



FOREIGN EXCHANGE

With the Canadian dollar continuing to rise,
some manufacturers wonder if the export market has changed forever

By Carolyn Green

The meteoric rise of the Canadian dollar in recent months well above the U.S. greenback has left many Canadian food processors scratching their collective heads in amazement, wondering aloud what they should do to improve their competitive positions when touting their wares outside the country, especially to our southern neighbours.

The rapid rise of the loonie has been nothing short of astounding, starting the year at about C\$.85 and at press time topping C\$1.03. “It’s not a brand new problem,” says Douglas Hart, president of Toronto-based Hart & Associates Management Consultants Ltd. “But it’s now at the point where it is...the number-1 challenge for food exporters.”

Todd Evans, director of economic forecasting for Export Development Canada (EDC), paints a similar picture: “So far, we’re not seeing a big impact of the high Canadian dollar. It’s only been in September and October that we’ve seen parity and beyond starting to appear, so that will begin to have a negative impact on exports. But it will be mainly to the States because the currencies in many markets we sell to

– like Europe and Asia – have increased as well. If it’s a Canadian company that can manage to sell in Canadian dollars to these external markets, then all the better. The only exports that will be effected are those that are sold in U.S. dollars, even if it’s not to the U.S. market.”

Despite the challenges facing Canadian food exporters who rely heavily on the U.S., EDC still sees some overall growth in exports. In its latest semi-annual forecast released in late October, the government agency predicted a 14.5-per-cent rise in all agri-food exports this year to \$36.5 billion, and an 11.3-per-cent gain in 2008. The outlook isn’t quite as rosy for total food and beverage manufacturing, excluding meat and fish, which represents about a quarter of



EXPORT REPORT

new Asian markets for its products. To co-ordinate the new approach, the company asked Dana Branscombe, its vice-president of Sales for Canada, to take on the role of vice-president of Business Development. “There’s tremendous economic growth in Asia, so clearly we feel that we have to be there as a way to generate some growth for our company and to help geographically diversify some of our business,” says Branscombe. “By exploring other markets, it reduces somewhat the [need for the] United States for a lot of our export growth.”



Initially, Branscombe took a whirlwind tour to Shanghai, Hong Kong and Singapore where he talked to local consumers and received helpful feedback about the products he brought for sampling. And he learned many things. For example, the Western palate for sweet flavours is not shared by many Asians. As well, this market prefers candies that are smaller and more bite-size. Based upon these reactions, some of Ganong’s products, including its Fruitfull line of fruit jellies, were reformulated to better suit Asian taste buds. The company also changed its packaging to ensure it “was attractive [and] that the graphics were appropriate for markets over there,” explains Branscombe.

In October, Ganong shipped three containers chock-a-block full of three new premium gift boxes to Singapore, Thailand and Hong Kong, just in time for Christmas and Chinese New Year, a holiday when gift-giving is *de rigueur*. At this stage, Branscombe is anxiously awaiting feedback: “We were able to get the first order,” he says. “What I don’t know is about a second [order].”

Winnipeg-based Bee Maid Honey Ltd. has a similar tale. A long-time exporter with a substantial focus on Europe, the company recognized that the European market had matured to a point that it needed to find additional markets. With the help of the Canadian Food Exporters Association (CFEA) and Agriculture and Agri-Food Canada, the company attended food shows in China and the Middle East. “By attending food shows, we ended up connecting with distributors and are now selling our honey into these markets,” says Gordon Marks, CEO of Bee Maid, adding that while the company is already in Kuwait, it is hoping to conclude an agreement with a distributor in the United Arab Emirates soon.

However it is China, although among the world’s largest honey producers and exporters, that is the country Marks believes offers enormous potential for growth. “Chinese consumption of honey, in general, is increasing,” he says. “With the increased standard of living in China, more and more people can now consume imported food products. There is also a growing concern about food safety. So the affluent are starting to turn to food products from other countries. It’s a tremendous opportunity for Canadian honey.”

