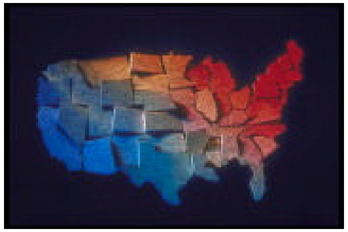
Case Studies of Successful Export into the US Southeast and Southwest



February, 2003

This document was prepared as part of a contracted study conducted on behalf of Agriculture and Agri-food Canada

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Background/Methodology Utilized

Purpose of Study

The purpose of this study was to create some well documented case studies of the factual experience of Canadian small and medium sized companies who have built their businesses through export into the Southeast and Southwest US, to help overcome perceptions regarding the difficulty of exporting US markets. These case studies highlight how companies assessed the transportation options available to them, the cost implications of these transport choices, and the key lessons they learned from their export experiences.

These case studies are to serve as examples for market development planning by other Canadian small and medium sized enterprises.

Methodology

Telephone interviews were conducted with key management personnel from the case study companies to probe: i) the company's basis for interest in exporting into the Southwest or Southeast US, ii) transportation options that were evaluated and transport costs, iii) go-to-market strategy (i.e. use of distributors or brokers), and iv) key barriers faced, and lessons learned. **As these interviews were qualitative in nature, the transport costs cited in the case studies should be viewed as "directional" in nature, and do not represent a full fact base of all transport costs for all product sectors into these regions.** Even for each case study, transport costs which have been cited represent only averages, and costings may vary based on product lines and quantities shipped.

Acknowledgements

We would like to thank and acknowledge the following Canadian company representatives for participating in this research, and sharing their insights on building export business in the Southeast and Southwest US.

Brome Lake Ducks Ltd – Bruno Giuliani

Damafro/Fromagerie Clément – Ed Slattery

Chudleigh’s Retail Bakery – A.G. Manoian

Otter Valley Foods Inc – John Kelly

Aliya’s Foods Ltd – Noorudin Jiwani

Peak of the Market – Larry McIntosh

Overall Lessons Learned

This section of the report summarizes some key lessons learned and insights gleaned from the seven case studies that were developed for this study.

1. Shipping costs, the time it takes to ship product and available transport options in and of themselves are not the key barrier to overcome in establishing a successful export business to the US.

While costs clearly vary, overall rates appear consistent with shipping comparable distances across Canada.

Company	Transport Mode Favored	Average Transport Cost	Equivalent Canadian Shipping Destination
Brome Lake Ducks	Truck	Full truck Montreal → Florida - $2,400 Cdn (3% of cost of sales). Shipping less than truckload quantities repersent ~6% of the cost of sales	Full truckload Montreal → Vancouver
Damafro/ Fromagerie Clément	Truck	Full truck Montreal → Florida - $3,500 US Full truck Montreal → California - $4,500 US	NA*
Chudleigh's Retail Bakery	Truck	Full truck Milton, ON → Florida - $2,500 Cdn (3% cost of sales) Full truck Milton, ON → Southern California - $4,500 (5% of cost of sales)	Full truckload Milton, ON → Alberta
Otter Valley Foods	Truck	Full truckload Tillonsburg, ON → Syracuse - $500 US (1.5% of cost of sales)	Full truckload Tillonsburg, ON → Montreal
Aliya's Foods	Truck	Full truckload Sherwood Park, Alta → Texas - $2,000 Cdn (3% cost of sales)	Full truckload Sherwood Park, Alta → Toronto
Peak of the Market	Truck	Full truckload Manitoba → Texas - $3,000 US (25% of cost of sales)	Full truckload Manitoba → Halifax
Seafood Company	Truck Ship	Full truckload Nova Scotia → New York - $1,500 US (0.5% of cost of sales) Full container from Nova Scotia → California - $2,500 US (3% of cost of sales)	Full truckload Nova Scotia → Toronto Full container Nova Scotia → Vancouver

When they have needed to ship less than truckload quantities (LTL), companies have most often consolidated shipments with other companies, pooled regions for the purpose of consolidating shipments, or attempted to create a shipment schedule (e.g. truckload to a certain shipping point every 6 weeks). Through this study, we did not identify any opportunities to ship product by courier, other than by using well established courier services.

** Information not disclosed*

Overall Lessons Learned

2. Managing the paperwork and unpredictability of the cross border process is far more challenging than the cost situation, and can result in timing delays.

   There does appear to be a starting point concern amongst US buyers that Canadian companies are somewhat unreliable as suppliers and delays caused by the border crossing serve only to support that perception and the perception that it takes longer for a Canadian shipment than a domestic one. A company can be faced with a minimum of two inspections per year during which product can be quarantined for up to a month. As one company representative put it "if you fail the inspection, you have to cross the product back into Canada – *failing once means moving it twice*".

   It is therefore critical that companies interested in developing US export business "respect the border" and view it as a "reality" as opposed to a "barrier". Successful companies have employed customs brokers to facilitate the crossing, and others have used local resources such as Export Clubs to help them with the paperwork.

