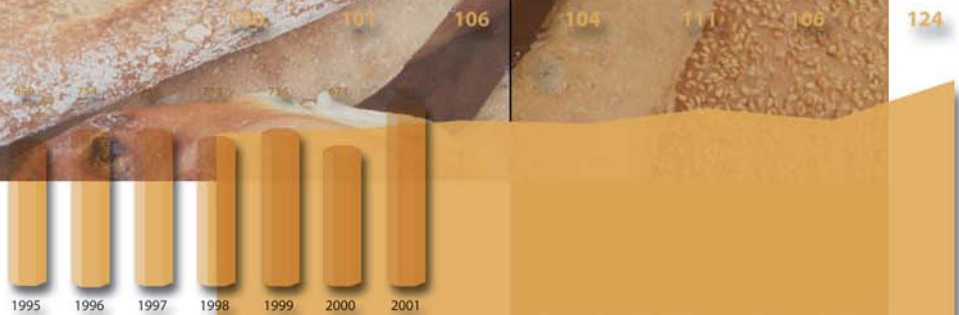




# Québec Bakery Industry Outlook



1995 1996 1997 1998 1999 2000 2001



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Readers are reminded that the views expressed in this report are those of Agriculture and Agri-Food Canada and are not the official views of other organizations or individuals.

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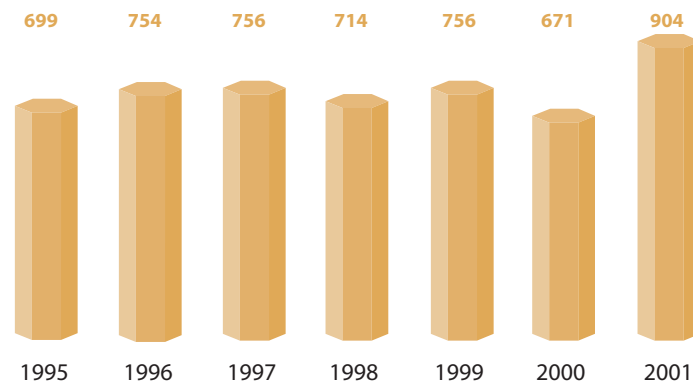
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## I. Bread and bakery product manufacturing industry

In Québec, bread and bakery product manufacturing accounts for 5% of activity in the food, beverage and tobacco industry.<sup>1</sup> Manufacturing shipments rose 8% between 1995 and 1999 and 34% between 2000 and 2001<sup>2</sup> (Table 1). In 2001, they totalled \$903.6 million, or 30% of the Canadian total, injecting \$457.5 million in value added into the Québec economy. There were 434 bread and bakery product manufacturing establishments in Québec in 2001, employing 8 485 workers.

Table 1  
**Bread and Bakery Product Manufacturing  
Changes in Value of Québec Shipments,  
1995 to 2001**  
(\$ million)



Source : Statistics Canada 31-203, CANSIM DEEAF from  
*La transformation alimentaire québécoise en chiffres.*



- 1 The Bread and Bakery Product Manufacturing Industry, as defined by NAICS code 31181, is part of the Bakeries and Tortilla Manufacturing Industry Group (NAICS 3118). According to Statistics Canada, NAICS 31181 comprises establishments primarily engaged in manufacturing bakery products, except cookies and crackers. Establishments classified in this industry may sell to commercial or retail customers, for consumption off the premises. For example, sweet bread, raisin bread, and pastry products such as Vachon cakes, croissants and donuts come under NAICS 31181. This report, however, looks solely at the fresh and frozen bread industry. For more information, log on to: [http://strategis.ic.gc.ca/canadian\\_industry\\_statistics/cis.nsf/idF/cis3118deff.html](http://strategis.ic.gc.ca/canadian_industry_statistics/cis.nsf/idF/cis3118deff.html).
- 2 Statistics Canada changed its annual manufacturing survey during this data interval. The survey universe was extended to all manufacturing units beginning in the 2000 reference year. Comparisons with prior years are therefore not possible.

