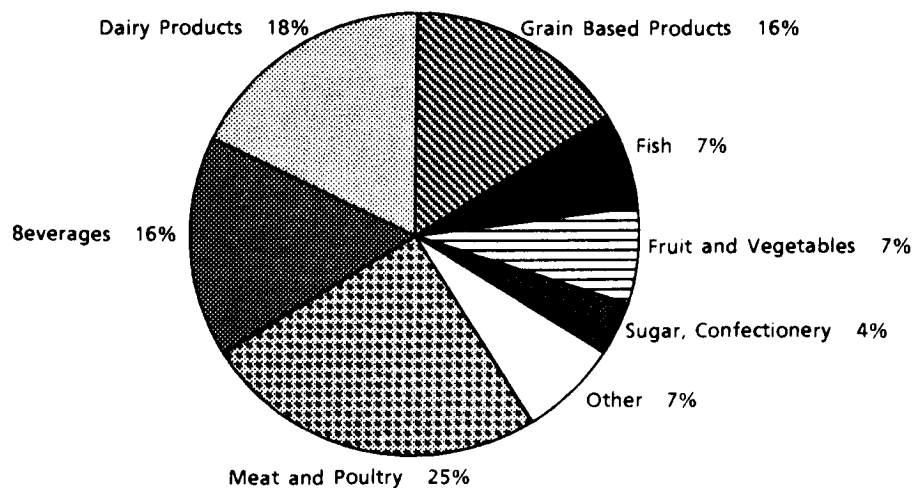
The food and beverage industry is a major contributor to the Canadian economy. In 1988, the value of shipments grew by 4.4 percent to reach \$42.5 billion. The industry is characterized by slow but steady growth and is generally recession-resistant. Real industry growth rates are not expected to exceed one percent for the next two years.

The sector employs 250 000 people in more than 4 000 plants across the country. Employment is fairly stable although there have been marginal decreases as the industry rationalizes and improves its production efficiency.

Twenty-five sub-sectors make up the food and beverage industry. Food products account for 84 percent of shipments while the beverage industry accounts for the remaining 16 percent.

Figure 1

***Food and Beverage Sector Components, 1988
Based on Total Industry Shipments (\$42.5 Billion)***

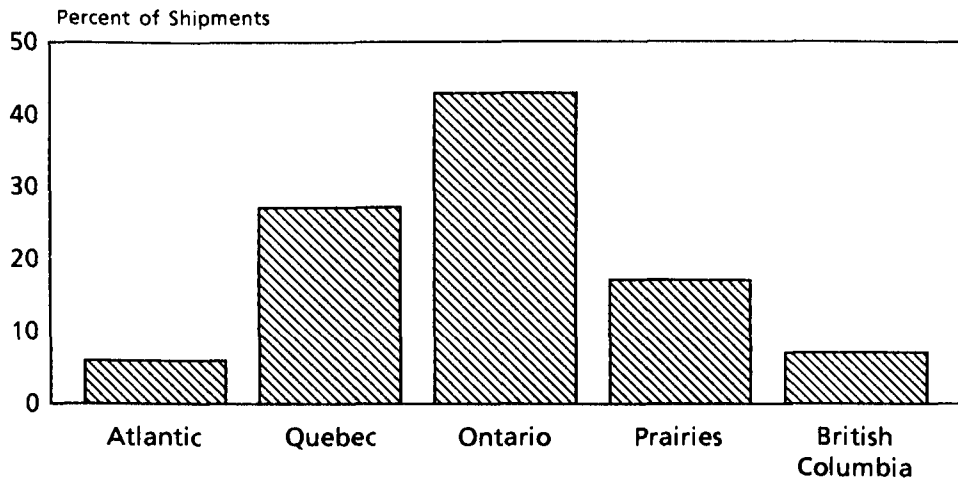


Source: Statistics Canada.

Profits in the industry are traditionally low but vary greatly by sub-sector. Profitability in the dairy and bakery sectors has been the most consistent, while profitability in the fish industry has been cyclical. The drought in North America contributed to a sharp increase in prices for many agricultural products. This, in turn, contributed to increases in input costs with related decreases in profitability.

The food and beverage processing industry in Canada is broadly based. Production facilities are found in all regions of the country, in proportion to population density and influenced by the availability of indigenous raw materials. For example, much of the fruit and vegetable processing is located close to growing areas because fruit and vegetables are perishable. On the other hand, transportation costs make production of high volume, low value products such as snack foods or breakfast cereals more attractive if located closer to population centres.

Figure 2 *Regional Distribution of Production, 1986*
Food and Beverage Sector



Source: Statistics Canada.

Overall, the value of food and beverage processing industry shipments make it the fifth largest manufacturing industry in Canada. Its importance by region varies. The food and beverage industry represents a major economic activity in the Atlantic region and the Prairies, where it accounts for approximately one third and one fifth of respective regional

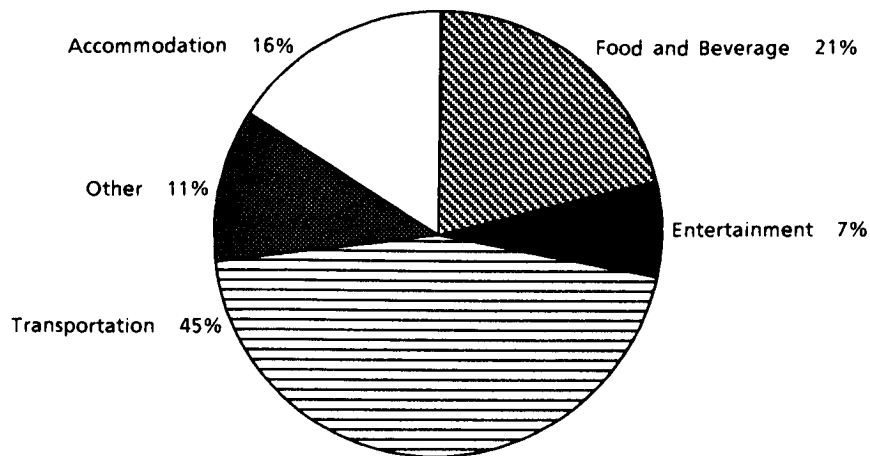
manufacturing shipments. While Ontario and Quebec account for 70 percent of the total food and beverage industry output, their economies are more diversified, and the food sector accounts for only about 13 percent of manufacturing output.

A Major Contributor to Tourism

The food service sector is a major market for the processed food and beverage industry. It is the second largest contributor to Canadian tourism revenues. Of the \$24 billion in tourism revenues in 1988, \$5 billion was spent on food and beverages. Approximately 153 800 jobs were directly related to these expenditures.

Figure 3

***Tourism Expenditures (\$24 Billion), 1988
By Category***



Source: Research Directorate, Tourism Canada.

