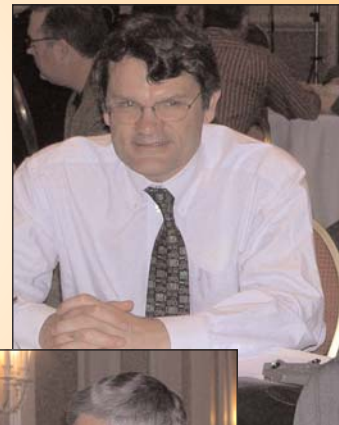




# REPORT

# GROCERY AND FOOD SERVICE TRENDS

# FORUM



**May 11 & 12, 2004 - *Ottawa***

## Mission

To ensure that the national orderly marketing of farm products works in the balanced interests of all stakeholders, from producers to consumers.

## Mandate

To advise the Minister of Agriculture and Agri-Food Canada on all matters relating to the agencies established under the Farm Products Agencies Act, with a view to maintaining and promoting an efficient and competitive agriculture industry.



To review the operations of the marketing agencies to ensure that they meet their objectives as set out in the legislation.



To work with the agencies in promoting more effective marketing of farm products in interprovincial and export trade.



To work with promotion-research agencies in connection with primary production research and the promotion of regulated farm products.

Created in 1972, the National Farm Products Council reports directly to Parliament through the Minister of Agriculture and Agri-Food Canada and is part of the Agriculture and Agri-Food portfolio.

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**W**ith this report, the National Farm Products Council has achieved a milestone on the road to improving the strength, competitiveness, market-responsiveness, and profitability of Canadian agriculture and the agri-food industry.

When the Council was developing its Strategic Plan for 2003-06, our members took note of the significant changes occurring in the grocery and food service industries. The Council thought the changes could signal an important shift in the operating environment for Canada's poultry and egg industries.

The Council observed also that the poultry and egg industries had expressed their strong support for our previous strategic learning events, including the *Forum on Global Awareness* and the *Workshop on Profitability*.

We set for ourselves the task of convening a discussion of these trends with industry leaders about today's consumer marketplace. The discussion occurred in Ottawa in May, and I am pleased to report that the Council considers the event a remarkable success.

Participants told us that they appreciated hearing from all our speakers about the changing nature of consumer demand, the effect on grocery stores and food service establishments, and the possible implications along the full length of the value chain.

Our participants also told us that this event has stimulated new thinking about the possible contribution of value chains and other collaborative approaches. This report helps us to share the forum discussion more widely. I encourage you to read what was said, to circulate the report among your colleagues and advisors, and to consider whether a strategic response is required.

The Council is also looking forward to discussions with the leaders of the poultry and egg industries about their interpretation of the event and their assessment about the implications of what they heard.

Ultimately, the Council wishes to promote improved, consumer-focused collaboration among industry participants and with governments. Our goal is to produce mutual gains that benefit everyone involved - including all Canadians.

Enjoy your reading! Please drop me a line or call to tell me what you think about the issues raised in this report. I look forward to hearing from you.

A handwritten signature in black ink that reads "Cynthia Currie". The signature is written in a cursive, flowing style. Below the signature is a horizontal line.

**Cynthia Currie**  
Chairperson, NFPC

# Introduction

This report summarizes the Forum on Trends in the Grocery and Food Service Industry, convened by the National Farm Products Council in Ottawa on May 11-12, 2004.

The event brought together leaders of the poultry and egg industries, representatives of the grocery and food service sectors, distributors, federal and provincial government representatives. They heard presentations from five speakers before engaging in a short panel discussion about the potential implications of what they had heard.

## *The five speakers were:*



**Allan Gregg**, Chairman of The Strategic Counsel, an opinion research firm based in Ottawa and Toronto.



**Nick Jennery**, President of the Canadian Council of Grocery Distributors (CCGD). The Council is a not-for-profit organization committed to advancing and promoting the grocery and foodservice distribution industry in Canada.



**Craig Watson**, Vice-President for Quality Assurance of Sysco Inc. Sysco is a leading North American foodservice marketer and distributor.



**Cora Tsouflidou**, founder, President and CEO of Chez Cora, a 70 restaurant chain operating in Manitoba, Ontario, Quebec and Atlantic Canada.



**David E. Bell**, Professor of Agriculture and Business at Harvard Business School, where he chairs the School's Marketing Department and the Agribusiness Senior Managers' Program for Executives.

Their presentations focused on the current situation grocers and food service enterprises face in marketing to today's consumer. They discussed the drivers of consumer behaviour, noting that purchasing decisions keep pace with the changing nature of modern Canadian society.

They examined the strategic business responses of the grocery and food service industries and the resulting effects on distributors, suppliers, and other partners in the marketing channel.

The forum concluded with discussion by participants about how the poultry and egg industries could respond to these changes which, all agreed, have already begun to change the way the industries do business.



## *Forum on* **GROCERY AND FOOD SERVICE TRENDS**

May 11 & 12, 2004  
*Fairmont Château Laurier*  
Ottawa, Ontario

Canada



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# Canadian Consumers Today



The "Big Generation" of Canadians - the baby boomers, born between 1947 and 1966 - will mean fundamental changes to society as this demographic group ages. What might surprise us is how society will change and the effects that will have on our strategic planning.