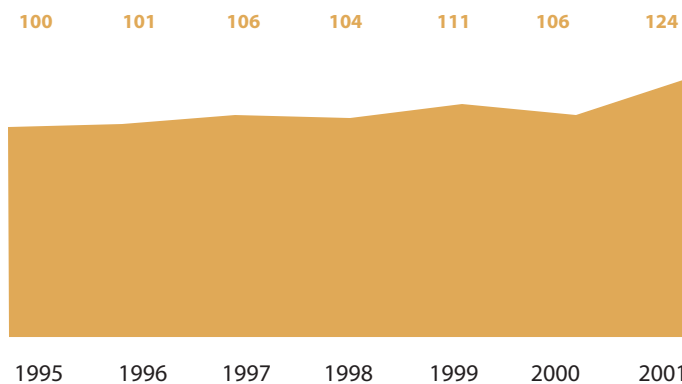
## II. Supply and markets

Manufacturing production in the bread and bakery product manufacturing industry is sustained by domestic market growth (Table 2). In fact, between 1995 and 1999, the domestic market in Québec grew by 9%. And between 2000 and 2001, consumer demand in this market rose significantly, by more than 32%, to \$879 million in 2001. This hike was partly due to a rise in consumer demand for fresh-baked home-style specialty breads made with new ingredients such as flaxseed, and quick-frozen partially-baked (par-baked) breads.

Between 1995 and 1999, exports of bread and bakery products rose by 18%. Exports have since seen strong growth, increasing by 116% between 2000 and 2002, to \$54 million. Imports, which are not as significant as exports, have remained stable, increasing from \$18 million to \$19 million between 2000 and 2002.

Table 2 **Bread and Bakery Product Manufacturing Changes in the Domestic Market in Québec, 1995 to 2001**

(\$ million)



\* Estimates based on Canadian apparent domestic market (manufacturing shipments + imports - exports).

Source : Statistics Canada 31-203, CANSIM DEEAF from *La transformation alimentaire québécoise en chiffres*.

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### III. Industry structure

Readers should note that, from this section on, the analysis covers only the fresh and frozen bread industry.

Industrial and home-style bakeries supply the Québec market with three (3) types of products: sliced breads, quick-frozen products (for retailers' bakery sections), and home-style breads. In 2003, three industrial bakeries, Canada Bread Company, Limited, Weston Bakeries Québec and Boulangerie Gadoua Ltée,<sup>3</sup> accounted for over 88%<sup>4</sup> of fresh sliced bread sales to retailers. These companies supply a broad range of sliced breads and/or quick-frozen products. Increasingly, the line separating industrial and home-style bakeries is becoming blurred. Home-style bakeries such as Boulangerie Première Moisson Inc. have automated parts of their production of home-style breads in order to increase their capacity and better position themselves to serve the superstore market. However, most home-style bakeries are still small, have no automated facilities, and have limited distribution networks.

#### 1. Changes in consumer demand

Segmentation of the Québec bakery products industry continues. Consumer demand for high-end products that “taste good and are good for you” is on the rise. Particularly popular are soft home-style rye, oat or spelt wheat breads with added ingredients such as olives or nuts. The ageing of the population and new Canadian regulations<sup>5</sup> requiring more detailed nutrition labelling have contributed to the increased popularity of health food products, which in turn has led to higher production of products made with olive or soybean oil, and fat-free and sugar-free products. In fact, the increase in popularity of breads with full grain flavour seems to be occurring at the expense of sliced white breads, known for their sweet flavour. The introduction of sliced organic breads made from unbleached flour may also be affecting the popularity of traditional, very white, bread. In sum, current changes seem to be leading to a loss of market share for sliced white breads. At the same time, the variety of par-baked breads is growing to include Belgian and Parisian loaves and pesto and sourdough bread.



- 3 See Appendix for the Web addresses of the major companies operating in Québec.
- 4 Canada Bread Company, Limited (35%), Weston Bakeries Québec (24%), Gadoua (11%) and private brands (18%) (MAPAQ and AAC estimates, 2004). The three companies mentioned above supply retailers for their own private brand sales. These data exclude hamburger and hot dog buns and pita breads, and represent the market for conventional sliced breads sold fresh to major food chains and warehouse clubs other than discount stores such as Wal-Mart and Costco.
- 5 <http://www.inspection.gc.ca/francais/fssa/labeli/guide/prefacef.shtml>. The purpose of the new regulations is to provide Canadians with specific nutritional information about products in order to help them make informed choices, eat well and manage their nutritional intake, to avoid developing certain chronic illnesses. Implementation began on December 12, 2002, and will take between three (3) and five (5) years depending on the individual companies' sales figures.
- 6 According to *L'Actualité* (February 2004): “rent” paid by a supplier to a distributor for space on the distributor’s shelves.
- 7 MAPAQ and AAC estimate, 2004.