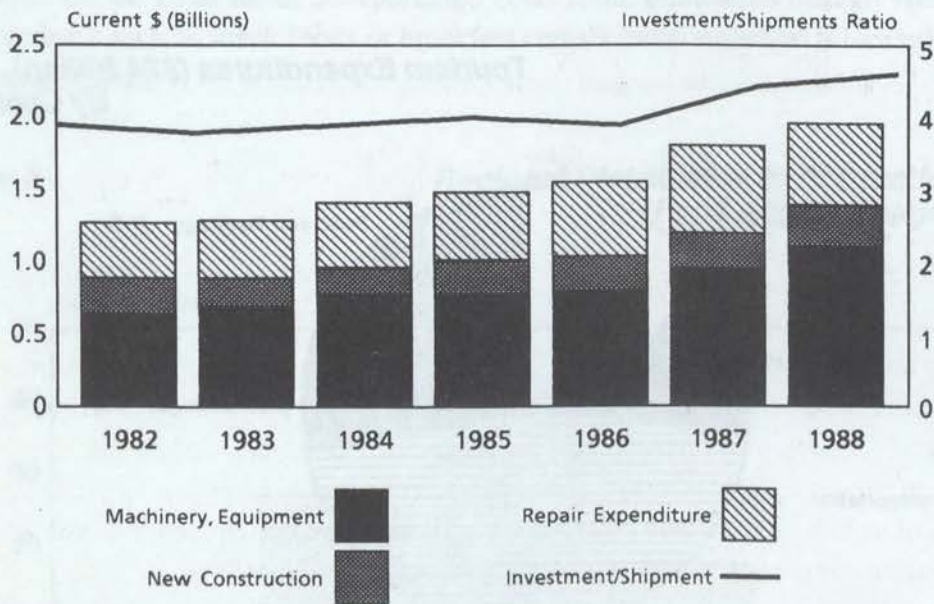
Continued Investment Strength

Food and beverage processors spent over one billion dollars in 1988 on new construction, machinery and equipment; total investments, including capital and repair expenditures, approached two billion dollars. Overall investment intentions indicated that the industry planned to invest slightly more in 1989.

There has been a gradual increase in the level of investments. In 1982, investments were equivalent to 3.9 percent of shipments. This grew to 4.5 percent of shipments in 1989.

New investments would appear to be directed towards modernizing existing facilities, increasing production efficiency and improving competitiveness. The new machinery and equipment component of investment expenditures has increased while the new construction component has decreased.

Figure 4 *Food and Beverage Investment, 1982-88*



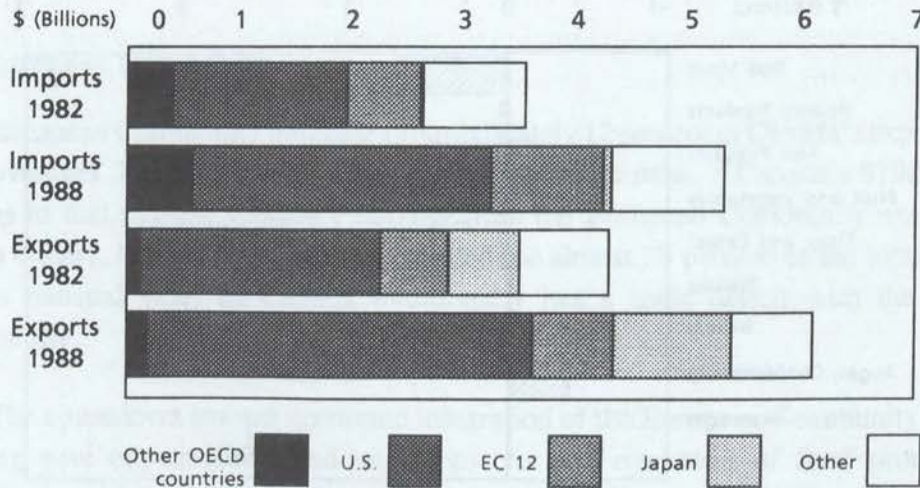
Source: Statistics Canada.

Changing Trading Relationships

Overall, the Canadian food and beverage industry is a net exporter, with almost 15 percent of shipments being exported. The U.S. continues to be Canada's largest overall trading partner and continues to grow in relative importance. Since 1982, the portion of Canadian food and beverage exports destined for the U.S. has increased from 50 percent to 60 percent while the share destined for the European Community decreased from 14 percent to 10 percent. Total food and beverage exports in 1988 were \$6.1 billion, up from \$4.3 billion in 1982. Total imports over the same period increased from \$3.5 billion to \$5.3 billion.

Figure 5

**Canadian Food and Beverage Trade, 1982-88
Shifts in Trade Patterns**



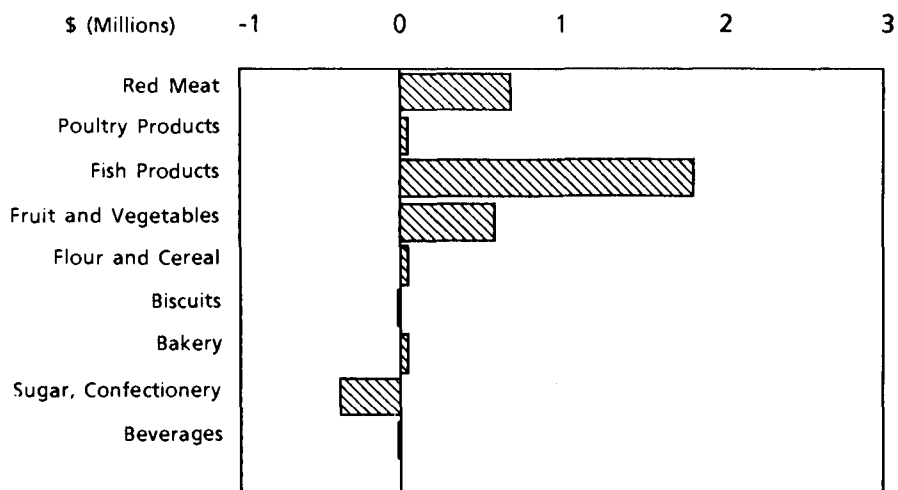
Source: Statistics Canada.

In all markets, Canada's major exports tend to be commodity items such as frozen fish and fresh pork although exports of value added items such as frozen french fries, brewery products and distilled beverages are also significant. Imports are a more balanced mix of value added products, of which about one third are tropical. Strengthening of the dollar compared to its U.S. counterpart makes the export market more challenging and increases Canada's attractiveness as a market for imports from other countries.

The Canadian food and beverage industry has historically enjoyed a net positive trade balance although each sector varies in its trade orientation. To illustrate, the fishery products and red meat sectors are net exporters. The fruit and vegetable sector, although heavily oriented to exports, is a net importer because Canadians consume tropical products and others not grown in Canada.

Figure 6

**Food and Beverage Sector Trade Balance, 1988
By Industry**



Source: Statistics Canada.

Recent events shaping international relations and trade will have a direct bearing on the Canadian food and beverage industry. Four markets merit particular attention — the U.S., influenced by the Canada-U.S. Free Trade Agreement; Western Europe, with the move to a single European market by 1992; Eastern Europe, with political changes leading to more open markets; and Japan, with its population's growing interest in western tastes and eating habits.

