



HIGHER STANDARDS + INNOVATIVE PROGRAMS = GROWTH

BY DOUG BURN

Producer groups and processors of the smaller meat and poultry categories are building volumes and margins by copying the success formulas of the beef, pork and chicken processors. Canadians trust the consistent quality of branded products such as Maple Leaf Prime Naturally poultry and its product claim of “vegetable-grain fed with no animal by-products.” Until recently consumers didn’t have the same assurance in Canadian veal, lamb, bison and other meats as these were sold largely as small regional brands or as commodities.

John Ross notes that a number of processors and producer groups are now setting high and consistent standards for their meats and developing brands that command trust and premium prices among consumers. Ross, assistant director, Red Meat, Agriculture and Agri-Food Canada (AAFC), cites the Innisfail, Alta., operations of Sunterra Meats as a good example of this trend. Sunterra acquired Canada’s largest federally inspected lamb-processing facility from Canada West Foods in 2003. Late last year it launched a pilot program to reward producers with premium prices for lamb with the same consistency as New Zealand lamb but with a difference. Sunterra’s “Canada’s Freshest” brand will tout the fresh, grain fed qualities of its lamb in contrast to the grass fed lamb and frozen characteristics of its chief competitor.

Paul MacInnes cites a project he worked on with the

Ontario Veal Association (OVA) that produces a premium branded line of veal that is boosting sales and margins for Sobeys. MacInnes, principal of Toronto-based fresh foods consulting firm Paul D. MacInnes & Associates, explains that while most consumers enjoy veal dishes when dining out they lack confidence in buying veal in supermarkets or cooking it at home. “Consumers want cooking instructions, recipes, greater product selection and a guarantee of tenderness,” says Jennifer Haley, executive director of the Guelph Ont.-based OVA. The association created the Ontario Veal Quality Assurance Program, which requires on-farm certification of feeding and animal care practices and a packer protocol requiring mandatory aging as well as third-party carcass evaluation to earn the Quality Assured Ontario Veal designation.

The OVA in partnership with Toronto-based St. Helen’s

Meat Packers and Sobeys Ontario launched the Sobeys Taste of the Day retail brand of Quality Assured Ontario Veal last June. Sales to the end of January were up 30 per cent from the launch date.

The Taste of the Day packaging includes simple recipes for such favourites

as veal parmesan as well as ones for roasts and chops to encourage purchases of the whole carcass. In February, Sobeys category manager Chuck Oulton told Haley he is looking to add new veal products such as patties, sausages and kabobs to compliment the program and expand coverage to

other Sobeys banners such as Price Chopper.

AAFC's John Ross notes that bison, thanks to the development of better breeds and growing consumer demand for its high protein and low-fat qualities, offers an excellent opportunity for producers. Calgary-based Carmen Creek Gourmet Meats has been particularly successful in this category. Carmen Creek was launched in early 2003 to supply premium bison – based on rigorous protocols for bison producers – to restaurants and specialty retailers. Whole Foods Market was quick to contact Carmen Creek and place orders for a number of its U.S. outlets, but the BSE crisis closed the border just two months later.

Dean Andres says that the partial reopening of the border at the end of 2003 was quickly followed by new orders from Whole Foods. Andres, Carmen Creek's national sales and marketing director, says, "Once we were able to ship again we gained listings with Whole Foods' outlets in the Atlantic states and just before Christmas we added stores in Florida." He explains that the company chose to process its bison at federally registered plants in order to export but that makes Carmen Creek less price competitive locally as most Alberta producers use the less expensive provincially regulated plants. As a result, Carmen Creek obtains 90 per cent of its estimated \$2 million in sales from exports. Andres adds that until now sales growth was limited by processing capacity but that constraint will be lifted this year with the announced opening of two new processing plants dealing in specialty meats.