3. Successful companies have not only leveraged the lower Canadian dollar but also created a distinctive point of difference – that turns being "Canadian" into a positive rather than a cause for suspicion. Below is a list of the unique "selling propositions" that these companies created for themselves:

   Brome Lake Ducks – the Peking duck

   Damafro – Fromagerie Clément – "French" Canadian Brie

   Otter Valley Foods – plant capability and flexibility

   Chudleigh's Retail Bakery – Apple Blossom (first single serve piece of apple pie which is fully baked, individually wrapped and microwavable)

   Aliya's Foods – line of East Indian frozen entrées

   Peak of the Market – the taste, quality and consistency of Manitoba grown vegetables

   Seafood Company – European-style specialty canned fish products (from the Canadian saltwater fish)

Overall Lessons Learned (cont'd)

4. Private label manufacturing does appear to represent a large opportunity for Canadian exporters. It was the observation of several of the company representatives that the US market is very brand-oriented, and as such, still underdeveloped in private label. One company in particular began its export business via branded business and learned that unless you have unique differentiation, "it is really difficult being the 7th branded lasagna in a section." For this reason, 4 of the 7 companies studied, have some level of Private Label export business.
5. Successful companies have taken a disciplined step by step approach to developing an export business; building a successful "beachhead" or test market, and then carefully selecting target geographies/customers for expansion.

   For instance, Otter Valley Foods conducted a test market of a line of private label frozen entrees with a progressive US retailer Wegman's which provided them with "evidence" that they could reliably supply to the US. Other companies such as Brome Lake Ducks, and Aliya's Foods have targeted one region per year to penetrate, and then expanded from there. Those companies who did not conduct a test market per se (eg. Peak of the Market, Chudleigh's Retail Bakery), leveraged their success with very large Canadian customers which in many instances also operate in the US.

6. The size and sophistication of US buyers (in addition to their perception regarding the reliability of Canadian suppliers mandate an extremely well thought through plan of attack and a significant effort behind developing a compelling sales story and selling materials. Put another way, this will not likely be successful if managed in a casual or half hearted manner. "Getting it right the first time" is a critical success factor in dealing with US customers. Therefore, the understanding of all the cost and timing implications of cross border shipping, and the integration of them into a compelling customer story is critical.

   Linked to this learning is the heavy time commitment which the company representatives have made to meeting with potential customers in the US, attending trade shows, and creating visibility and credibility for their company. As one company representative quoted "If you're serious about developing exports, you need to be prepared to go down and knock on doors yourself".

Overall Lessons Learned (cont’d)

7. The US based support infrastructure, e.g. freight forwarders, shippers, public warehouses and agents/distributors/brokers is well established and open to working with Canadian exporters.
8. Company views were polarized regarding the usefulness and need for brokers in the US market. For some, the experience has been that the Canadian company “gets dropped to the bottom of the heap” and that by managing the selling process themselves, they have greater control. Even those companies who use brokers (often as “arms and legs” or as prospectors for new leads) insist on remaining extremely visible with their customers. Companies involved with Private Label were less likely to make use of brokers.
9. It is the experience of several of the companies interviewed, that once one achieves the “first break”, that to prove your company’s credibility, you need to be extremely flexible and responsive to customers’ needs (eg. additional production shifts, shipping less than truckload quantities or pallets). This further supports the need to penetrate one market at a time versus taking on the whole country at once and over-promising.

Key Questions in Developing an Export Business

What should we start?
Which target market(s)?

The fundamentals
- What are consumer trends?
- What is competitive situation?
- Who are potential customers?

What is our “selling story”?

- Branded versus private label?
- What point of difference versus existing items in market?
- What are supply/service requirements for this market?
- What pricing strategy makes sense?

What is our “route to market”? What partners/help do we require to deliver the proposition effectively and consistently?

- Brokers
- Freight forwarders
- Shippers
- Customs brokers

How do we get help in answering these questions from both local and in target market resources? E.g. federal and provincial government, export clubs, etc.

Case Studies

Case Study – Brome Lake Ducks Ltd.

Company Background

Established in 1912, Brome Lake Ducks Ltd is the oldest duck-breeding farm in Canada with sales revenue in the $20 million range. The company specializes in breeding Peking duck; the product line consists of whole duck, retail cuts and giblets, patés, foie gras, specialty lines and frozen ready to serve entrées. Products are exotic and exciting, high priced, seasonal in nature, and served on special occasions. Brome Lake Ducks' original basis for competing has been to provide Peking duck predominantly to Chinese communities; the company has exported into the US (into Chinese communities). Since 1998, the company has broadened its target market beyond the Chinese community. Thirty eight percent of Brome Lake Ducks' total sales in 2002 were attributable to US exports.

Case Study – Brome Lake Ducks Ltd.

Export Go-To-Market Approach

In 1994, Brome Lake Ducks iniitially started transporting product with their own trucks into the Northeast US and the Washington, New England, New York area, and later expanded into Southeast and Southwest states where duck consumption is high (Florida, Texas, Nevada).

Brome Lake Ducks now uses transport companies to deliver product to a central, public warehouse in Rhode Island, from which product is then shipped to Southeastern and Southwestern destinations. This warehouse acts as a "freight forwarding" point to other states. For the Florida market specifically, an additional public warehouse is utilized. The Rhode Island "freight forward model" will be utilized until such time when Brome Lake Ducks has enough demand to justify shipping a full truckload into a specific market.