The U.S. — Canada's Major Market

The U.S. has traditionally been a major market for Canadian processed food and beverage products, and Canada has historically enjoyed a trade surplus with the U.S. In fact, the proportion of Canadian food and beverage exports sold to the U.S. increased from 48 percent in 1978 to 56 percent in 1988. On the other hand, the proportion of Canada's total food and beverage imports from the U.S. decreased from 56 percent to 50 percent over the same time period. Canadian food processing companies are responding to the Canada-U.S. Free Trade Agreement. With its proximity and familiar culture, language and values, the U.S. is an attractive market. Businesses on both sides of the border are re-examining their production and marketing strategies, assessing their competitive advantages and focusing their attention

on new market opportunities. Both governments are reviewing their agricultural policies, especially those related to the costs of agricultural inputs to the food processing industry, to maximize opportunities arising from this new environment.

The European Community

The European Community purchases approximately 12 percent of Canada's exports of food and beverages. In 1988, fish and red meat accounted for most of Canada's \$700 million in exports to that market. Canada's imports from the European Community exceeded one billion dollars, led by wine, which accounted for almost 23 percent of the total. This was not an unusual year, as Canada traditionally has a trade deficit with the European Community.

The countdown toward economic integration of the European Community in 1992 is creating new opportunities and challenges for the marketers of food products. The agriculture and food industries are among the most highly regulated in Europe, and the wide variety of national laws will be replaced by Community-wide legislative directives, technical standards, regulations and commercial guidelines. Canadian business strategists will be examining options to establish a presence in Europe. Strategic alliances, production licences and joint ventures are seen as important mechanisms for gaining an early foothold, especially for small and medium-sized businesses.

The Dawn of a New Eastern Europe

Recent events in East Bloc countries have the potential to bring about lasting changes as these countries move towards more market oriented economies. The speed of the transformation, while adding to the uncertainties in Europe, will undoubtedly create a range of new opportunities for enterprising food and beverage marketers. Consumer demand for products other than basic food items is largely unsatisfied, and the anticipation of increased prosperity could result in accelerated demand.

A two-way expansion of trade in selected products could be the eventual result of liberalization. In the short term, however, the shortage of hard currency may reduce investment opportunities and make it difficult for countries to pay for imports. In the meantime, some firms, mostly based in Western Europe, have already established joint

venture plants in Eastern Europe. As Eastern Bloc economies become more bouyant and agricultural bases become more productive, these countries will emerge as both markets of opportunity and potential competitors.

The Land of Rising Affluence

Japan leads the world in food imports and is Canada's second largest export market. Exports exceeded one billion dollars in 1988, led by red meat and fish products. Sales of vegetable oils and frozen fruits and vegetables have been growing. Imports from Japan are mostly limited to fish products not produced in Canada and have been over \$50 million annually since 1984.

Consumption trends in Japan are influenced by rising incomes and reflect a shift towards North American tastes. Rice consumption, while still significant, has declined by 30 percent over the past 20 years. Convenience is increasingly a factor. Recent tax reform in Japan has reduced taxes on items classed as luxury goods and could expand opportunities for exporters of these products. The strong market for luxury goods will continue because Japanese gift-giving customs are not expected to decline. For any products, Japanese consumers insist on high quality, good presentation and small packages.

Stone Age to New Age

Centuries ago, rudimentary food processing techniques to dry meats and ferment fruit juices were developed. Today, many technologies employed in the food and beverage processing industry are conventional ones based on fundamentals of food preservation developed decades ago. That does not mean there have not been changes in applied technology. Current technologies involve improvements and refinements intended to enhance product quality and minimize processing costs.

Canning is one such early preservation technology that has since been refined. Cans have evolved from steel to lighter aluminum. The "juice box" and related processing are other descendants of canning. Controlled atmosphere storage was developed in the 1950s for long term warehouse storage of fruits and vegetables. The produce was sealed in huge rooms where temperature and atmosphere were closely controlled. Modified atmosphere packaging is bringing this technology to smaller, consumer-sized packages as interest in chilled foods and minimally processed foods increases.

Technological advancements have led to increased availability and variety of prepared foods, extended shelf life, improved nutrition, greater convenience and enhanced food safety.

The food industry has benefited from research undertaken by other industries, and a great deal of new technology currently in use has come from outside suppliers. For example, equipment manufacturers developed automated processing and packaging lines used by food processors, and packaging manufacturers developed a wide variety of containers and packaging materials with applications in food.

The Canadian food and beverage industry itself does not invest heavily in research and development — less than one percent of sales. Most of this has been directed toward product improvement and new product development rather than basic research.

International competitive pressures and strong consumer interest in food quality and safety will accelerate technology adoption. Robotics may find more applications in food processing plants as operations become automated. Biotechnology will open the way for new food ingredients and will have a major impact on quality assurance programs as more rapid detection of harmful organisms becomes possible. Consumer demand for fewer additives in food will be the driving force behind the development of new processing techniques. Information technologies will bring about cost savings through improved processing and inventory control. The need for global marketing intelligence will accelerate adoption of global communication technologies. As we step into a new decade, technology is advancing more rapidly than ever before and will be a vital ally in pursuing newly created opportunities.

SECTORAL STATISTICS AND TRENDS

Meat and Poultry Products

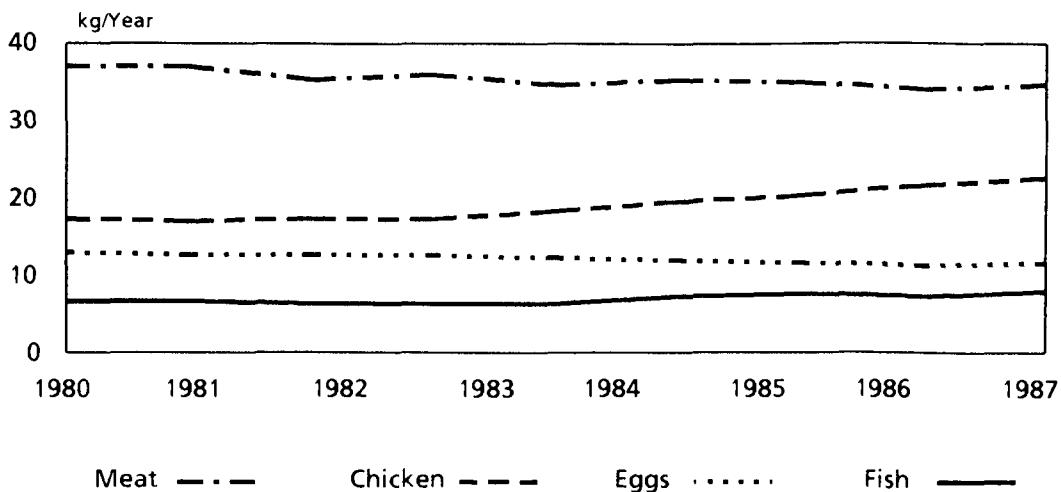
The largest employer in the food industry, the meat and poultry products sector, provides jobs for 40 000 people in some 630 plants. With sales in the late 1980s ranging over \$10 billion, this sector accounts for over 25 percent of total food processing and beverage industry shipments.

Over the past decade, some important shifts occurred in the consumption of beef, pork, poultry, eggs and fish due in part to consumer health concerns (such as cholesterol levels), demographics, ethnic mix, greater disposable income and changing life styles favouring more convenient products.