There is also segmentation of the bakery market into breads with an ever finer, more uniform texture (associated with controlled industrial production) and breads with a heavier, much less refined texture (associated with homemade breads). Inevitably, this trend relating to bread's appearance is a reflection of the market, where there are different quality standards.

## 2. Retail strategies...

In Québec, concentration of distribution has increased competition among food processors. To sell to retailers, industrial processors must be able to supply large volumes deliverable on a just-in-time basis, pay slotting fees<sup>6</sup> and contribute to product advertising. In the Québec bread and bakery product manufacturing sector, the main players are Weston Bakeries Québec (owned by Georges Weston Ltd.), Canada Bread Company, Limited (Division of Maple Leaf Foods Inc.) and Boulangerie Gadoua Ltée, all of which have successful lines of sliced soft breads. In 2003, the market share of private brand bakery products was estimated at 18% in Québec, compared with over 30% of the market in Ontario and western Canada.<sup>7</sup>

Given retailers' considerable bargaining power, Canada Bread Company, Limited, in which Maple Leaf Foods Inc. has a majority interest, offsets the power relationships by offering a variety of products ranging from meats to pastas, through its parent company. Canada Bread Company, Limited, which has held a 100% interest in Multi-Markets Inc. since 2001, sells its fresh and quick-frozen bakery products under several brand names, including Dempster's and POM. In 2003, the company introduced a new line of Dempster's products, with a longer shelf life, in Ontario and western Canada. This company also sells French-type products in corner stores and the bakery sections of food retailers through its subsidiary Maison Cousin Inc.

George Weston Ltd. is vertically integrated, with operations in both processing (Weston Foods) and food distribution (Loblaw Companies Ltd.). Weston Bakeries Québec supplies its products under the brand names of Wonder, D'Italiano and Country Harvest, as well as private brand names, such as President's Choice. The *Tendre Moitié* bread introduced as part of the Country Harvest line won the Canadian Grand Prix New Product Award, Bakery category, in 2001. Weston Foods subsidiary Ready Bake Foods Inc. also sells quick-frozen products to the bakery sections of food retailers.

As for the major Québec players, Boulangerie Gadoua Ltée is mainly active at the provincial level and produces a range of sliced soft breads. Première Moisson Inc. is now operating on an industrial scale, delivering home-style breads to retailers. Boulangerie St-Méthode Inc. has been selling its products to Co-op Atlantic retailers in eastern Canada since 2001 and has gained a reputation for its sliced fat-free, sugar-free organic breads. In fact, Boulangerie St-Méthode Inc. won the 2004 Prize for Innovation awarded by the Council of Food Processing and Consumer Products (CTAC), for its seven Naturo-Bio organic breads.



### ...breaking into the health food market...

To address health concerns fostered by an ageing population, Weston Bakeries Québec now sells soybean-based bread, flaxseed bread rich in Omega-3 fatty acids, and fat-free and sugar-free breads. Boulangerie Gadoua Ltée has introduced the Gustazzi line of breads, comprising seven varieties of olive-oil based bread, such as ciabatta, sesame seed bread, and herb and spice hamburger buns. Organic breads are also in demand. Boulangerie St-Méthode Inc., among others, sells a range of organic products (Naturo-Bio, which bear the Bio-Écocert certification) across Québec. In early 2004, Multi-Marques Inc. (Canada Bread Company, Limited) introduced three Healthy Way organic breads under the Bon Matin brand name, also bearing the Bio-Écocert certification.

### ...and the frozen par-baked bread market

The fresh and quick-frozen par-baked bread market is experiencing strong growth. Supermarket bakery sections are profitable, as the smell of warm bread prompts impulse buying. The flexibility this product affords grocery store operators, with its quick preparation time and assurance of constant quality, is another point in its favour. The variety of par-baked bread is expanding to include products with enhanced flavour, such as herb breads, and breads made with Kamut, rye or spelt wheat flour. Bakeries are even selling par-baked bread products, ranging from croissants to French baguettes, for consumers to bake at home.

## 3. Home-style bakeries

Home-style bakeries, most of which are small, are very successful because they sell high-quality, healthful products such as focaccia and ciabatta breads and breads made from new ingredients such as flaxseed. Since 2001, there has been a 20 to 25% increase in demand for home-style breads.<sup>8</sup> Bakeries such as Première Moisson Inc. and Au Pain Doré Ltée, whose operations are mainly concentrated in the Montreal area, are filling this niche. The former sells products baked on the premises or brought in from its plants, while the latter has centralized facilities for the manufacturing of bread, which it distributes to points of sale on a daily basis.