The costs of shipping a full truckload of product from Montreal to Florida are equivalent to the costs of shipping the same amount of product from Montreal to Vancouver (cost of $2,400 Canadian or 3% of the cost of sales)*. Shipping product from Montreal to Rhode Island costs approximately $1,000 (2% of the cost of sales).

In Florida, Brome Lake Ducks utilizes a food broker who in turn sells to 18 separate distributors. Fifty percent of Brome Lake Ducks' US business is in retail and 50% is in food service.

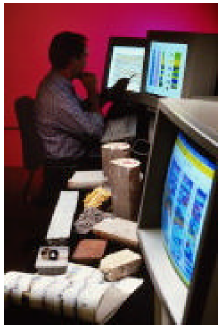
In 2002, Brome Lake Ducks also started developing the Chicago market, and will focus on business development in Texas in 2003. For the Texas market, the same model of engaging a sales agent and using the Rhode Island facility as a "freight forwarding" operation will be utilized. Additionally they will be shipping directly to the warehouses of a major retailer in Texas in 2003.

Brome Lake Ducks has also been approached by a major retailer in the Southwest US to expand into Mexico (2004).

* Note: All transport costs quoted are averages and are not representative of every product line.

Case Study – Brome Lake Ducks Ltd.

Key Factors For Success/Marketplace Learning



A key factor for Brome Lake's success in their target regions has been the high quality and differentiated nature of their product. This provides them with a strong selling story to customers and allows for premium pricing.

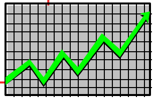
Utilizing a broker as a sales agent to reach distributors was a very important vehicle for gaining credibility. Choosing the right brokers is also a key driver of success.

Crossing the border is fundamentally a far bigger challenge than the distance to US markets. Border inspections can cause delays, and this is what results in perceptions that Canadian suppliers are not reliable – understanding border crossing requirements is the most important factor in the US export business. If you fail the inspection, you have to cross the product back into Canada ("failing once means moving it twice").

Attending carefully chosen trade shows was an important way to achieve sales leads (e.g. New York Fancy Food Show, National Restaurant Association in Chicago). In order to develop the foodservice side of the business, it is critical to attend distributor sales shows as well.

Given that the Pacific Northwest and California have large scale local sources of supply of Peking ducks, Brome Lake Ducks has not identified them as high potential markets.

Exports to US represent 38% of total sales



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Case Study – Brome Lake Ducks Ltd.

Recommendations for Other Canadian Companies Interested in US Export

You must do your homework and really understand the export costs involved and the border crossing requirements – it is critical to learn how to fill out the paperwork correctly (use resources such as seminars from "Club Export" in Quebec).

Get your pricing right – it is crucial to study the dynamics of each US market as they are all different (e.g. Florida is extremely price sensitive due to the presence of theme parks, cruise liners, and a high concentration of restaurants, whereas Texas is less so); know the market price for your product and then position yourself accordingly.

It is extremely important to provide the proper support materials to one's broker (e.g. fact sheets, point of sale materials, website access etc.) – this support must be built into the original export marketing budget.

To achieve credibility with US customers, it is critical to know your transport costs and all of your information inside-out to make a good first impression, as well as be ***really*** ready to ship product before signing a deal (e.g. US labelling, packaging, supply) – there is a predisposition on the behalf of US customers that Canadian suppliers are not always reliable.

Finding a good agent/broker takes hard work – research their references, investigate the agent's business development plan, interview the agent's other clients to assess their satisfaction level etc.

Case Study – Damafro/Fromagerie Clément Inc.

Company Background

Damafro is one of the most reputed cheese makers in the Canadian cheese industry. Products include different forms of Brie (Baked, Double Cream, Triple Cream, etc.), Camembert, goat milk cheeses (Cabries, Herb and Pepper flavored, etc.), and other soft and semi-soft ripened cheeses, as well as their fine herbs (produced by Balatti Inc, a subsidiary of Damafro Inc). It is a family-run business, originally from the region of Brie, France. Mr. Claude Bonnet, the Master Cheesemaker, is a true leader in this trade. Canadian made cheeses today share equal billing with the great cheeses of Europe. The company sales are in the $25-50 million range – exports to the US account for approximately 7% of sales.

Case Study – Damafro/Fromagerie Clément Inc.

Export Go-To-Market Approach

After 5 years of unsuccessful business development in the US, Damafro engaged the services of an export consultant who had previous US export experience (now their International Sales and Marketing Director).

In April 1996, Consolex (Damafro's export consultants) participated in the Atlanta Culinary Show in Atlanta, GA. Samples of their Brie, Camembert and goat milk cheese were presented to buyers and chefs from major hotel chains such as Hyatt and Hilton. Their first break was from a chef in a popular hotel chain in the Midwest, using a New Jersey based master distributor. From there, the distributor was able to sell Damafro's cheeses into several major supermarket chains such as A+P, Stop & Shop and Trader Joes. The key selling proposition was that the Damafro and other Canadian cheeses are as good as European cheese, but were more cost effective, at the time.

Currently, Damafro has several distributors covering their New York, New Jersey, Illinois, Minnesota and California markets.

Trucking represented the best transport option because planes, although fast, are costly and could pose problems with freezing, and ships were too costly and inconvenient.