Since the late 1970s, per capita consumption of red meat in Canada has declined by more than 8 percent, while per capita consumption of poultry increased by over 18 percent. Fish and seafood products consumption increased by 15 percent over the same period. At the same time, table egg consumption has declined more than 16 percent although use of eggs in other foods has increased significantly.

Figure 7

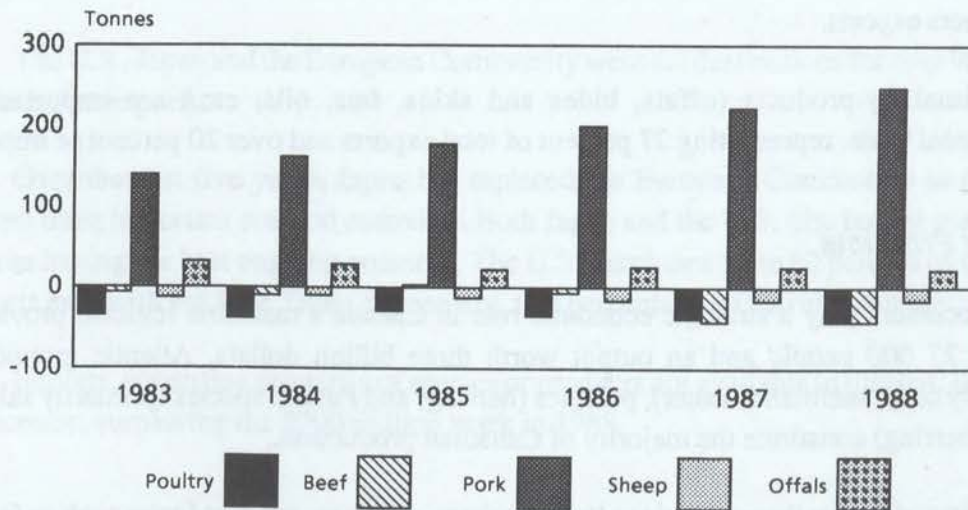
***Meat, Fish and Poultry Consumption, 1980-87
Per Capita Consumption Trends***



Source: Statistics Canada.

Figure 8

**Trade Balance in Meat/Animal By-Products, 1983-88
International Trade Balance Comparisons**



Source: Statistics Canada.

With exports of meat and animal by-products valued at \$1.332 billion in 1988, Canada had a trade surplus of \$581 million. This compares with exports of \$1.386 billion and a trade surplus of \$669 million in 1987.

Canada is a traditional net exporter of pork. Total pork exports were \$635 million or 48 percent of total meat and animal by-product exports in 1988. Pork sales to the U.S. amounted to \$431 million in 1988 and, in dollar terms, pork is the largest agri-food item Canada ships to the U.S. The imposition of a countervailing duty on Canadian fresh and frozen pork exports in 1989 has clouded prospects for continued success in this market.

Over the past several years, Canada has shifted from being a net exporter of beef to a net importer. Since 1986-87, imports have grown, particularly in high quality beef. In 1988, beef imports were \$442 million or 59 percent of total meat and animal by-product imports.

The U.S. is Canada's largest meat market, followed by Japan and the European Community.

With the European Community ban on beef produced with hormones and the application of countervailing duty on Canadian pork in the U.S. market, the Japanese market is expected to continue to grow in importance in 1990 for Canada's meat and animal by-products exports.

Animal by-products (offals, hides and skins, fats, oils, etc.) are important to international trade, representing 27 percent of total exports and over 20 percent of imports.

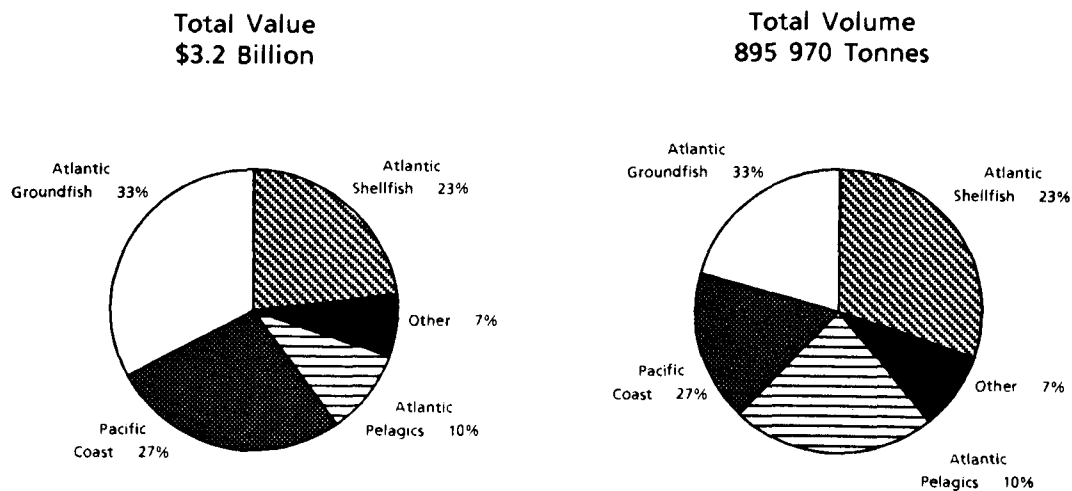
Fishery Products

Fish processors play a strategic economic role in Canada's maritime regions, providing jobs for 27 000 people and an output worth three billion dollars. Atlantic groundfish (primarily cod), shellfish (lobster), pelagics (herring) and Pacific species (primarily salmon and roe herring) constitute the majority of Canadian production.

Filletts still have the predominant market share, with new product forms such as frozen prepared meals, fish nuggets and surimi taking on more importance during the past few years. Canadian per capita demand increased from 6.7 kg in 1980 to 7.2 kg in 1987 due to the perception of fish products as healthy food.

Figure 9

**Fishery Production, 1988
By Category**



Source: *Canadian Fisheries Statistical Highlights*, preliminary 1988 version, Department of Fisheries and Oceans.

At over \$2.7 billion, 1988 fish exports from Canada were close to the record of nearly \$2.8 billion set in 1987. Fish products contributed more than 21 percent of Canada's exports of basic foods between 1986 and 1988 compared to only 14 percent between 1980 and 1982.