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- 8 *La Fourmée*, July/August/September 2003.  
9 Statistics Canada 31-203, CANSIM DEEAF from *La transformation alimentaire québécoise en chiffres*.  
10 *Milling and Baking News*, "Fiercely Fighting For Growth," March 18, 2003 (BakingBusiness.com).  
11 *Food in Canada*, January/February 2004.  
12 George Weston Ltd. *Annual Report*, 2003.  
13 *Bakery-Net*, May 2004 newsletter. [www.bakery-net.com](http://www.bakery-net.com)



#### 4. Food services

Boulangerie Gadoua Ltée sells its products to the food services industry (hotels, restaurants and institutions). Among other things, it supplies the food services market with hot dog buns, and supplies the entire Pacini chain. Canada Bread Company, Limited and Weston Bakeries Québec also serve the fresh and quick-frozen par-baked bread sector of the food services industry, as does Les Produits Bridor Inc., owned by the French group, LeDuff, selling a variety of quick-frozen par-baked products ranging from croissants to specialty breads such as pesto and olive breads. The trend toward healthful eating has also led to more varieties of breads being supplied to the food services industry. For example, in early 2004, Subway launched a new line of low-carbohydrate wraps.

#### 5. Exports...

Although the export potential of bakery products has traditionally been quite low because of the perishable nature of the products, this is no longer the case owing to the increased popularity of quick-frozen par-baked bakery products. In fact, between 2000 and 2002, Québec exports of bread and bakery products rose by 116%.<sup>9</sup> Québec companies such as Boulangerie Gadoua Ltée and Les Produits Bridor Inc. moreover export to the United States.

#### ... and North American presence

Weston Foods and Canada Bread Company, Limited have operations across North America, where the bakery industry is concentrated. Georges Weston Ltd., through its US subsidiaries, competes against Interstate Brands Corp. and Sara Lee Bakery Group.<sup>10</sup> Canada Bread Company, Limited, a multinational firm that operates in Canada, the US and England, has positioned itself as the leader in par-baked breads on the US market, with a 50% market share<sup>11</sup>.

### IV. Investments

#### Manufacturing...

Weston Foods is now the third largest processor in the US bakery industry as a result of its acquisition of Bestfoods Baking Co. in 2001 (\$2.7 billion), its investment of several million dollars in the production facilities, and restructuring involving the sale of Bestfoods Baking Co.'s western US operations in 2002 (\$950 million). In 2003, Weston Foods reported sales of \$4,523 billion<sup>12</sup> despite the closure of a number of US plants. In 2004, in the US, Weston Foods will be building three plants, which will go into operation the following year, and will be closing four plants not deemed efficient.<sup>13</sup>





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Canada Bread Company, Limited is growing: between 2001 and 2002, its sales rose by 51%, to over \$1 billion.<sup>14</sup> During that time, the company made a number of acquisitions. In 2001 and 2002, Canada Bread Company, Limited expanded its operations in Canada by acquiring 75% of the residual shares in Multi-Marques Inc. in Québec (thus Maison Cousin Inc.) and 40% of the residual shares in Ben's Limited in the Maritimes and Olafson's (\$11.5 million), which specializes in value added products, in British Columbia. It also expanded internationally by acquiring shares in Maple Leaf Foods Inc.'s bakery products group in the US and the UK and the American Grace Baking Company, which specializes in fresh and quick-frozen home-style breads (for a total of \$262 million). Maple Leaf Foods Inc. also acquired additional shares in Canada Bread Company, Limited, giving it an 85% interest in that company. Following its acquisitions in the UK, Canada Bread Company, Limited now holds 90% of the English retail market share for bagels.<sup>15</sup> This international firm also intends to position other value added specialty bakery products on the European market. In 2003, Canada Bread Company, Limited had sales of \$1,253 billion and acquired Ontario company Parisco Limited at a cost of \$6.2 million.<sup>16</sup>

In 2003, Première Moisson Inc. launched a new production line specializing in the manufacturing of high-end bakery and pastry products, at a cost of \$5.5 million. A second \$1.5 million investment phase is slated for completion in 2004. The company also plans to expand outside Québec using a new micro-shop concept. Boulangerie Gadoua Ltée is investing \$5 million in a new manufacturing and distribution centre in Saint-Augustin-de-Desmaures,<sup>17</sup> while Les Produits Bridor Inc. has initiated implementation of IFS software, which facilitates supply system and client management.