Although finding new export markets can ease the loss of U.S. business, to be successful export strategies must be well

all agri-food exports. According to EDC, the category will rise by a modest 4.8 per cent to \$9 billion this year, followed by an 8.5-per-cent increase in 2008. Certainly, the high Canadian dollar is playing havoc with exporters’ competitiveness in the U.S. It also makes Canada an appealing export venue for U.S. food processors who, should they enter the Canadian fray, will increase competition domestically.

Adding fuel to an already robust fire is the dollar’s uncertainty. Many companies wonder if parity or above parity is a short-term phenomenon or a permanent factor they must take into account when determining longer-term growth strategies. Most, it seems, are opting for the latter, and in some cases have already taken steps to deal with the situation. Take candy maker Ganong Bros. Ltd. of St. Stephen, N.B. Recognizing about two years ago that its U.S. exporting business was eroding, and is now about half of what it once was, the company began to develop a strategy to find



EXPORTREPORT

planned and equally well executed. Giovanna Varricchione, marketing manager for Casa Italia, a Woodbridge, Ont.-based company that exports pork-based Italian deli meats to the U.S., Mexico and Korea, says exporters should research the potential market thoroughly by visiting the country and going to local retail outlets to see what the competition offers. "Visit food shows, not necessarily to exhibit at them, but to see what's there," she advises. "You have the services of CFEA and the government. Get informed and don't just jump into it because you know you have a great product. You have to adapt to what works there." When Casa Italia set its sights on the U.S. in 2000, it launched with a traditional product line but quickly discovered the U.S. consumer had healthier eating habits. While still offering traditional products, it has since introduced myriad new items, some with no MSG, lower sodium or fewer preservatives.

Kalpna Solanki, founder and president of Burnaby, B.C.-based frozen organic baby food manufacturer BOBOBABY Inc., also believes in-depth research is paramount. Solanki, who made her foray into the U.S. earlier this year, suggests that exporters "research in terms of market size and market potential and talk to people who have done this already." But don't think too big, she warns. "Unless you have tons of money you can't do a national launch in the U.S., so you have to focus on where your market is and then



spread out from there."

And for those already in the U.S., there are ways to soften the blow emanating from the high Canadian dollar. Says Hart: "They need to be very cost efficient and effective. Exporters say it costs more to do business in Canada. But [Americans] don't care whether your rent or wages are higher. Your customers want a product. They're able to source from Canada or the U.S. so whether you are in Ohio or Markham, Ont., you've got to be very cost competitive."

Besides lowering costs, Hart also believes food manufacturers can succeed if they develop ethnic or healthier foods for the U.S. market. "Ethnic food is not just a Canadian or Southern Ontario issue," he says. "It's also big in California and New York. Those are very strong marketplaces for food. Companies that want to gain a foothold in those places should take a look at what kinds of products they can make for those growing ethnic market segments. If you're a food manufacturer at the \$3-million level, succeeding in a niche ethnic market can grow that business by \$1.5 million. That's significant." Another survival technique gaining momentum, says EDC's Evans, is importing inputs. With a higher Canadian dollar, manufacturers can realize cost savings by importing things such as raw materials and packaging.

So despite the uncertainty, there's still optimism in the export market. "I think in the short-term, assuming the dollar maintains its level, that there are golden opportunities," says Hart, "especially for small companies." FC

IT'S IN YOUR HANDS

Look for this Logo and buy Fair Trade Certified!



Your choice makes a big difference. Your choice gives a fair price to southern producers. Your choice empowers farmers to help themselves.



To learn more about Fair Trade and find Fair Trade Certified products at a retailer near you visit: www.transfair.ca or call TransFair Canada at: 1.888.663.FAIR

TransFair Canada is your only independent third-party guarantee that a product was purchased under Fair Trade conditions.

TransFair
Canada
WWW.TRANSFAIR.CA