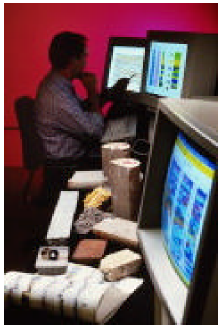
Damafro divided the US into three regions for the purpose of pooling shipments (distributors cannot take in a lot of cheese and shipping less than truckload (LTL) quantities was cost prohibitive) → the Northeast (New England, New York, New Jersey, Pennsylvania), the Midwest and Southeast (Illinois, Michigan, Ohio, Minnesota, Florida) and the West/Southwest (Washington to Southern California). When there are less than truckload quantities they share trucks with other refrigerated food companies.

The cost to ship a full truckload to Miami, Florida is approximately $3,500 US, the cost to ship to California is $4,500 US, and the cost to ship to New Jersey is $850 US. For the same quantity (full truckload) to Vancouver, the shipping cost would be $3,600 US.

*Note: All transport costs quoted are averages and are not representative of every product line.

Case Study – Damafro/Fromagerie Clément Inc.

Key Factors For Success/ Marketplace Learning

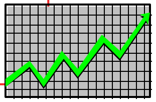


Damafro learned that in dealing with US customers, that it is critical to be able to speak and understood English or have someone representing you who can – language was a significant barrier in their early forays into US export.

The competition for their industry in the US is intense which includes domestic cheese (US producers) companies, French (European) and other Canadian cheese companies.

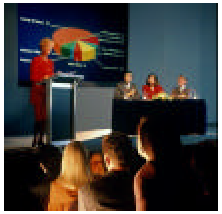
One of Canada's, as well as Damafro's, greatest challenges has been overcoming the perception that our products are "domestic" because of our proximity to US neighbors within North America. Damafro had to thereby sell their customers on the idea that they are a "French" Canadian company, and therefore are more similar to French Brie, which is considered the "standard" in the cheese industry today.

Exports to US represent 7% of total sales



Case Study – Damafro/Fromagerie Clément Inc.

Recommendations for Other Canadian Companies Interested in US Export



- Stay away from master distributors; use a smaller distributor to ensure greater control.
- Ensure that transport costs are being properly figured into one's pricing strategy.
- It is critical to conduct a thorough market survey to understand one's competition in the different US states; this is especially critical in developing a pricing strategy.
- Attend the food shows that are relevant to your product – the most relevant ones for Damafro are the Fancy Food Shows in Chicago, New York and San Francisco.
- Utilize the services of the government associations in the US (e.g. Quebec House – MAPAQ) and in Canada (Agriculture Canada in the food industry) or your provincial Export Club to aid you in your US market research – they are a great resource.
- Take the time to get your labeling in accordance with FDA regulations.
- Try to get warehousing in the US, preferably as close to the border as possible. This enables "cross-docking" and use of US transportation at a lower cost. Cross docking gives you a chance to use US transportation at a lower price than using a transporter from Canada to your final destination (such as California).
- It is critical to follow up with a telephone call on ***every*** lead received at a trade show. Lack of expedient follow-up feeds the perception that Canadians are unreliable suppliers.

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Case Study – Chudleigh's Retail Bakery

Company Background

Chudleigh's was established in 1957 – the family has been Apple Farmers for three generations, and the commercial bakery was opened in 1990. The Chudleigh's brand is well recognized and trusted as a high quality apple and apple product producer. Chudleigh's Bakery produces fruit pastry products which are fresh frozen or baked and frozen, with apple being the specialty. Chudleigh's Bakery is the innovator of the first single serve piece of apple pie which is fully baked, individually, wrapped and microwaveable (Apple Blossoms). Chudleigh's Bakery's sales are in the range of $20 – 30 million with exports to the US representing 60% of total sales. In the US, 50% of Chudleigh's Bakery's business is in retail, and 50% is in foodservice.

Case Study – Chudleigh’s Retail Bakery

Export Go-To-Market Approach

Chudleigh’s Bakery’s first US export account in 1994 was Red Lobster (~$2MM), achieved based on Chudleigh’s success with the Red Lobster chain in Canada. Chudleigh’s had been previously producing premium apple pies for the restaurant trade, but the product presented problems because there was often a lot of wastage (service personnel often crumbled the pie when cutting the first slice and the last slice too often ended up broken). As a result, Chudleigh’s Bakery developed the Apple Blossom, which is a single piece of apple pie uniquely shaped like an apple blossom and fully baked.

Chudleigh’s then attended key trade shows such as the National Restaurant Association Show, the National Baking Show, and the International Dairy, Deli and Bakery Association, where they attracted their next customer, an institutional account called Market Day in Chicago (an institutional account) and then later, Olive Garden and Chart House.

On the retail side, based on its success at Costco in Canada (where the Apple Blossom was similarly a convenient item for the family), Chudleigh’s Bakery then was able to gain distribution at Costco in the US, and from there, has added retail accounts such as Sam’s Club, Safeway, Harris Teeter, Trader Joes, Kroger, Vons and Wegmans.

Chudleigh’s Bakery uses frozen trucks from Erb Transport and hires either a full truckload or sends product in combination with other frozen food companies – they ship directly to customers’ distribution centers.