14 Canada Bread Company, Limited *Annual Report*, 2002.

15 *Food in Canada*, January/February 2004.

16 Canada Bread Company, Limited *Annual Report*, 2003.

17 *Les Affaires*, January 10, 2004.

18 This artist has won the humorist of the year award three times since 1998.

19 *L'Alimentation*, November 2002.

### ...and advertising

Although substitution is common for bakery products, Boulangerie Gadoua Ltée has been setting its soft breads apart since 1997 with an advertising campaign featuring humorist Lise Dion.<sup>18</sup> This advertising revived the stagnant sliced white bread market and enabled Boulangerie Gadoua Ltée to double its sales from 1997 to 2001, from \$30 million to \$60 million.<sup>19</sup> This resounding success led its two main competitors, Canada Bread Company, Limited and Weston Bakeries Québec, to launch marketing campaigns for their own brands, POM and Wonder respectively. The second *Fête de la boulangerie* [bakery fair] organized by the Québec Bakery Council will be held in May 2004 and will showcase the wide variety of bakery products available via a generic advertising campaign.

## V. Challenges and opportunities for growth

### 1. Innovation through new products...

Developing quick-frozen par-baked home-style breads will be a challenge taken up by many companies. Moreover, this range of products eases the problem of the growing lack of experienced labour in the bakery sector. The niche of fresh high-end home-style breads such as focaccia and ciabatta also seems quite promising. For this type of product, industrial bakeries and larger home-style bakeries such as Première Moisson Inc. have the challenge of working with less standardized ingredients, yet ensuring a uniform finished product. The strength of small home-style bakeries is the fact that they sell unique products that are anything but uniform. The use of organic flour and Québec wheat flour also seems quite promising.

### ...including products that address health concerns

The Atkins diet trend, which encourages high protein, low carbohydrate intake, is well established in the United States despite criticism by the American Medical Association and the American Heart Association. Its huge popularity has had a negative effect on consumption of flour-based products in the US in recent years. Weston Bakeries Québec and Canada Bread Company, Limited have accordingly launched new Atkins products in the United States and/or English Canada. And other health-related variations are appearing on the American market, such as high-calcium, low-sodium, and sugar-free breads.



So far, unlike the Montignac diet method, which promotes organic stone-ground whole wheat products, the Atkins diet has not gained popularity in Québec, the negative press having quickly spread. It seems that health food product offerings will have to meet the ever more demanding requirements of Québec consumers and ever more structured criticism of the food press. In fact, it seems that a mere reference to “organic” or “fat-free” no longer suffices. Recently, the media drew attention to the high sugar content of the new Healthy Way line of organic products.<sup>20</sup> The new Canadian regulations respecting nutrition labelling will sharpen consumers’ health sense. It is therefore quite likely that certification aimed at reassuring consumers about the beneficial effects of products will become more and more popular. Breads from the Boulangerie St-Méthode Inc. already carry quality seals, such as the *Garantie Bio-Écocert* for its Naturo-Bio organic product line, as well as certification by the Canadian Diabetes Association and the Heart and Stroke Foundation for its olive oil breads.

Functional bakery products also seem promising in English Canada. In 2004, Shasha Bread, which operates in Ontario, intends to launch a line of functional products to address the separate nutritional needs of men and women. Similarly, Wellness Bread, based in Ontario and British Columbia, sells a line of bakery products containing inulin, a non-soluble dietary fibre. This ingredient is a type of carbohydrate that acts as a fermentable substrate for intestinal microflora following digestion. Although inulin is often used in European bakery products, whether it will gain favour in Québec remains to be seen.

## 2. Promotion of benefits of bakery products

While health products are popular, the Québec bakery industry would do well to promote the health benefits of its products. Providing consumers with easy-to-understand nutritional information on bakery products, through nutrition facts tables for example, including information on trans-fats, sugar and good and bad carbohydrates, is especially important.

<sup>20</sup> “Pains Healthy Way,” *Le Soleil*, January 17, 2004.

<sup>21</sup> Industry Canada uses the following definitions: small (under 100 employees), medium-sized (between 100 and 499 employees) and large (over 500 employees). (<http://strategis.ic.gc.ca/epic/internet/insbrp-rppe.nsf/fr/rd00766f.html>).

