July 2013

We seek your views:

"Building Blocks of Success"

We want to get your views about food processing. This is a major sector, but it suffers from a massive and worsening trade deficit. The deficit deteriorated from approximately $1 billion in 2004 to $6.3 billion in 2011.[1] In 2012, it sat at nearly $6.5 billion. As well, Canada's global ranking as a processed food exporter has been falling.[2] Is a resurgence in food processing possible and desirable? If so, what needs to be done?

Why is this sector important? The processed food sector is the largest manufacturing sector in Canada by employment, and the second-largest manufacturing industry overall by GDP (trailing only transportation equipment manufacturing).[3] The processed food sector directly benefits Canadian primary producers, as food companies derive ingredients from farms, orchards and ranches across the country.[4] Processors also generate economic activity for other support sectors. The processed food sector is a positive multiplier for the economy.[5] But we need to better understand what's happening to this sector and the implications of its trade deficit.

[1] *The State of Canada's Processed Food Sector: Trade Balance*, November 2012, CAPI website.

[2] Canada's global ranking as a food manufacturing exporter fell from 3rd (2001) to 7th (2009) place. (CAPI, *Canada's Agri-Food Destination*, 2011.)

[3] Food processing ranking includes primary and secondary processing. (*An Overview of the Canadian Agriculture and Agri-Food System*, AAFC, 2012.) The focus of CAPI's work is secondary processing while being cognizant of the links to other players in the food system.

[4] Some 65% of agricultural production in Ontario, for instance, is directed to food processors to create food products. (OMAF estimate as quoted in *Economic Impact Analysis*, Alliance of Ontario Food Processors). This number varies by province.

[5] The Toronto Board of Trade suggests that there is a 1:6 multiplier effect; every $1 of input in Toronto's food value chain yields a $6 multiplier effect for the provincial economy. *Toronto marches on its stomach; Everyone needs to eat. Even when the economy is stagnant, the city's food industry keeps going - and growing*, by Richard Blackwell, *The Globe & Mail*, April 11, 2012, page B4.

What's our research focus? We're examining four types of food companies:

- Food entrepreneurs and small processors need to have the option to grow beyond their immediate markets. Some of them may be selling nationally and a few may have ventured into export. This is about finding ways to profitably scale up.

- If established Canadian food companies are to remain competitive, they need to be able to access and thrive in growing markets abroad while strengthening their North American base.

- Multinational food companies need to have a reason to remain in Canada (too many have closed or reduced their Canadian manufacturing operations recently). They need to see Canada as a platform for global growth – to invest in innovation here and develop "product mandates" for export.

- And, we need to entice "new" food companies to invest here or buy from us, particularly from the growing markets of Asia, Latin America and Africa. They are seeking out the best food for their respective customers. We need to be one of their partners of choice.

Building blocks of success: Successful companies create sustainable value for the consumer. This is about having the optimum business model and four prerequisites are required: taking the right risk, having the right people, getting the economics right, and having the right differentiation strategy (see diagram). We can't consider what stands in the way of success without first understanding what it takes to be successful. This is the lens that puts a fresh perspective on what needs to be done to support the sector, including the policy implications.

= *Sustainable Value*

1. "Taking the right risk":

To better appreciate the "traits of success" of business leaders and their teams, we are conducting a series of case studies on highly successful processed food companies across the country. We want to know what it is about their entrepreneurial nature and leadership that delivers exceptional performance. We strongly suspect that consciously choosing a winning business model demands being truly innovative at every level: in strategy-making, in deftly managing business operations and in consistently delivering what the consumer wants.

2. "Having the right people":

Across any successful company are skilled people focused on delivering excellence at every level. Good leaders hire the right people. Good leaders also manage by focusing on generating long-term value. In part this is focused on having a highly supportive learning environment for the team. Company leaders also need to be supported by forward-thinking owners, investors and/or the board of directors.

3. "Getting the economics right":

Successful companies have to get the economic fundamentals right; simply put, it's about doing more and better with less. Being better is important as success seems to favour companies focused on revenue growth over cost savings.[6] This is the difference between a great strategy and mediocre success. Many factors drive these priorities, including effectively managing ingredient and non-food input costs and by working with supply chain partners and others every day to meet customer expectations. Our research is now examining the broader economic context in which these decisions are made; as well, we will have to determine which specific issues to investigate more deeply.

4. "Having the right differentiation strategy":

Canadians are consuming more imported food, while Canadian processed food exports have stalled.[7] Reversing these trends depends on differentiating ourselves from competitors. Genuinely differentiating the food product can start with the way food (or the ingredient) is produced at the farm level and at every stage thereafter, including processing, shipping, packaging and preparing the food for the retail shelf or end consumer. Innovation occurs at every step.

The insights we will provide: To provide context, we're now examining the reasons for the negative trade balance and exploring trade performance by sub-sector. We are also conducting an analysis of the number of food company closures and major investments being made and their implications. Our work will explore major consumer trends. While price drives many purchasing decisions, consumers

[6] See *Three rules of business success*, Harvey Schachter, The Globe and Mail, June 16, 2013.

[7] *The State of Canada's Processed Food Sector: Trade Balance*, November 2012, CAPI website.

also seek "authenticity." It is about trust. They want to know what's in their food, where it comes from and whether it's safe and nutritious. And, increasingly, they want to know it is produced using ethical and sustainable practices. As well, we will examine how companies are finding creative ways to innovate. Overall, these insights will enable us to address the question: "How can we be far more strategic about helping companies invest or grow in Canada?" There are policy and regulatory implications and there are implications for companies – some within and some beyond their control.

The choices we face: We'll publish the results of our projects as they unfold.[8] We'll isolate the principles that seem to drive success and present concrete ideas for secondary food processors and government to move forward. We'll flag the related implications for producers and other agri-food players.

Defining success: Our task is to generate a dialogue among leaders on the genuine choices we face in the pursuit of becoming more competitive. We wish to inspire champions to take key ideas forward. We want our work to change behavior, change strategies and change policies.

Question for discussion: **Is the framework outlined above (the building blocks of successful business models) a reasonable approach to consider the issues, evidence and ideas?**

[8] We've already publicized the fact that this sector is experiencing a record negative trade deficit in a short paper published in November 2012 (on CAPI's website). CAPI's research program on processed food commenced in the winter 2013 and extends to spring 2014.