According to Mr. Gregg, society doesn't change in a straight-line fashion, driven slowly by demographics. Society changes in a more intriguing and unpredictable way.

If society were driven exclusively by demographic numbers, the university system would have started to collapse in the 1980s as the last of the Big Generation completed its education.

The housing market would have sagged in the 1990s, as the last of the Big Generation became first-time homebuyers.

Instead universities and housing are booming because other factors have come into play. The Big Generation had children, causing renewed demand for higher education. And low interest rates made housing affordable for more people than ever before.

**A**n aging population. The baby boomers. The Atkins Diet. These marketing trends are the clichés of our time. But Allan Gregg, chair of The Strategic Counsel opinion research firm, challenged participants to see beyond a society of aging Canadians eating low-carb meals.

Future marketing strategy will be driven by more than just population numbers. Attitudes are changing, just as society is aging.

## **ALLAN GREGG: *SUPPLY MANAGEMENT***

**"The average person wouldn't understand supply management anymore than how to build a nuclear power plant. The average Canadian would know nothing right now, about what supply management is, what it means, how it works. But if you walked them through what it meant, they would say, "That is quintessentially Canadian. That is how we should do things." Everything is ordered, everything is proper, no one gets hurt. There's an emphasis on the collectivity, rather than one guy getting ahead of the other guy, to the benefit of one and the detriment of the other, which is quintessentially Canadian.**

**We do have this view that we may never be military leaders, we may never be economic leaders, but we can be moral leaders. We're kind of like the Baden Powell of the world community, you know. It's true: we've got this sense. And I think supply management could fit quite nicely into that self image."**



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Rather than fall into the trap of expecting society to remain the same, except with many more senior citizens, we should start thinking about a new kind of older Canadian - and what that will mean for both society and survival in business.

## BIG GENERATION

Mr. Gregg advised participants to wave goodbye to the traditional image society holds of most old people being poor, inactive or sedentary. Mick Jagger is singing "Satisfaction" at the age of 61. Sean Connery hardly fits the traditional image of someone in his seventies. And it has become fashionable to be over 40, or even over 50.

This is because the Big Generation of baby boomers has more going for it than its sheer size. It has enormous influence that has shifted social icons. This means society has redefined what is young, what is old, what is acceptable, what is unacceptable and, most importantly, what products and services will be in demand.

When attitudes change, public policy changes, marketing changes and new products change.

Young people are living under their parents' roof longer, mandatory retirement is disappearing and sports cars like the BMW Z3 are best-selling automobiles for 50-59 year olds. And we've only seen the beginning of change in travel and leisure.

Baby boomers are the generation who will not be shunted off to the side. They will continue to seek adventure and will insist on being where they always have been - at the front and centre.

## FEMALE REVOLUTION

In addition to the emergence of the "new" old person, the ongoing acceleration of female participation in the workplace is a second important trend that must be factored into marketing strategies.

This trend will affect everything from employment benefits to decisions to have fewer children either later in life or not at all.

### **ALLAN GREGG: METASERVICE IN MARKETING**

**"Our concerns are more multi-layered, less focused, and as a consequence, way more difficult to manage. In the old days, when Canadians were just focused on one issue, you only had to have one solution. Remember Bill Clinton: 'It's the economy, stupid.' All you have to do is stay on that one track. Today, there are concerns about the economy, equity and fairness, personal safety, taxation and government spending, the unravelling social safety net. Increasingly, the individual feels alone and vulnerable. As a consequence, what we're talking about in marketing terms increasingly is metaservice. Consumers want more than simply to have what they are asking for. They also want to be helped in determining what they need."**

At first, demographers believed this trend was driven by economics, as inflation in the 1970s eroded incomes and two household incomes were needed to maintain lifestyles formerly requiring just one family breadwinner.

But over time it became apparent that growing levels of education among women were responsible for the changing gender balance in the workplace.

According to the 1996 Census, there were 12 per cent more females enrolled in Canadian universities than males, with female enrolment dominating in several disciplines.

Accordingly, Mr. Gregg said, the glass ceiling will be broken once and for all within the lifetime of most of the forum participants.

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## **ALLAN GREGG: *DIVERSITY THROUGH IMMIGRATION***

**"The difference in this wave of immigration is very, very obvious: it is the first and only wave of visible minority immigration that we have had. Probably the biggest implication is the failure to anticipate the unknown. When I ask my clients - it doesn't matter who they are - if I ask Pepsi, I say, 'What do Trinidadians think of Hostess potato chips?' Or ask General Motors, 'What do Mandarin Chinese think of four wheel drives?' Or ask the Government of Canada, 'What do Sikhs think of unemployment insurance?'**

**These sophisticated, knowledgeable marketers have no idea. None! Zero!**

**This is a huge, massive trend. Then again, in your own industry, what do Trinidadians think of name brand retailers and shopping there? What do Mandarin Chinese think about going out for dinner and fine dining? What do Sikhs think of organic food, natural foods? Again, I venture to guess, like all the other clients, you're looking at me like goats look at thunder."**

We can look forward to continuing feminization of decision making in everything from who will do the shopping in a household to how corporations shift toward consensus building.