The cost to ship a full truckload of product from Milton, Ontario to Sam’s Club’s distribution center in Florida is $2,500 Canadian or 3% of the cost of sales. The cost of shipping a full truckload to Southern California is $4,500 or 5% of the cost of sales*. The costs to ship the same amount of product from Milton to Florida are equivalent to shipping product from Milton to Alberta. The costs of shipping from Milton to Southern California is equivalent to the costs of shipping the same amount of product from Milton to Vancouver.

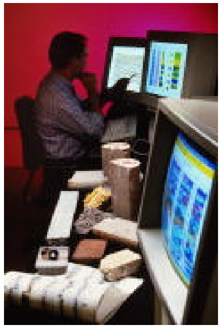
Some US retailers who are innovators in Private Label such as Trader Joe’s and Harris Teeter, have also picked up the Apple Blossom concept under their store brands.

Business results have been on plan, and Chudleigh’s Bakery plans to develop additional US based retail and foodservice accounts in 2003 and beyond.

*Note: All transport costs quoted are averages and are not representative of every product line

Case Study – Chudleigh's Retail Bakery

Key Factors For Success/Marketplace Learning



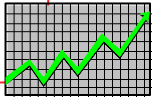
Key factors for Chudleigh's Bakery's US export success have included: i) the uniqueness and quality of the product, especially the Apple Blossom, ii) having control over the selling process by not using a wide network of brokers, and iii) finding a trucking company that can flexibly schedule deliveries, find combinations of products if Chudleigh's needs to ship less than truckload (LTL) quantities, and who have experience with border crossings.

Chudleigh's has learned that the best business model for US export development is to manage the selling process and the initial interfaces with potential customers on their own – working through a broad network of brokers is difficult, time consuming, and can result in a loss of control over major decisions. Chudleigh's Bakery uses only two brokers in the US, who serve as Account Managers to present new items and deal with day to day issues (ie. act as "arms and legs").

Chudleigh's Bakery has found that there is no destination in the US that is more costly to ship to than any equivalent destination in Canada. Transport logistics and costs have not been a barrier for Chudleigh's Bakery.

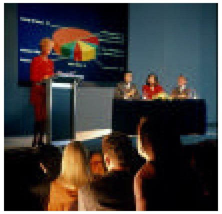
Chudleigh's Bakery has not found it more difficult to deal with US customers than with Canadian customers – a key factor for their success has been the ability to sell off of/leverage their past successes (e.g. with Costco Canada or with other US retail chains).

Exports to US represent 60% of total sales



Case Study – Chudleigh's Retail Bakery

Recommendations for Other Canadian Companies Interested in US Export

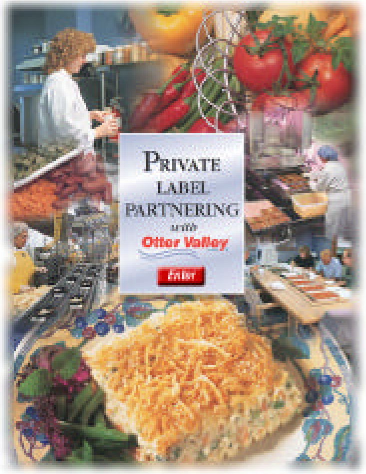


- It is extremely important to understand your customer's business model and how you can solve their problems – one needs to be prepared to conduct a lot of research on target customers (i.e. visit locations, tour their kitchens, interview staff etc.)
- It is very helpful to make sales calls yourself (versus having a third party do so on your behalf) – this leads to increased credibility as well as provides a forum to discuss potential solutions ("you hear things directly this way").
- Ensure that you select a shipping company that does a lot of business in the US, has a lot of trucks and can offer you good flexibility in scheduling.

Case Study – Otter Valley Foods Inc.

Company Background

Otter Valley Foods Inc, a value-added frozen food entrée manufacturer, is focused on the retail and foodservice private label business. Otter Valley Foods was first incorporated as Wedgee's Foods in November 1984. The company's product line for the initial two years of business consisted exclusively of pizza products for supermarkets. In early 1987, Wedgee's also began to produce frozen lasagna and cabbage rolls, and later on, chili and meat pies as well. The company name was changed in 1995 to Otter Valley Foods Inc. The company's total sales are in the $50 million range; approximately 60% of these sales are attributable to US export.



Case Study – Otter Valley Foods Inc.

Export Go-To-Market Approach

Otter Valley's first experiences with US export business which included selling frozen lasagna (branded at the time) for staff feeding to casinos in Las Vegas were not sustainable as the market pricing was very aggressive and there was a lot of branded competition at the time.

Later, in 1998, Otter Valley Foods identified that the US Private Label market was very underdeveloped and started out by developing 25 private label frozen entrée products with a small, but very progressive retailer, Wegman's in New York (similarly advanced in Private Label as Loblaws is in Canada).

Using Wegman's product at the Private Label Manufacturers Show in Chicago then provided "evidence" that a Canadian company could successfully ship product across the border, and other customers demonstrated similar interest in Otter Valley Foods' plant capability and capacity.

Otter Valley Foods does not handle the transport – their customers either have trucks of their own or have contracts with truck networks. This is driven by the company's philosophy that they do not want to make or lose money on shipping. The largest customers pick up product from Otter Valley Foods directly.