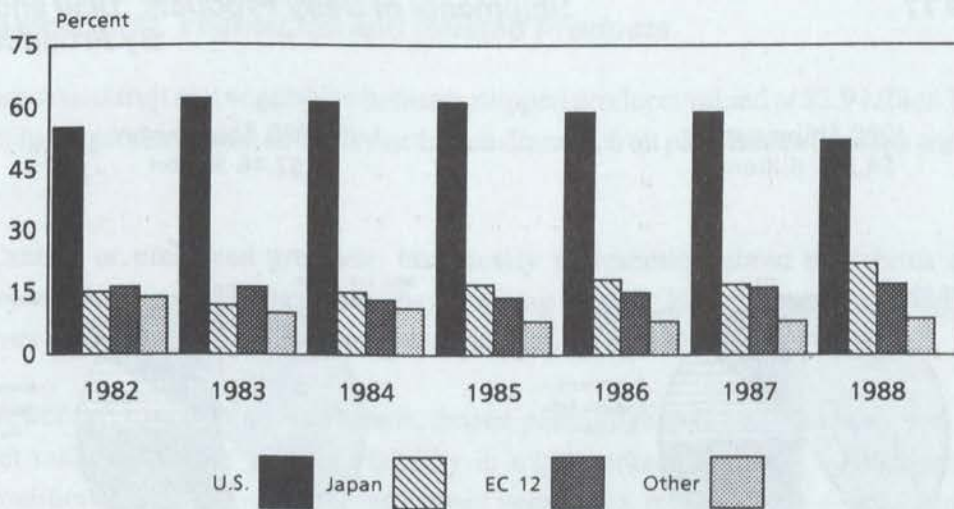
The U.S., Japan and the European Community were the destinations for over 90 percent of Canadian exports.

Over the past five years, Japan has replaced the European Community as Canada's second most important seafood customer. Both Japan and the U.S. (the largest market) are seen as having the best ongoing potential. The U.S. purchases 50 to 60 percent of Canada's exports and, with the Free Trade Agreement, this percentage will likely increase.

Imports, consisting primarily of species or products not available in Canada, continued to increase, surpassing the \$700 million mark in 1988.

Figure 10

***Export Destinations of Fish Products, 1982-88
By Share of Total Exports***



Source: Statistics Canada.

In recent years, aquaculture has been a high growth industry. After modest beginnings in trout and oyster farming, the value of production grew from under \$10 million in the early 1980s to around \$100 million by 1988. The main species cultivated are salmonids and molluscs. Increasing supplies have intensified competition for traditional markets, and prices of some species have been weakening.

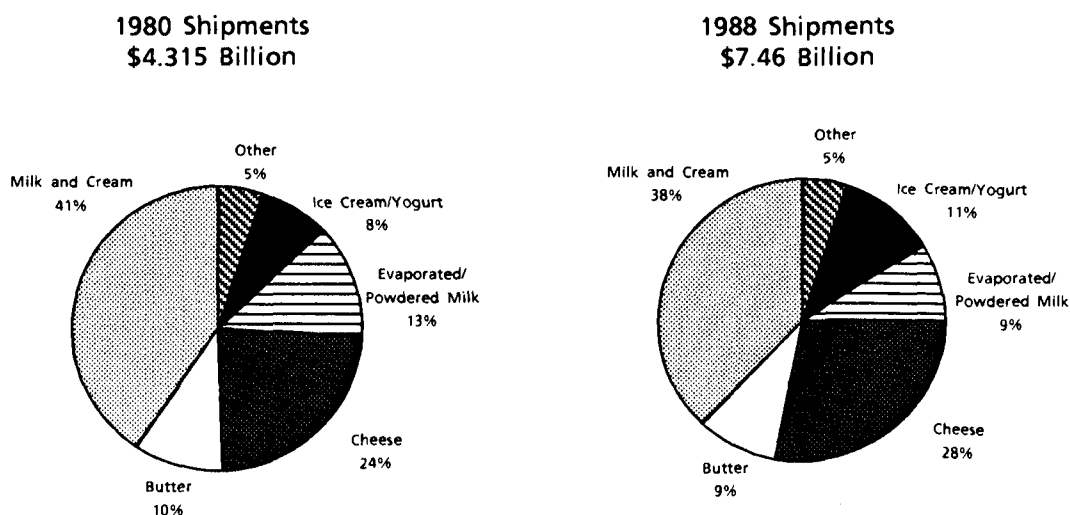
Shortages of some of the more popular species such as cod, coupled with high Canadian exchange rates affecting exports, have led major companies to reduce harvesting and processing capacity in order to minimize further profit declines. This is resulting in an uncertain investment climate, plant closings and serious adjustment problems in some east coast communities.

Dairy Products

The dairy products industry had shipments worth \$7.46 billion coming from 390 plants employing 25 500 people in 1988.

Figure 11

**Shipments of Dairy Products, 1980 and 1988
By Product Type**



Source: ISTC estimates based on Statistics Canada data.

Dairy products include fluid milk and cream, condensed and evaporated milk, powdered milk, butter, and various kinds of cheese, yogurt, ice cream, frozen desserts and yogurt-based fruit drinks.

The industry operates in a domestically oriented, highly regulated environment and is characterized by fairly stable levels of demand and production.

The strongest product growth areas have been in non-fat milk, variety cheeses, frozen and low calorie yogurt, and yogurt drinks.

Some processing innovations underway are expected to improve plant efficiency and lower production costs.

New products with improved flavour and nutritional value, less fat, and fewer calories are being developed. Items with potential for the next generation of dairy products include carbonated soda milk, high calcium skim milk, and fat substitutes such as Olestra and Simplesse, which could find their way into ice cream, sour cream and soft cheeses.

Processed Fruit, Vegetables and Related Products

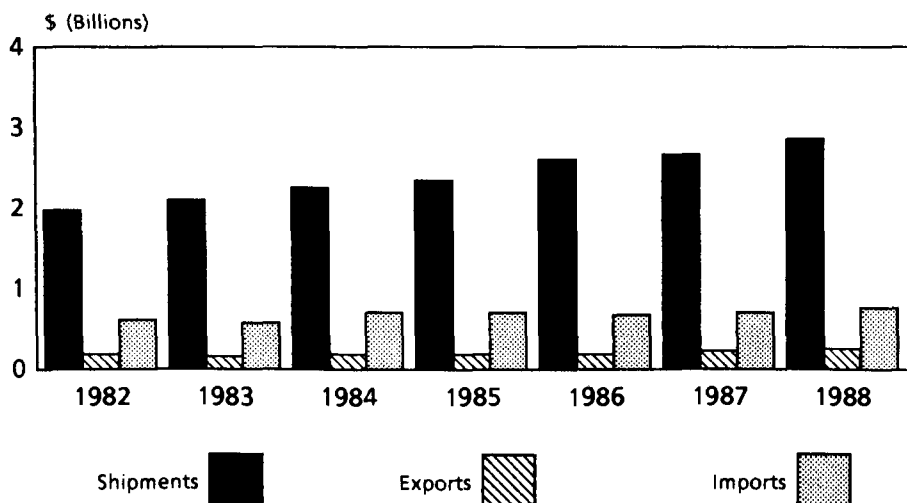
The processed fruit and vegetables industry shipped products valued at \$2.9 billion in 1988. This includes products such as chilled or frozen dinners, fruit pies, frozen desserts and frozen pizza.

Canned or preserved products, historically representing about two thirds of total industry output, are losing space in the shopping basket. Frozen goods, viewed by the consumer as fresher and more convenient, have grown steadily in popularity.

Newcomers such as chilled salads, frozen pasta-vegetable combinations and chilled gourmet ready-meals are gaining visibility in supermarket freezer/cooler sections while some traditional products — including canned vegetables, soup and jam — are losing shelf space.

Figure 12

**Fruit and Vegetable Processing, 1982-88
Shipments/Exports/Imports**



Source: Compiled by ISTC using Statistics Canada data.