Employers will move to spousal hiring - replacing a 40-hour-per-week employee with a couple who, between them, split a 60-hour week.

In fact, employers will develop new regimes of work that no longer force women to choose between work and family.

As well, immigration will take on an increased importance in preserving the stable growth rate of Canada's population. As our birth rate has declined, immigration has enabled Canada's continued growth. Moreover, new Canadians will come from a wider range of places.

For marketers, this means changes that go beyond the faces of our nation. Canadian cooking habits, diet, shopping and attitudes will change.

In the food industry, it may be essential for marketers to understand how different cultures will react to longstanding retail brands and spending habits.

Market segmentation will become increasingly sophisticated, as researchers ask which cultures are more likely to go out for dinner, and what different cultures think about categories such as organic foods.

## **JOYLESS PROSPERITY**

Finally, more than a decade of tumultuous developments ranging from high unemployment of the early 1990s to September 11, 2001 and the threat of terrorism has led to a development of a "joyless prosperity" that is causing a re-evaluation of individual and national priorities. Despite a decade of steady economic growth, improved employment prospects and low inflation, an unstable world has left consumers with little to feel joyful about.

A loss of faith among Canadians about their institutions, including business, has left people feeling more alone and vulnerable.

For the food sector, the current Canadian mindset has some very direct implications.

Sixty-five per cent of Canadians acknowledge they are concerned about the safety of what they eat.







This is why McDonald's is offering more salads and lighter alternatives while slimming down the traditional fried fare.

For the same reason, poultry and egg producers should be ready to respond quickly to public concerns about their production methods.

The food industry, Mr. Gregg said, will have to respond to this trend, just as oil and gas companies responded to the energy crisis by reassuring people

Sixty-two per cent believe the health care system is unprepared to deal with threats to human health in response to recent outbreaks of SARS, West Nile virus and Mad Cow disease.

According to Mr. Gregg, when respondents are asked, "Suppose someone told you that something was safe, and someone else told you it was unsafe, who would you believe?", six out of 10 would believe the doomsayer.

In this environment, pollsters find that people instinctively avoid any exposure to the prospects of involuntary risk. Nothing is scarier, in terms of involuntary risk, than things that are invisible and things that are ingested.

Society is preoccupied with a wide range of perceived threats in the food it eats - threats that range from amino acids and cholesterol to trans fats. Suddenly food is very scary stuff, and its safety has become the energy crisis of this decade.

So far, the chicken industry has benefited from this trend with a 17 per cent increase in consumption in the last five years. But the current climate of fear among consumers will present some management challenges.

Consumers now expect the food sector to respond to health concerns as quickly as they arise.

about supply and dealing directly with society's perceived threat. Suddenly, the newspapers were no longer filled with stories about the energy crisis and the oil and gas sector is in good health today.

So the food industry will have to become an advocate for health generally and for healthy use of its individual products. Products will have to be marketed as part of balanced nutrition and in association with other food groups. And the consumer will have to be refocused about his or her image of the food industry and how this sector's products should be consumed.

**ALLAN GREGG:  
HEALTH AS VALUE  
PROPOSITION**

**"Become an advocate for health generally, and healthy products specifically. Establish yourself clearly as someone for whom health is inviolate. You will not negotiate, you will not compromise."**

# Trends in the Grocery Industry

## **NICK JENNERY: GROCERS NEED NEW PRODUCTS**

**"Negotiations between suppliers and distributors are tough and aggressive. No question about it, because it has to be. The competition out in the marketplace has changed. But understand this: a successful retailer, irrespective of size, lives and breathes by getting products on the shelf. If you have a good product, a product that consumers will buy, as long as you can supply the product, it will find a way to get it on the shelf, because, that's the way retailers differentiate themselves. If you walk around a retail store, you will see products from both large companies and small companies, regional companies and national companies. And if there's one thing a retailer is always on the look for, it's a new product, a product that will separate him or her from the rest of the group."**

It has meant operating margins are lower than they were in the 1980s.

The price war is the result of an invasion of giant general merchandisers entering the industry, such as Costco and Wal-Mart. These new players are known as alternate channels in the grocery business. They're growing in the industry at the rate of 13 per cent year-over-year, and now make up \$11 billion in Canada. They bring a well regarded efficiency, very competitive intuition and huge, big-box stores.

Established grocers had anticipated this arrival. The result is intense head-to-head competition, accompanied by low margins and a relentless focus on consumer needs.