For small and medium sized customers, Otter Valley ships to a central distribution centre in Syracuse (a rented common cold storage facility) and then prices are quoted FOB Syracuse.

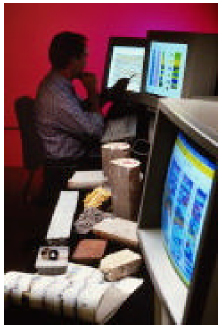
Otter Valley's cost to ship a full truckload to Syracuse is approximately $500 US (1.5% of the cost of sales), which is the equivalent of shipping the same amount of product from the plant in Tillsonburg, Ontario to Montreal*.

Otter Valley is also heavily involved in co-packing for large US manufacturers including Conagra, Campbells and Unilever.

*Note: All transport costs quoted are averages and are not representative of every product line.

Case Study – Otter Valley Foods Inc.

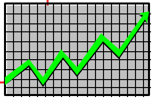
Key Factors For Success/Marketplace Learning



Getting the first “break” was extremely difficult; in the case of Otter Valley Foods, the Private Label experience at Wegmans, a small US retailer, served as “proof” that Otter Valley could reliably supply and transport product to the US. Developing products with Wegman’s initially was a 2 year project.

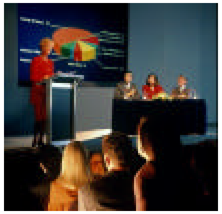
Penetrating the branded business in the US is extremely costly (costing approximately $70 MM for a national launch to cover listing fees and marketing) – Otter Valley however found that US competitors, although very brand-oriented, were not as focused on Private Label. Otter Valley Foods learned that they had a “story” to sell in their plant capability and flexibility, but not on the branded product side.

Exports to US represent 60% of total sales



Case Study – Otter Valley Foods Inc.

Recommendations for Canadian Companies Interested in US Export



- One needs a distinct point of differentiation when selling into the US (product, packaging, price or service) – "you have to go down there with a vision".
- Respect the border and its related regulations and paperwork – invest in a border crossing broker (e.g. Wilson) and proactively participate in their seminars. Another key vehicle is to hire an export person from a large company who has had previous experience in penetrating the US market.
- Be strategic with the food shows you attend – define your target market and select the top show that is relevant to your target (PLMA in Chicago is the best Private Label trade show).
- Start on a small scale with a small, influential retailer and create a success story which you can "market" – "American customers are very interested in what you ***are*** doing, not what you ***say*** you can do".
- For Private Label, a broker is not necessary; if you have a well defined market and an in-depth understanding of it, it is possible to find the opportunities on one's own. Otter Valley Foods' experience was that with some brokers, the Canadian products "fall to the bottom of the heap" and get little attention.
- Be persistent – pursuing the first export opportunity can take up to two years, including sample development, but persistence does pay off.
- One needs to be prepared to go down into the US markets and knock on doors yourself. You need to be present at sales calls with customers to build credibility for your company.

Case Study – Aliya's Foods Ltd

Company Background

Aliya's Foods Ltd is a manufacturer of a branded line of East Indian frozen food products (i.e. frozen samosas and entrées). This company which was founded in December 2000, has experienced annual sales growth of 300%. Forty five percent of Aliya's Foods' sales are in Canada (mostly in Western Canada plus Sobeys in the Atlantic and Ontario), and 55% of the business is make up of exports to the US (retail and club stores).

Case Study – Aliya's Foods Ltd

Export Go-To-Market Approach

Aliya's Foods' go to market strategy is to target areas with a high concentration of East Indian populations; initial research showed that in the US, these could be found in the Northeast (New York, New Jersey, Virginia, Pennsylvania, Massachusetts) in California and in Texas where palates are accustomed to ethnic foods.

By attending Fancy Food trade shows serving these markets, Aliya's Foods identified and selected smaller regional brokerage firms (in the California area and in the Northeast region). The broker in the Northeast also covers Costco and Sams.

For the Northeast US market, Aliya's Food utilizes a transport company shipping full truckloads of frozen product. The costs to ship the equivalent amount of product from Sherwood Park to New Jersey is the same as shipping product from Sherwood Park to Montreal (transport cost of $4,000 Canadian or approximately 3% of the cost of sales)*.

In the Northeast, sales results exceeded expectations by +40%, driven by additionally gaining distribution in smaller East Indian "corner stores".

Aliya's Foods entered Texas in February 2002, selling to Vaughn and East Indian corner store chains (who in turn can own between 200 – 300 local corner stores). Shipments are of pallets only and less than truckload; shipping a truckload directly costs $2,000 Canadian (or 3% of the cost of sales)*. Results to date are meeting expectations.

Aliya's Foods also started exporting into Northern California in October of 2002 through Costco and Sams, where they are shipping less then truckloads (minimum of 6 pallets) using a shared frozen truck (the truck must have maintenance of its temperature control). The cost to ship to San Francisco from Sherwood Park is $3,000 Canadian (4% of the cost of sales) or the equivalent of shipping the same amount of product from Sherwood Park to Toronto. Results achieved in the Northern California market are +10% ahead of goals. The Southern California market is targeted for start of shipments in June/July 2003.