<sup>22</sup> Food in Canada, January/February 2004.



### 3. Small bakeries<sup>21</sup>

Given the concentration of food distribution and the competition from three major bakery companies, smaller bakeries with 50 to 100 employees are faced with the challenge of finding a place for their products on food-chain store shelves. These businesses have the advantage of operating in niche markets and being able to quickly adapt to market trends as a result of their direct contact with their clients. However, access to food retailers remains very difficult because of their advertising requirements and the volume of goods they require. To ensure their survival over the coming years, smaller bakeries will have to look at ways of increasing their influence of this market, whether through mergers or through grouped distribution.

### 4. Further export growth...

Québec's domestic market saw a 32% growth in sales between 2000 and 2001, but judging from the remarkable rise in exports (116%) between 2000 and 2002, there is huge potential for export growth. Most Québec exports go to the United States. Extending the range of quick-frozen par-baked home-style breads and diversifying clientele should make it possible to achieve further export growth.

#### ...and expansion across North America

Weston Foods and Canada Bread Company, Limited, operating in Canada and the United States, are facing the challenge of achieving further growth in a context of industry concentration in North America, while responding to requirements and expectations that are uniquely Canadian or even specific to Québec alone.

At this stage, Weston Foods is seeking to increase its US market share with Costco and Wal-Mart, which compete directly with Loblaw Companies Ltd. in Canada. This would enable it to maintain the momentum it achieved in 2002, when its volume of US sales rose slightly while that of its competitors stagnated.

Canada Bread Company, Limited has transferred its expertise in the area of quick-frozen home-style breads from its western US subsidiary, Grace Baking Company, to its eastern US facilities, which serve the Canadian market, among others. The scale of the knowledge transfer could be extended, while the company's expertise in specialty breads in the United Kingdom could be used on the Canadian market. Also, although Canada Bread Company, Limited is the North American leader in frozen par-baked breads, it is prepared for the challenge of growing its sales. In fact, the company estimates that this market has so far reached only 25% of its full potential.<sup>22</sup>



## VI. Conclusion

In sum, several factors will force companies to make rational choices in the development of new products:

- 1 New Canadian regulations respecting nutrition labelling;
- 2 Consumer demands related to health concerns;
- 3 Scientific studies on the damaging effects of trans-fats and sugar and the benefits of fibre, Omega-3s, and olive oil; and
- 4 The increasing number of certifications available (Bio-Écocert and Canadian Diabetes Association and Heart and Stroke Foundation (Health Check) certification).

Given this context, companies will need to be flexible, to be able to adapt more quickly to new trends while continuing to offer high-quality products. And, from a sector-based perspective, it will be helpful to generically promote the health benefits of bakery products, in the same way that pork and its low fat content were promoted in the early 1990s (pork can be peeled of its fat in the same way one peels a banana).

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## Appendix

### Internet sites of the main companies operating in Québec

- Les Produits Bridor Inc. bakery: [www.LesProduitsBridorInc.com](http://www.LesProduitsBridorInc.com);
- Boulangerie Ste-Méthode: [www.boulangeriesmethode.com/contenu/index.cfm](http://www.boulangeriesmethode.com/contenu/index.cfm);
- Gadoua: [www.gadoua.qc.ca/fr.html](http://www.gadoua.qc.ca/fr.html);
- Maple Leaf Foods Inc.: [www.mapleleaf.com](http://www.mapleleaf.com);
- Première Moisson: [www.premieremoisson.com](http://www.premieremoisson.com);
- Weston Bakeries Québec: [www.BoulangeriesWestonQuebecLtee.ca](http://www.BoulangeriesWestonQuebecLtee.ca).

### Other Internet sites of potential interest

- Baking Association of Canada (see *Related Links*): [www.bakingassoccanada.com](http://www.bakingassoccanada.com);
- Québec Bakery Council: [www.conseiltac.com/DesktopDefault.aspx?tabindex=328&tabid=62](http://www.conseiltac.com/DesktopDefault.aspx?tabindex=328&tabid=62);
- *Fête de la boulangerie du Québec* [Québec bakery fair]: [www.fetedelaboulangerie.com](http://www.fetedelaboulangerie.com).

### Publications of potential interest

*Alimentation, Canadian Grocer, Food in Canada and La Fournée.*