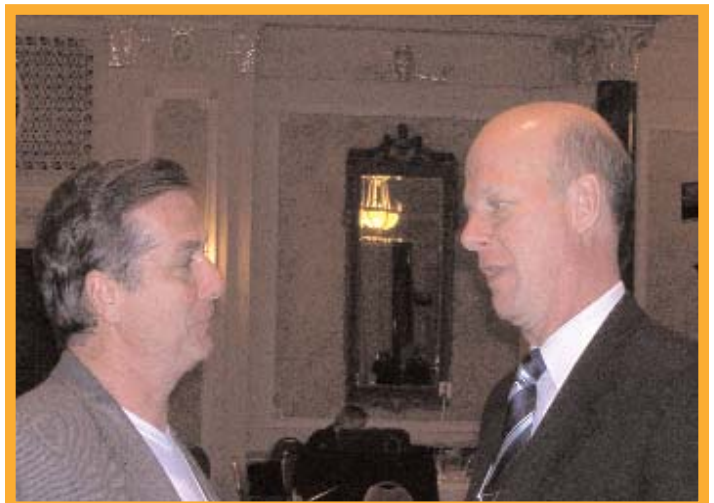
## **STRENGTH IN PERISHABLES**

The traditional grocery stores retain an ace in the struggle to compete - perishables. Products such as fruits and vegetables, dairy products, fresh meats and eggs are something the traditional stores have always done well. The perishable products section of a store - anywhere from 25 per cent of the selling space to 100 per cent depending on format will continue to be a strategic battleground among stores. Perishables will remain among the most reasons consumers have for shopping at a particular store.

**E**xpect a playing field of lower margins and prices, more variety, new and more stores, formats you may not have seen before, new technology and a lot of players just doing things better to survive. It all seems like a lot of trouble for an industry that shows profits of one or two per cent after taxes. Yet not only will the industry survive, but there will be plenty of new players. This is how Nick Jennery, president of the Canadian Council of Grocery Distributors, summed up what's ahead for the grocery industry, which does \$64 billion in retail sales a year and another \$11 billion in food service.

## **MORE PLAYERS IN A CHANGING INDUSTRY**

It may not be written about in the newspapers yet. But there is a price war going on in grocery stores across the country. More intense in some regions, this price war has been going on for a decade.



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So, according to Mr. Jennery, grocers expect that they will continue to invest heavily in this section of their stores.

A second competitive front is the actual shopping experience or how groceries are merchandised. It is well documented that consumers will pay more for a product they consider to be value added.

An illustration of this point occurred recently with a grocer selling potatoes at \$1.29 a pound - well above the customary price of \$0.10 a pound.

These were positioned to the consumer as a premium product - only one in 20 potatoes would make the grade. The display counter was refrigerated and lighting was reduced just enough to enhance the quality control.

It was all part of what is known as a value proposition, and what the consumer is willing to pay for it.

A third competitive front lies in grocers' ability to provide consumers with interesting new products. In fact, the industry introduces about 15,000 products every year - a significant factor in larger stores that may stock as many as 70,000 different products.

The search for a competitive edge is so intense that new products either win instant consumer

### **NICK JENNERY: GROCERS NEED LOCAL SUPPLIERS**

**"Canadian-made, and local, resonates really well when you merchandise perishable products, pretty much across the country. The stores readily market regional products. Retailers absolutely want to work with the family farms, with the regional suppliers. It just makes good business sense, and it resonates well with consumers."**

acceptance or disappear rapidly. Only 25 per cent of new products remain in stores for more than three months.

### **DISCOUNT GROWTH**

For all that grocers are working to differentiate their products and interest consumers in new products, Mr. Jennery warned that pricing remains a key competitive factor.

### **NICK JENNERY: NEED A SUPPLY-CHAIN VISION**

**"I think we need to do more as a supply chain on looking at how we grow the business and protect it. But with that said, some of the things that certainly come to my mind, would be to have some supply chain practices well understood, well planned for and collaboratively implemented. And when I talk about supply chain practices, I'm talking about all the things under food safety.**

**As a sector, we're doing a great deal under training, certification, we're going to have HACCP for retail by the end of the year, we've worked very hard and put a lot of money on a national traceability architecture, we've been doing piloting on radio frequency identification devices, principally to make the traceability model work. As a retail sector, we need to share what we have done. I would like to have a supply chain vision for these business practices that will both protect the business as well as make it more efficient."**



## NICK JENNERY: *INNOVATION*

**"We see about 15,000 new products go on the shelf each and every year.**

**Now, if you ran a new products business, it would be a pretty sad story, because about 75% of those new products don't last more than 90 days on the shelf. That's a dismal figure!**

**On the other hand, it does speak to the innovation, the willingness to try and, if it doesn't work, get it off the shelf and move on to something that does work, and to do that very fast. In our business, we do that on a weekly basis.**

**We can list it fast, we can de-list it fast. We're always looking for new ideas. Part of our business model is always to have something new and innovative because, if you're that grocery shopper, you want to be entertained.**

**Show me something different: I don't know what to have for dinner tonight, I've got eight people coming over on Saturday, and I can't cook, so help me with this one."**

For example, sales slumped when a media report indicated that farm-raised salmon had high levels of PCBs. The decline reached as much as 34 per cent before consumers took note of emerging new information, including the fact that the report was two years old and had since been qualified and clarified.

Mr. Jennery believed incidents like this need a quick response to put information in context for consumers.

In contrast, the beef-cattle crisis went relatively well from the consumer standpoint. Daily, the grocery industry worked closely with authorities and suppliers.

Joint promotions and good communications helped to increase beef sales by five per cent year-over-year, while consumers enjoyed a price discount estimated by Mr. Jennery at 15 per cent.

It remains to be seen, however, how consumers will respond over the long term to the 2004 outbreak of Avian flu in B.C. poultry.

The discount price model will probably continue to rule, and for Canadian grocers it may represent their best defence mechanism against large global retailers. In fact, discount stores take 21 per cent of the market in Canada, compared to 10 per cent in the U.S.