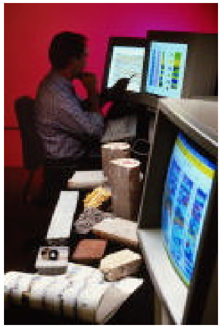
Aliya's Foods uses a customs broker to facilitate border crossings and paperwork

Plans for 2003 are to maintain business momentum in the Northeast and Texas, grow the Northern California market, and develop Southern California.

*Note: All transport costs quoted are averages and are not representative of every product line.

Case Study – Aliya’s Foods Ltd

Key Factors For Success/Marketplace Learning



Because Aliya’s Foods’ product line is unique and differentiated, price competition has not been an issue in the US marketplace.

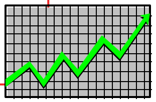
Using a “staged approach”; i.e. entering one market at a time and gaining learning in each market has been a more manageable and affordable approach than trying to take on the whole country at once.

The Fancy Food Shows were pivotal in finding brokers and distributors – investments in these shows were worthwhile.

It was really critical to take the time to research each market individually and to find the right buyers within each chain for their product – it is important to find the contact with influence within the buying offices (but this can be hard to navigate at first).

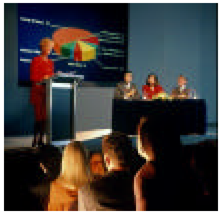
Customers and buyers in the US expect Canadian companies to be federally inspected and HAACP certified (this is a “cost of entry”).

Exports to US represent 55% of total sales



Case Study – Aliya's Foods Ltd

Recommendations for Other Canadian Companies Interested in US Export



To develop an export business, you really need to dedicate a lot of time and effort towards travelling in the markets, being present at trade shows, presenting to key customers etc.

Spending money on a clearing broker at customs is very valuable as it saves time in clearing product at the border, eliminates shipment delays and assists in getting the paperwork right the first time.

To launch a new product in the US market, you need to set aside at minimum 30% of expected sales for marketing activity (e.g. in store demonstrations, advertising, in store materials etc.).

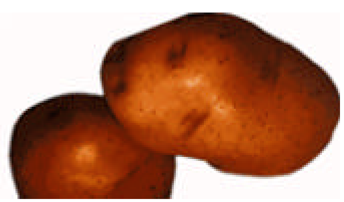
Companies can expect that prospecting within a US market can easily take 5 – 6 months – for this reason, it is recommended to tackle one market at a time in a focused manner.

Being prepared to add production shifts to meet demand is important to help overcome the perception that Canadian suppliers are sometimes unreliable, and to prove your company's capabilities at the outset.

Case Study – Peak of the Market

Company Background

Peak of the Market is one of Canada's premier grower owned vegetable suppliers, and has supplied over 120 different varieties of Manitoba grown vegetables for 61 years. It operates as a co-op, owned by 65 different Manitoba vegetable farmers. Peak of the Market is a year-round supplier of various vegetables as many Manitoba vegetables can be stored for long periods in controlled environment facilities. Some of the vegetables that can be stored for long periods are beets, cabbage, carrots, onions, parsnips, potatoes and shallots. Peak of the Market's total sales are in the $50 million range, with exports to the US representing approximately 32% of these sales.


Case Study – Peak of the Market

Export Go-To-Market Approach

Peak of the Market has developed its US export business primarily over the past 5 years, selling to vegetable re-packers who in turn pack under their own labels, foodservice establishments (e.g. Sysco) and retail chains (mainly Supervalue and Safeway). Key export states include California, Texas, Florida, Washington and Chicago/Illinois. The Southern states represent approximately 55% of the US export business. In these states, Peak of the Market has sold and leveraged the taste difference of Manitoba grown vegetables as well as the consistency and quality of the product.

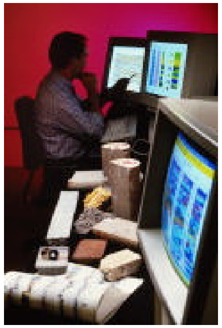
All transport is done by truck – the cost to ship a full truckload of vegetables from Manitoba to a southern state such as California or Texas is approximately $3,000 US, or 25% of the cost of sales*. Shipping a full truckload of the same amount of product from Manitoba to Texas would be the equivalent cost of shipping product from Manitoba to Halifax.

Peak of the Market uses a customs broker (Livingston International), and as a result,has not had problems with border crossings.

Peak of the Market's export sales are exceeding plan by 30 – 40% and further US export is an important future focus.

*Note: All transport costs quoted are averages and are not representative of every product line or quantity.

Case Study – Peak of the Market



Key Factors For Success/Marketplace Learning

The key factors driving Peak of the Market's export success include: i) the ability to convince US customers that as a Canadian company they could provide consistent supply in high quantities (this was done by using large Canadian customers as references), ii) demonstrating price competitiveness to overcome US customers' perceptions that Canadian suppliers cannot be competitive due to freight costs, and iii) the performance of the US dollar.

Being a commodity product, it is important that the Peak of the Market vegetables be competitively priced versus the local market

Peak of the Market has identified that the best selling model in the US is to approach customers on their own, and as such, they only use brokers in one region to help identify new business leads (brokers make up less than 5% of their US sales). They feel that a stronger long term relationship is built by working with the end customers on their own – "brokers do not always have your best interests in mind".