The major export items include frozen blueberries, frozen and canned corn, and frozen french fries. Processed tomatoes, mushrooms, tropical fruit and juice are among the most significant imports.

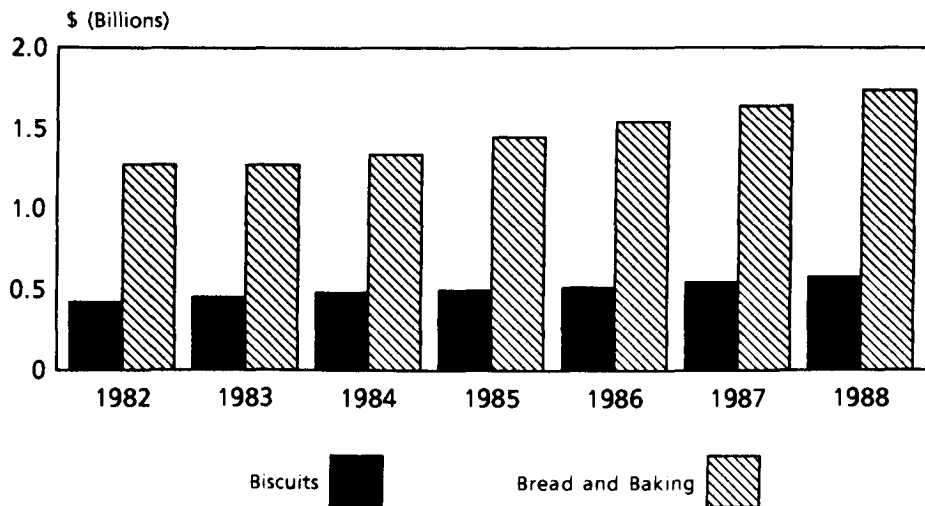
Biscuits, Bread and Baked Goods

About 475 wholesale baking plants, spread widely across Canada, employed more than 22 000 persons and shipped products valued at an estimated \$1.7 billion in 1988. Since baked goods are perishable, plants are generally located close to the final consumer. Major clients of the industry include the food service industry, institutions and retailers, who buy on consignment.

Traditional products include bread, rolls, cakes and pies. More recently, items such as croissants, pre-mixed doughs and frozen pre-formed pastries have grown in popularity. Baking firms are capitalizing on the movement to healthier eating habits by re-formulating products to include more fibre and less salt, sugar and saturated fats. Calorie reduced breads and calcium enriched products are also becoming more commonplace on supermarket shelves.

There has been an increase in franchise bakeries and bakeries operating inside retail stores producing fresh baked products. While these bakeries compete directly with wholesale bakeries in the retail market, they also represent a growing market for pre-formed dough products produced by wholesale bakeries.

Figure 13 *Biscuits, Bread and Baking Shipments, 1982-88*
By Value



Source: Statistics Canada.

As new packaging and ingredients are developed, there is evidence that wider ranging trade in some higher value added bakery products will develop. Pastries with shelf lives of near 18 months have been developed in Europe. Both the technologies and the products are beginning to spread to the North American market.

Biscuit manufacturing — which includes cookies, crackers, wafers and similar items — is a profitable but fairly mature industry sector. The value of shipments totalled about \$600 million in 1988.

Biscuit and cookie demand is experiencing slower growth as a result of the declining number of children in the population, more calorie conscious adults, and the increasing number of Canadians eating in restaurants, where these items are not frequently served. Premium quality, high-priced biscuits seem to be performing best under these market conditions.

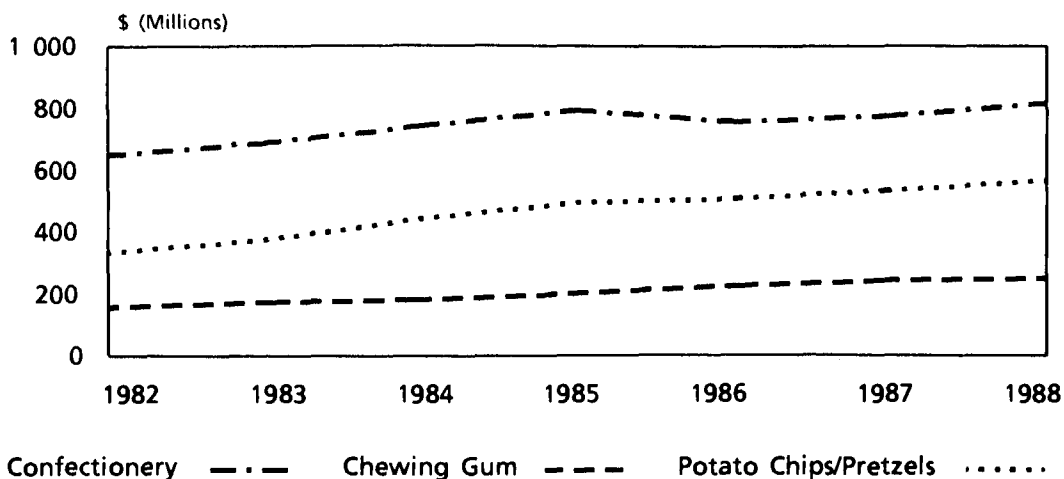
Biscuits can withstand transportation and have a long shelf life, while bakery goods tend to be more perishable. As a result, international trade in biscuits is more important than it is in baked goods.

Confectionery and Snack Foods

This sector includes production of chocolate products, hard and soft candy, chewing gum, and a variety of snack items such as popcorn, pretzels and potato chips. In 1989, it had estimated factory sales of \$1.6 billion.

To a large extent, firms compete on the basis of brand name, quality or the uniqueness of their products. Multinational firms such as Hershey, Rowntree Mackintosh, Effem Foods and Wrigley have significant Canadian processing operations that compete with domestic-based manufacturers such as Ganong Bros., William Neilson, Dare Foods and Allan Candy.

Figure 14 **Confectionery and Snack Food Shipments, 1982-88**
By Value



Source: Statistics Canada.

Children constitute a smaller proportion of the Canadian population than in the past. This has contributed to a slowdown in the domestic consumption of candy. Adults show a preference for granola bars, micro-wavable popcorn, flavoured potato chips and other specialty snack foods.

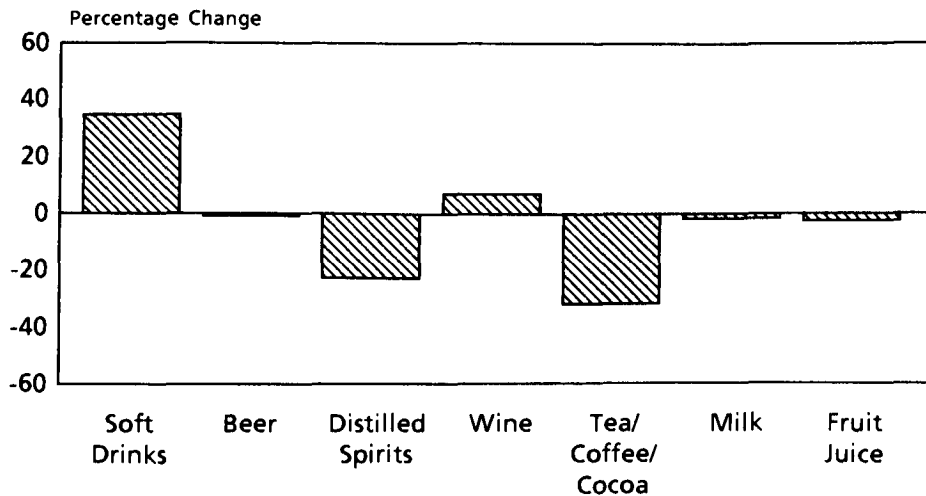
Canadians have developed a taste for premium quality European chocolates and hard candy. Imports of these items are now taking 8 to 10 percent more of the domestic market than was the case in the early 1980s. An increasing volume of chocolate shipments into the U.S. over the same period has helped Canadian chocolate makers offset some of the loss in the domestic market.