## FOOD SAFETY

Food safety issues will remain an enduring aspect of the consumer marketplace. Recent examples have demonstrated that consumers take safety seriously and will punish marketers who fail to provide them with adequate information about their products.

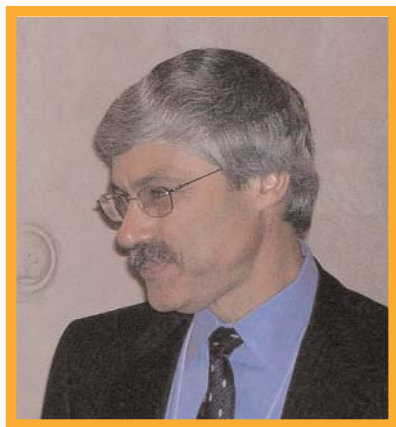


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# Trends in the Food Service

## THE CHANGING FACE OF DISTRIBUTION - SYSCO'S PERSPECTIVE

**F**ood safety is the central issue in the distribution business today, affecting all planning and strategy, according to Craig Watson, vice-president of SYSCO Corp. He urged everyone dealing with his company to expand their thoughts beyond safety to food security.



Contemporary food security management means tighter restrictions on visitors and vendors who enter a company's property. Because of the times, all players in the food sector will need to look at business models and activities from a different perspective.

When it comes to food safety, there is no room for serious error. Customers demand that products be safe and wholesome. The reputation of a supplier and distributor must be earned each day.

It is the responsibility of all stakeholders in the food chain to actively support the need of all customers to eat healthy, balanced diets and encourage physical activity, according to Mr. Watson. Fulfilling this responsibility means providing all

stakeholders with reliable information. Restaurants need to supply customers with caloric and sodium content. Distributors want guidance from suppliers so that their sales associates can receive product training. One way of meeting these needs would be to provide a universally friendly database of nutrient information of food service products.

As well, traceability is now critical to distributors. The effect of expedient traceability of raw materials and added ingredients is a must for the grower, processor, supplier and distributor to protect the welfare of customers.

Effective traceability allows all stakeholders to isolate only the affected product involved, thereby minimizing exposure to mishap. Indeed, better methods of animal identification would have improved damage control through the BSE issue.

Overall, restaurants are looking for unique value-added niche products to present as exciting menu alternatives. For example, the restaurateur prefers to present products as uniquely prepared and locally procured. This trend will likely continue.

SYSCO has developed its own animal welfare policy and has required all branded suppliers to possess programs in the handling of beef, laying hens and broilers. They must pass an annual independent audit of their welfare procedures and practices.

### CRAIG WATSON: *THE STORY MATTERS*

**"Restaurateurs are looking for unique value-added niche products to present as exciting menu alternatives to their customers. The restaurateur prefers to present their products as uniquely prepared and locally procured. There is also a trend to support the family farm, at least in the United States, and so we are looking to develop products with the family farm theme. We're looking to develop, for example, fresh pork programs that are raised by second and third generation farmers, where multiple family members are involved in the care of those animals. And that the grain that is used to feed these animals comes from the farm itself, so we're not only supporting the family farm, but we're also merchandising and marketing the notion of sustainability. And we're able to develop that into an envelope that, indeed, does sell."**





Chez Cora is built on eggs - 15 million of them a year in fact, not to mention 800,000 litres of liquid eggs and 75,000 litres of egg yoke.

Cora is a knife-and-fork place for breakfast and lunch with capacity for 15 - 200 customers. As Cora likes to say, if you're looking for coffee and a bagel, try Tim Horton's down the road.

What started as a single casse croûte (snack bar) in the Montreal suburb of Saint-Laurent in May 1987 is now a 70 restaurant chain serving breakfast and lunch in Quebec, Ontario, Manitoba and Atlantic Canada.

And the lesson from Ms. Tsouflidou's presentation to the forum was that you can't keep a good idea down, regardless of what the experts say.

## EGGS AND ENTREPRENEURSHIP-CHEZ CORA

Everybody loves a Cinderella story. And the story behind Cora Tsouflidou is almost as delicious as the egg dishes at her highly successful chain of restaurants.

Or put another way, some business empires are built on capital and aggressive deal making.

Within a few months, the small casse croûte had line-ups every day. So Ms. Tsouflidou opened a second store, a third, and a fourth. Soon she reached nine stores, with the help of her children. When she ran out of family members, she turned to franchising as a way to bring a great idea to as many people as possible. It wasn't long before Chez Cora grew to 40 outlets, and Cora began thinking about expanding beyond provincial borders.