It is critical to get the border crossing paperwork done correctly as the US FDA can quarantine your product

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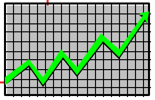
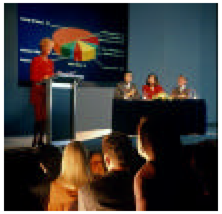
Exports to US represent 32% of total sales



Case Study – Peak of the Market

Recommendations for Other Canadian Companies Interested in US Export



- Do not approach US customers until you are “fully ready” (ie. have your freight costs figured out as well as transport options) and have the capacity to produce the quantities that will be required.
- Do not over-promise to customers (e.g. supply, delivery, quality) or you will erode your company’s credibility.
- Do your research up-front to find reputable customers (e.g. make use of Dun & Bradstreet analyses).
- Provincial and federal missions are a helpful vehicle for making contacts in the US market.
- Talk to, and learn from other companies that have been successful in penetrating the US market
- It is really important to make yourself and your company easy to do business with when dealing with large US customers (i.e. do the paperwork, handle the transport etc.)

Case Study – A Seafood Company in Nova Scotia

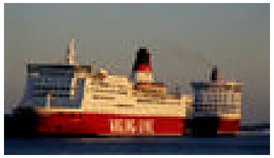
Company Background

This seafood company out of Nova Scotia produces European-style specialty canned fish products (e.g. canned kippers, herring fillets, and smoked products) and focuses primarily on Private Label production. The plant uses herring from the Bay of Fundy and nearby Atlantic coastal waters, and is fully integrated. Total sales are in the $5 – 10 million range, with exports to the US accounting for 60% of sales.

*Note: For competitive reasons, this case study company has selected not to be identified

Case Study – A Seafood Company in Nova Scotia

Export Go-To-Market Approach



This seafood company initiated export development in the 1970s in the New York region by making contacts with Private Label distributors through trade shows (e.g. New York Fancy Food Show, Canadian Pavilion at the Chicago Private Label Manufacturers Show), and today has 20 different distributors in the US. They leverage the proposition that they are a domestic producer of European-style specialty fish products and leveraged their advantages of production flexibility, proximity and service. Today, this seafood company also packs private label product for Walmart in the US.

The cost to ship one truckload of product to New York is approximately $1,500 US (or 0.5% of the cost of sales) and equivalent to shipping the same amount of product from Nova Scotia to Toronto*. The freight cost to ship less than truckload quantities is 3% of the cost of sales. Given the higher expense to ship less than truckload quantities, this company attempts to manage shipments on a six week cycle.

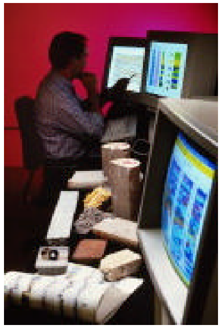
This seafood company sends containers to California by ship as they found that it is less costly than trucks. The approximate cost of shipping a full container is $2,500 US or 3% of the cost of goods*. This is almost the equivalent of shipping the same amount of product from Nova Scotia to Vancouver. However, in Texas, they utilize trucks at a cost of $3,000 (because they don't have as strong a container network as they do in California).

Today, this seafood company packs 100 different canned specialty Private Label SKUs for US customers, and enjoys a 10% price premium versus domestic competitors, and a 10% premium versus the prices in Canada. Export business to the US is growing at a rate of 3 – 4% per year.

*Note: All transport costs quoted are averages and are not representative of every product line.

Case Study – A Seafood Company in Nova Scotia

Key Factors For Success/Marketplace Learning



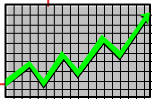
Taking part in the Canadian Pavilions of some of the bigger trade shows was a worthwhile investment as one is able to achieve a more significant presence (especially because being a niche product, it is difficult to get distributors' attention).

This seafood company learned that they had to work very hard during the selling process to convince distributors and their customers that they had the production capacity and available product (i.e. herring) – they leveraged past success stories from other markets to help overcome this.

Key factors to success included the ability to offer production capacity (including short runs) and the Canadian dollar (as a result of which they have not had to take price increases).

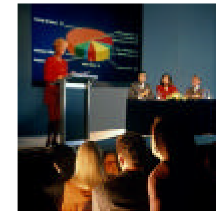
Another key learning was that in the US, one cannot win on the basis of being "the lowest price on the block" – it was more beneficial to enter the market at a price premium and have the flexibility to provide good service and support.

Exports to US represent 60% of total sales



Case Study – A Seafood Company in Nova Scotia

Recommendations for Other Canadian Companies Interested in US Export



- It is critical to understand one's distribution costs to enable the development of a sound pricing strategy.
- It is very important to fully understand the US nutritional labelling regulations.
- Using a customs broker is very helpful to clear your goods, and helps add credibility to your shipment (the cost is only in the range of $40 – $80).
- Companies who plan to export into the US in 2003 need to be prepared to submit a Security Plan to the FDA and customs.
- Companies need to have the capability to supply product reliably to US customers and in the beginning especially, to demonstrate the willingness to do short runs and ship just a few pallets (though it may be a bit more expensive), to prove their flexibility.