Beverages

Canadians can choose from an array of beverages to quench their thirsts — milk (whole, skim, partly skim), hot beverages (coffee, tea and cocoa), soft drinks, fruit juice, and alcoholic beverages.

Both low-fat and skim milk have shown increases in consumption while whole milk has declined. The attractiveness of milk as a beverage may be enhanced by consumer interest in increasing calcium intake.

Figure 15 *Beverage Consumption Patterns, 1980-88*



Source: Statistics Canada.

There is an overall trend away from hot beverages. Among all beverages, soft drinks are showing the largest increase in sales. This increase is driven by the availability of diet drinks and caffeine-free products that appeal to weight and health conscious consumers.

Since 1985, fruit-added drinks have been gaining in popularity. Among juices, orange is the clear favourite, accounting for over 50 percent of consumption.

Bottled waters, including those with flavours or juice added, are alternative cold beverages perceived to be low in calories, healthy and fashionable.

Consumption of alcoholic beverages has moderated, due to responsible use programs, price and tax increases, and health concerns.

The preference for white drinks such as vodka, gin and white wine continues, but there is a dynamic shift towards premium wines and spirits. Consumers are choosing quality rather than quantity.

Imported specialty or micro-brewed beers have increased their presence in the marketplace. Light beers and, more recently, dry beers have also become popular. At the same time, many consumers are price sensitive, responding to the availability of discount brands.

The value of shipments in 1988 lined up as follows: soft drinks — \$1.9 billion; tea, coffee and cocoa — \$1.1 billion; distilled products — \$900 million; wine — \$277 million; and beer — \$2.5 billion.

Export trade is dominated by distillers, who shipped approximately one third of their output or \$300 million to foreign destinations in 1988. Imports of tea, coffee, citrus juice and wine accounted for \$740 million.

Supporting Industries: Animal Feed and Industrial Ingredients

A number of intermediate industries supply key inputs or basic ingredients to companies manufacturing value added products, and there is a strong relationship between the supplying and producing industries.

Grains, oilseed meals and a wide range of food processing by-products form the first links in the food production chain. These products are used to produce animal feed and feed supplements, which are vital to the raising of animals for the meat processing and dairy industries.

The feed industry alone employs just under 9 000 people in some 530 establishments. The value of manufactured feeds shipped in 1988 was close to \$2.9 billion.

About 7 000 people are employed in processing industries that produce basic ingredients such as flour, malt, starch, sugar and vegetable oil, which are used to produce further processed goods.

Table 1

Basic Industrial Ingredients Sectors

	Number of Plants	Number of Employees	1988 Value of Shipments (\$ millions)
Flour Milling	38	2 800	950
Oilseed Crushing	11	1 000	880
Sugar Refining	8	1 800	500
Malting	3	500	225
Starch Manufacturing	9	1 000	80

In addition to basic ingredients, specialty products such as binding agents, conditioners, food colours, seasonings and coatings have an ever-increasing presence in most processed foods. These and other items play a key role in improving visual appeal, taste, uniformity and consistency and in increasing shelf life.

THE GLOBAL FOOD MARKET

What In the World Is Going On?

Globalization is becoming a key word in business strategies. A global (or transnational) corporation looks at the whole world as its market and sphere of operation. A global product is the same in all markets or world-wide. Globalization means that businesses, markets, customers, competitors and suppliers will be more interconnected than ever before. Multinational companies will become truly global companies, with operations in many countries — wherever they can do the job best. Smaller companies, on the other hand, will likely choose to serve global markets from fewer manufacturing bases and will have to adapt to compete with global penetration of their existing markets. Innovations in telecommunications and informatics are driving the globalization process.

Governments world-wide are seeking to expand markets and to reduce impediments to trade for their companies. International negotiations are focusing on improving the world trading environment. The Uruguay Round of the GATT negotiations will result in improved market access arrangements for a large segment of the world by the end of 1990. In the interim, countries eager to see changes are creating separate trading blocks. The Canada-U.S. Free Trade Agreement opens a North American market of over 250 million consumers. By 1992, a single European market with 320 million consumers will emerge. Similar coalitions are being examined by Pacific Rim countries.

As the World Turns

Global Companies

The food industry is already well positioned to serve the global marketplace, although there will be dynamic shifts in industry structure as market access opportunities improve. There are seven food companies within the world's 100 biggest industrial corporations (based on sales). Such familiar names as Nestlé, Nabisco and Pepsico are in this group. However, companies whose names are usually associated with non-food products often derive significant revenues from food. For example, Unilever and Occidental Petroleum derive over 50 percent of their sales from food. There are eight Canadian owned firms within the top 200 global food companies.

Mergers and Acquisitions

Market opportunities for food products are often better obtained through acquisitions than through dealing with the risks involved in attempting to launch new products or brands at home or abroad. In some cases, acquisitions not only add new products or brands to corporate lines, but also add to the corporate critical mass of resources necessary to be competitive internationally. Opportunities may also be created as portions of larger firms are sold off to finance acquisitions that better fit their new global strategies.

One example is the Hershey company, which acquired some confectionery lines from Nabisco as a result of a leveraged buy-out. In 1989, one of the most notable food-related corporate mergers in Canada was the Molson-Carling merger of brewing companies. This type of activity is not unique to Canada. In the U.S., there were 652 food related mergers and acquisitions in 1988. Some of these U.S. transactions had implications for the Canadian marketplace as subsidiaries in Canada rationalized their operations or were made available for sale in order to comply with Canadian foreign investment laws. In Europe, the \$30 billion packaged food industry was the first to experience a wave of restructuring as 1992 approaches. Since 1985, acquisitions there have more than doubled from an average of 20 annually to more than 40, and the trend is expected to accelerate, not only in Europe but also in all industrialized countries.

Economies of Scale/World Product Mandate

The ability to realize optimum economies of scale will be important in keeping mass marketed food products or staples priced competitively. Scale requirements vary between different packaged goods. Following a strategy of keeping product lines simple, Mars, a U.S. based international confectionery company, manufactures a limited number of products on a massive scale at a single plant in Virginia. The production technology required for each product is similar. Any new Mars product is required to achieve high sales volume in order to be economically produced on that scale.