### **CORA TSOUFLIDOU: *SELL THE EXPERIENCE***

**"Customers in my first snack bar used to talk about their grandmothers' chicken pot pie. So I tried thousands of recipes, and now we sell chicken pot pie. Last year, L'Epicerie, a television show, brought in farmers' wives to judge chicken pot pies, including ours. I sat on my couch, shaking, while they analyzed all the chicken pot pies on the market. And they said, ' This one from Cora has the real Québécois taste. '**

**We certainly count on that taste. But we also count on presentation. It's in brown paper, just like grandmother made. She didn't have fancy white boxes and photography.**

**Grandmother made the pie, she put it in the box, and she might draw a chicken on the box. That's what we do. It looks like a child's drawing, but it sells like crazy.**

**That's because we make the customers' dream come true. The customer remembers Grandmother's chicken pot pie. We format that dream. We sell the experience. I couldn't serve my chicken pot pie in a high-tech box, even if they would give them to me for free."**

## CORA TSOUFLIDOU: *STEP UP THE MARKETING*

"We need the egg boards and organizations to increase their efforts to change consumer perception about eggs. We need them to understand that eggs are good for them. From our egg federation (marketing board), we need more marketing activity, more promotion in the media about the enormous versatility and quality of eggs, more information for the consumer.

**Boards should promote new awareness, new presentations, innovative recipes and new ways to serve eggs. They should facilitate more coaching in cooking schools, restaurant associations, retail markets, and institutional food services."**

And that's when the experts chimed in.

Ontarians, they said, feel differently than Quebecers about eggs. "They wouldn't cross the street for a better product. They grab a muffin at Tim Horton's." And of course, said the experts, Atlantic Canada was out of the question.

Ms. Tsouflidou has advice on those who give advice for a living: Listen but keep your own counsel.

Today, the Cora chain spans six provinces.

Eggs account for 85 per cent of the restaurant chain's business, so the quality of the egg supply is a primary concern.

Ms. Tsouflidou said she has great satisfaction with the egg industry, particularly in Quebec, where the producers' federation has been active in unifying the producers in supply management.

***But she had a few suggestions for producers just the same. Among them:***

⇒ Make sure the public understands that producers can control the rate of goodness in an egg.

⇒ Ensure food safety remains a priority. It is hugely important.



Promote Omega 3 eggs. Not only do these eggs provide better quality with vitamin E, flaxseed and reduced saturated fats, they bring better traceability. "We need help here to explain to our franchisees."

Cora's story isn't over yet because, as Ms. Tsouflidou said, there is a huge market out there for eggs.

### **CHALLENGES AND OPPORTUNITIES**



Food safety.



Quality, healthiness, and traceability in the case of a major crisis.



On-time delivery.



Innovative products.



Adapting meals for an aging population.



Better methods for storing, conserving, and cooking eggs.



Eggs as a lunch or dinner food.



# Are Value Chains the Answer?

## VALUE CHAINS: A PRIMER

A value chain links producers, processors, suppliers, distributors and retailers in a market focused alliance. It includes the full continuum of industry partners who add value to products, bringing them together for mutual gain. A value chain effectively links all aspects of production to the demands of the marketplace. Increasingly, prosperity is tied to the performance of the entire value chain. Issues such as food safety and environmental protection are creating ripple effects throughout the agricultural and agri-food industry - effects felt by every link in the chain.

Agriculture and Agri-Food Canada (AAFC) is exploring the value chain concept through round-table discussions with several sectors including beef, pork, oilseeds, and cereals. The department will soon broaden its work to include the dairy and poultry sectors. The round-table discussions bring together key players in industry and government to build a shared understanding of markets and competitive position, create consensus on how to improve this position for mutual benefit, and create plans for positive action.



And while retailers and service providers continue to pursue that ultimate goal, suppliers can expect to be squeezed to provide the lowest prices possible. At the same time, these buyers would rather deal with fewer suppliers who can fill bigger orders in order to keep things manageable.

The forum called on Professor David Bell, head of the agribusiness program at Harvard University, to supply some valuable insight.

One of his first recommendations was to stop extrapolating from the past, even though prediction based on the past is very much a part of human nature.

If there were any producers at this event who hadn't been squeezed by customers to reduce costs, then they certainly had colleagues who knew the feeling. These days, big customers want the lowest cost possible.

All this is complicated by demands for traceability by a society obsessed with food safety, bio-security and health issues like obesity.

The result has been that the old supply chain rules of keeping production costs down have blurred into the modern reality of value chain management. Every step of the supply process - right down to the disposal of production waste - is under scrutiny for cost-cutting with an overall goal of delivering maximum value to the end-user.

### DAVID BELL: FACE THE FUTURE TOGETHER

**"It will be important to work together because you have a common goal. You all want to make Canadian agriculture profitable, so that you can afford to pay for the way of life you want to preserve. That's something you have in common. So it makes sense that you work together to achieve it. If you don't, if you choose to compete with one another, I can tell you, you're each going to work separately and you are each going to lose."**

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Of course a key to predicting the future is to understand the past - particularly important for someone supplying the grocery or the food service sector. When the 20th Century began, the manufacturing sector needed the modern assembly line to keep production costs down.

By the end of the century, Wal-Mart and its big-box compatriots had completed the cycle, making retailing extremely efficient in part through a focus on improving distribution.

Distribution in the 21st Century is on a very clear trend line of its own - a line that relies on a value chain. And the first development in the new century is backward integration. Retailers and service providers are providing their own brands and supplies from either their own manufacturers or from dedicated suppliers.

### **DAVID BELL: COMPETING VALUE CHAINS**

**"The future is not going to be one farmer competing with another farmer, one distributor competing with another distributor, one retailer competing with another retailer. It's going to be one value chain competing with another value chain, and that's the way you should think about it."**

An important thing about backward integration is that the company doing the integrating has to worry about consistency of supply and quality. That means making sure your supplier is making a healthy profit and is happy about continuing to supply you.