Brand Importance

For particular grocery items, long term profitability increasingly hinges on the world-wide reach of powerful brands. Brands are expensive to maintain, in terms of advertising effort, and even more costly to create. They are, however, powerful marketing weapons. Rather than building an American market for its Highliner label, National Sea Products purchased Booth Fisheries, an American fish processing firm, and gained immediate market presence

in the U.S. with the Booth label. The importance of leading brands can also be illustrated by Pillsbury; 86 percent of the company's sales volume is from products that are either number one or two in market share.

Marginal brands will likely find it increasingly difficult to compete for shelf space. While consumer tastes are still distinctly different in every country, they are becoming more homogeneous, and brands can influence consumption habits. For example, instant coffee has surpassed tea as the beverage of choice in the U.K., and Nescafé has become synonymous with instant coffee. McCain has also increasingly come to mean french fries in Europe.

Consumer Preferences Respected Even Within Brands

While international brand names may facilitate market access, successful food companies have to be in tune with the differences of taste, culinary practices, culture, language, demographics, packaging and retailing practices in each market. They have to be prepared to fine-tune their global products to suit local tastes. While being careful to keep the company name in the forefront, breakfast cereal manufacturers have been responsive to changing markets. They have developed varieties of cereals to address consumer concerns — adding fibre, reducing cholesterol and reducing salt. They frequently reposition established products in this evolving market environment.

Market Niches

While sensitivity to general national characteristics is important, market responsiveness and market niches cannot be overlooked. In Japan, french fries are making inroads in the traditional rice diet. In North America, the food service market has spawned product opportunities at the grocery store level, as chicken fingers and nuggets, pizzas, and Mexican foods increase in popularity. Specialty conserves, gourmet meals (whether fresh or frozen), and premium ice cream and yogurt serve small but generally upscale markets. Some of these niche markets may be too small or too difficult for large food processors to serve profitably but present ideal opportunities for small to medium-sized processors, many of which are local. Where economies of scale may be important in handling standard food products, economies of scope are more important in serving niche markets.

Importance of Flexibility as Product Life Cycles Shorten

Product life cycles may become very short in the global environment. In the United States alone, thousands of food products have been introduced over the past five years, but only a handful have survived. New product introductions will still require marketing strength to be successful, but corporate flexibility will be the key to serving specialized markets. In this global environment, the timely identification of market opportunities through close linkages to customer issues, a commitment to quality and the willingness to take risks will be key competitive factors.

To Market, To Market — How Does One Get There?

Direct Exports and Alternatives

Foreign markets can be served by direct exports through the use of foreign agents, brokers, corporate export sales offices or export divisions. Alternatives to direct exports include contract production, licensing, joint ventures and establishing or buying wholly owned subsidiaries.

Exports are not Exclusive to Large Firms

Small food processors are generally more export oriented than their larger counterparts. A study by the United States Department of Agriculture (USDA) found that exports account for some four percent of total sales in the processed food industry. However, the exports of major U.S. food processors that account for almost half of the country's processed food sales amount to only 2.8 percent of sales. Their foreign operations, on the other hand, accounted for 20 percent of company revenues. Direct exports require the support of a good infrastructure in the export market. This is one of the reasons western Canadian meat companies such as Fletchers and Gainers have bought U.S. firms with established labels and distribution systems. These acquisitions will provide market support for Canadian meat exports.

Contract Production at Home and Abroad

Contract production offers opportunities for smaller food processors to access new and even unusual markets. Marks and Spencer, the large British retail chain, contracts for production of food products under its label in markets where it has retail operations.

Concentration in the food retailing business has been influential in expanding contract production as many food retailers are developing their own distinctive labels. With its President's Choice label on both food and non-food items and promotion of its Natural Beef label, Loblaw's is a Canadian example.

Licensing and Franchising — a Two Way Benefit

Licensing has proven to be an effective way of capturing offshore markets for products that are costly to transport over large distances because they are of low value and high volume or are highly perishable. An example is the offshore licensing of beer, which has led to the internationalization of such brands as Labatt's Blue and Molson Export although these brands are also exported directly to the U.S. market. Similarly, European and U.S. beers are brewed under licence in Canada, giving Canadian consumers a wider choice of beverages and Canadian breweries profitable market opportunities. In the dairy industry, Agropur has been producing the Yoplait brand of yogurt under licence from a French firm. The soft drink industry has used franchising to reach all corners of the world.

Leading-Edge Strategies — Technology Transfer and Joint Ventures

Successful companies that enter today's global marketplace are those that stay agile and combine technology and marketing skills to remain on the leading edge. In some centrally planned economies, joint ventures may be the only way of gaining market access at this time. In late 1989, Nestlé and General Mills Inc. announced a joint venture to market General Mills cereals world-wide and take advantage of the famous corporate image and brands. Terra Nova Fisheries Ltd. developed technology acquired from Japan for surimi production. Surimi production has transformed and upgraded the market for previously surplus fish and has established a new industry in Canada.

Wholly Owned Subsidiaries

Where raw materials are abundant and cost competitive, or where tariffs are high or non-tariff barriers are significant, manufacturers may choose to establish wholly owned subsidiaries in other countries. McCain has established subsidiaries in France and Australia. Multinational companies such as Heinz, General Foods and General Mills have wholly owned subsidiaries in Canada, where the domestic market can be served from a Canadian base. The brands are well recognized and supported by an extensive marketing network, including U.S. advertising seen in Canada. The John Labatt U.S. subsidiaries, Johanna Farms

and Chef Francisco, are complementary to the Labatt's Canadian dairy and processed foods operations. As the Free Trade Agreement brings about changes to North American tariff structures, there will be opportunities to further develop the north-south market. Least-cost inputs will be the key to determining production locations, especially for non-specialty items.

Are Canadian Processors Ready?

There are but a few Canadian multinational companies that have global operations. Canada Packers, George Weston, McCain, Seagrams, John Labatt, Molson and National Sea are examples. These companies, however, were not born as multinationals. They started as smaller independent businesses and were able to identify opportunities and seize them in a timely fashion. The same strategies apply in the global environment. A company must focus its attention on what it does best and develop a strong competitive base from which to successfully expand beyond the frontier.

Understanding the leading factors in the target market is an essential first step. In the 1990s, the range of factors that will influence the North American market will be headed up by health and nutrition concerns, environmental issues, consumer demographics, new technologies and labour availability. For example, fibre has been called the ingredient of the '90s as health and nutrition concerns will continue to drive markets in all industrial countries. Consumer preferences will continue to exert a strong demand for variety, quality, service, convenience and freshness of food products. Environmental issues are taking on greater importance and corporate attention to packaging, by-product utilization, waste treatment and waste reduction in processing will be important to reduce processing costs as well as to build customer loyalty.

Biotechnology and informatics will create opportunities for improved processing and quality control. Business systems will be increasingly automated as steps are taken toward a global society of paperless transactions. Traditional products with longer shelf life or new products may also be developed using new packaging technologies. The expected shortage of labour in service industries will expand opportunities for processors to prepare entrees centrally to supply restaurants and food service outlets.

Whether the choice is to pursue exports or excel in the new dynamics of the home market, it will be up to individual companies to create their own competitive edge in the new global environment. Canada is going global. Is the food processing industry?

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