So a big box retailer that has continually hammered down suppliers' prices will eventually become a partner to those same vendors. To Mr. Bell, partnering is the key to making the value chain in the 21st Century work. The value of a partnership is that everybody makes profits reliably while no-one comes away with windfall gains at the expense of the other partner.

### **Mr. Bell put forward some case studies:**

The McDonald's fast food chain has four core suppliers. One of them is OSI, which supplies 25 per cent of the beef in the United States, and 85 per cent internationally. OSI has been a supplier since 1952. But the word "partner" could apply just as well. This is because the four core suppliers meet every quarter to discuss and share best practices since they don't have to compete with one another.

McDonald's pays them on a cost-plus basis with an open-book system, whereby the fast-food chain can inspect suppliers' costs at any time. McDonald's is happy to pay the suppliers a reasonable profit above all costs. That means no time is wasted constantly renegotiating prices. Instead the focus is on delivering quality and selection at competitive prices - all done on a handshake.

A similar system is being used by 7-11 stores in Japan, which are considerably more upscale than they are in North America. 7-11 has been introducing the same partnership system - cost-plus, open-book - in the United States. A former philosophy of this chain, when it was known as Southland, was to put pressure on the vendor.

Now, one vendor is quoted as saying he is treated today in a way he never would have expected under the old corporate culture: "We are partners with no termination clause. It is open book. It is shared prosperity."

Building a long-term relationship, one that is satisfactory and profitable for both supplier and customer under the value chain principle, is quite different from focusing on competition at the lowest price. In fact, it may be the case that purchasers who rely on lowest-price suppliers will only have to hunt around for a new supplier.

Of course, trust is the glue that holds a relationship like this together. Trust means one believes that the other person in the relationship will act not only in his or her own interest. In order to trust somebody, one has to know him or her well. Among the benefits of being a dedicated supplier is that because you are dealing with a particular customer, or particular customers, you can invest in specialized capabilities to serve the customer better.





kilometers of the farm gate. But it won't work with a national brand. As a result, producers of perishable food should be thinking about banding together and branding rather than simply passing their products through the supply chain at the best price they can get.

As for the chicken and egg industries, a fresh marketing opportunity lies ahead, Mr. Bell said. This is because prepared

The idea is to grow as your customer grows. So in picking a customer to work with, you want a company that's well run. Suppose you are simply not large enough to be a dedicated supplier to McDonald's or some other national chain. Consider joining forces in a co-op arrangement to sell to a big customer.

Mr. Bell advised against trying to be a small player and a small seller. Either becomes a big seller or a small player who is part of a big selling group.

There has to be one face presented to the buyer. He cited the case of a co-op in the U.S. that was selling one type of seasonal fruit. His advice was to sell all kinds of fruit all year round. Thinking small might work with a small store within a few

meals being sold to consumers represent a growing trend - so much so that some homes are being built in the United States without kitchens.

He believes the prepared meals market is not a beachhead that supermarkets can win, because they are too far for hungry consumers to travel. Instead, Mr. Bell predicted that meals 20 years from now will be bought from convenience stores, and that homeowners will have converted their kitchens into something more useful, such as games rooms.

The future will not be one farmer competing with another farmer, one distributor competing with another distributor, one retailer competing with another retailer. It will be one value chain competing with another value chain.

## DAVID BELL: *DEALING WITH BIG BUYERS*

**"Wal-Mart is a very sophisticated company. Their people are very sophisticated negotiators and financiers. You either have to be very big so you can negotiate with them as equals, or you have to offer a product that they want and can get only from you.**

**You need products that are unique and differentiable, like Omega 3 eggs. Maybe the industry needs even more types of eggs. Feed the birds something different, tell consumers that this makes a difference, and let them choose. So for farmers today, both approaches are needed. Farmers need their negotiation done by a bigger organization and they need to put more effort into marketing."**



# Participants' Reactions

As the event neared its conclusion, the NFPC invited participants to discuss what they had heard and to identify the implications that might arise. Working in small groups, the participants identified several key themes.

## VALUE CHAIN

There was almost universal agreement among participants that the value chain is a concept the sector should consider. Some participants believed parts of the sector were already developing value chain models. Many participants wanted to learn more.

Some participants cautioned that there should be sustainable benefits to all participants. Others believed the value chain should be built on what already exists in the egg and poultry sector.

But all agreed co-operation among the stakeholders was the key to successful implementation.

## THE ROAD AHEAD

There was a wide range of ideas expressed on how to advance the concept of the value chain. Some said the National Farm Products Council should publicize examples and case studies of successful

**"There is a need for more communications, such as that which we have experienced today, throughout the value chain, including retailers in such a forum in the future, and other value adders. Industry associations and agencies need to take the lead, and come up with best practices, and come up with ways to deal with the new reality that everyone seems to feel is coming our way."**

## FORUM PARTICIPANT

applications. Some said the Council should continue the discussion in a large think-tank session with industry leaders in attendance.

Other ideas included a working group drawn from all industry stakeholders, and continued meetings among suppliers, producers, distributors and retailers. Others cited the need to begin amending the regulatory structure to facilitate the value chain's growth and development.

But several participants emphasized that whatever route is chosen, there must be adherence to one of the value chain's core principles. For value chains to work there has to be a way for all participants to negotiate a fair share for their efforts, one participant said.





role so that stakeholders could begin developing a model. They also saw a need for governments to participate in the discussions given their presence in the value chain, and take steps to promote the benefits of a value chain approach. In addition, they said governments should identify and remove any regulatory barriers that might stand in the way of value chain development.

### SUPPORT FOR SUPPLY MANAGEMENT SYSTEM

Many participants believed that supply management is about partnership. As long as all stakeholders feel they are part of the

shared prosperity, they said, the system will remain the best in the world.

Many said that new methods can add value to the supply management system without interfering with its benefits.

Participants cited the need to understand better how supply management may fit with new market and value chain implications.

### LEADING THE WAY

On the question of who should lead the process of advancing the value chain, ideas were diverse. An industry coalition was a common response. Other candidates to lead the process included the NFPC, or Agriculture and Agri-Food Canada with input from the NFPC.

Yet again, some said the NFPC should facilitate the creation of a working group that would frame an overall response to the value chain idea.

At this stage in the value chain's development, a consensus appeared to favour a multi-stakeholder approach.

### ROLE OF GOVERNMENTS

There was almost a full consensus among participants that governments should play a facilitation

**"One of the insights we got is that we have got to be more effective in what we do or else we have to change. We also have to be passionate. We have to believe in what we do. Another item, which was frankly really new to a lot of us, was the idea about supply chain versus supply chain, rather than producer versus producer, processor versus processor. And we're still asking if this is the future.**

**We're not necessarily buying that, but we're asking. And if it is, and it may well be, how does it fit in with supply management, or how does supply management fit in with it. And, we're not completely sure about that yet."**

**FORUM PARTICIPANT**

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# Conclusions

As the event closed, many participants appreciated the opportunity to scale the strategic heights for a new perspective on the consumer marketplace. They valued events that enable the transfer of knowledge from visionaries and subject matter experts, and said that they would continue to look to the NFPC to support Canadian agriculture and agri-food in this way.

It was also clear that the grocery and food service industries have had to adapt their businesses to serve Canadian consumers, and that their adaptive strategies are already affecting their suppliers.

Distributors, manufacturers, producers, suppliers - none of these industry participants should be considered immune to the effects of changing consumer behaviour.

Throughout this event on the grocery and food service industries, participants saw that the road ahead has its challenges, ranging from a greatly changed consumer to constant pressure to keep prices down.

But participants also saw opportunity ahead, with new methods and new ways of working together to win together. There will still be room for entrepreneurs who feel passionately about delivering value to consumers. To many participants, the value chain perspective introduced at this event seems worthy of consideration.

Value chains link all aspects of production to create an alliance for mutual gain through serving the needs of the ultimate customer - the consumer. And yet, the value chain is a new idea.

As attractive as it may seem at a conceptual level, the idea presents the poultry and egg industries with many questions that so far have not been answered.

For example, how exactly should producers and processors work with distributors, grocers and food-service enterprises? What are the tensions that may exist between the current way of doing business and the business model that may ultimately be required?

From the perspective of government, will today's effective public-private relationships need to evolve in order to enhance the profitability of the Canadian agriculture and agri-food sector? The Canadian poultry and egg business brings farm product groups together with the federal, provincial and territorial governments to manage production.

The structure is highly complex but remarkably effective. Should it serve as the model for an industry forum to discuss the broad issues raised at this event? Or, is there a need to create a new discussion forum that would include representatives from the grocery and food service industries? Are there new ways in which the individual elements of a potential value chain can discuss their shared future, build awareness and trust, and the catalyst future co-operation?





## Chair's Closing Comments



If there is one aspect of this event that stands out more than others, it is the realization that all of us industry and government-have to transform our thinking. Where we have always believed we were supplying consumers, now we must realize that we have the opportunity to serve them.

The words are almost the same as before, but the mindset is quite different.

As well, this event drew out the ideas of partnership and of collective vision. In partnership there are mutual benefits or shared prosperity.

Often we see what we must give up in order to work with others without realizing that the reward may greatly exceed our sacrifice. If partnership leads to shared prosperity, then let us work as partners!

Supply management is a partnership in which governments across Canada work with the industry. I give you my commitment, on behalf of the National Farm Products Council, that we will be there to work with our partners in this collective vision.

The Council will engage willingly with stakeholders to open doors, facilitate discussions and enable further opportunities. It does this to ensure that Canada's poultry and egg industry remains vibrant, healthy, and able to meet the needs of Canadians.

The National Farm Products Council is grateful for the opportunity to provide a forum for crucial discussions by a sector sector eager to continue providing the Canadian consumer with affordable excellence.

**"We need that collective vision, and the question to you folks is: How do we make that happen? And one of the things, as you know, I have maintained over the last few years, very, very strongly, is that this industry works best when government and industry works together.**

**Because supply management is a partnership, where we have governments across the country working with the industry. And I give you my commitment, on behalf of the National Farm Products Council: We will be there to work with you in this collective vision**

**CYNTHIA CURRIE**