Within Canada's 900 million-kilogram chicken category there is a small but fast growing niche for organic products that the AAFC's John Ross sees as an evolution of the "natural" chicken category created by Maple Leaf Prime Naturally brand. Organic Kitchen, acquired by Norval, Ont.-based SunOpta Inc. in 2002, has been a leader in organic chicken and turkey

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Commercial Beef Utilization Strategy

Sometimes it takes a crisis to focus minds on a long-standing problem and that appears to be the case for cull cattle. One quarter of the roughly four million Canadian cattle marketed each year don't earn the top grade because they are bulls or older dairy cows. Until the BSE crisis closed international borders to these cattle, half of them were shipped to U.S. plants for processing into commercial beef and the rest were processed here. With the borders closed to cattle Over Thirty Months (OTM), Canadian packers focused on the higher value fed cattle and domestic processing of cull cattle dropped 30 per cent, recovering half way to the 2002 levels last year as slaughter capacity increased. Even with this increase in capacity slightly more than half of our OTM cattle that could be marketed each year are stuck on farms. That's a big issue for farmers as cow/calf operators prior to 2003 derived a quarter of their revenue from the sale of cull cattle.

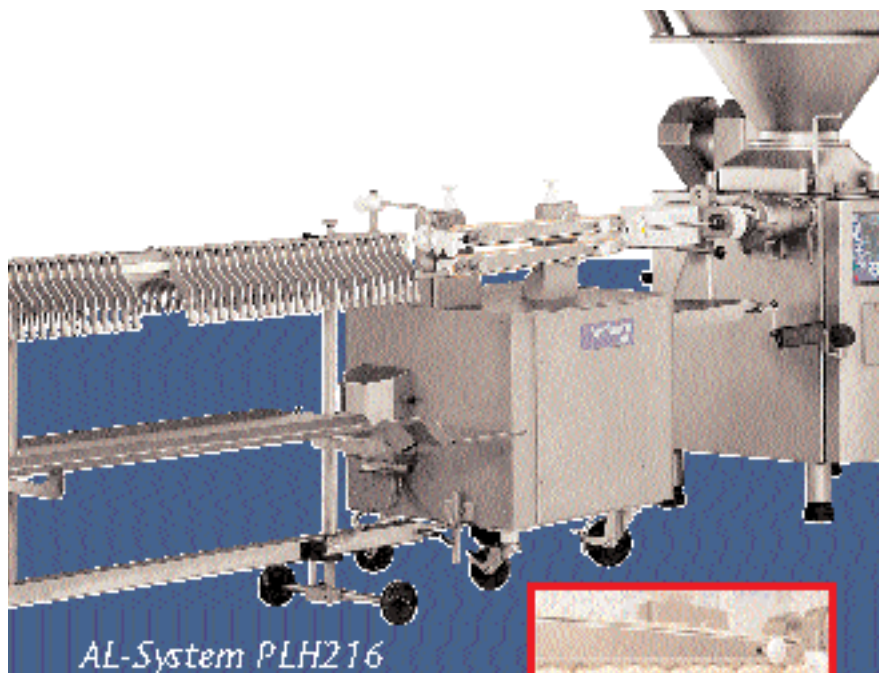
Now, with funding from Ottawa, the provinces, producers and processors, the industry is tackling this problem with an innovative Commercial Beef Utilization Strategy (CBUS) that intends to:

- Increase the share of domestic beef to the commercial beef market;
- Increase the size of the domestic commercial beef market; and
- Add value to commercial beef products through new product development.

Michael Young, who spearheads the program, notes that producers and processors aren't realizing the full value of their commercial beef today as the cattle are rarely graded for quality, and the processors typically grind all the muscle meats into hamburger. Young, director of operations for Canada and the U.S. at the Calgary-

based Beef Information Centre, explains, "We can't just grind up the carcass. We need to squeeze value out of the middle, which accounts for 24 per cent of the volume but 75 per cent of the value including sirloin, ribs and strip loin."

Noting that the CBUS mandate is not to displace markets for conventional fed cattle and beef products, Young has developed unique cuts for commercial beef that can open new markets for food manufacturers particularly in institutional foodservice channels.



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and intends to accelerate its production and marketing this year. Don Rees, a spokesman for Organic Kitchen, notes that the organic poultry category is expanding rapidly from a small base but has until now been constrained by shortages and consequently high prices for chicken quota and

organic feed. Now, as supplies of both are beginning to grow and prices slowly decline, Organic Kitchen is preparing to re-launch the brand in May or June. Rees says, "Based on the monthly increase in requests we're getting from retailers I'd say there is considerable unmet demand and we

intend to meet that."

These other entrepreneurial processors and producer groups illustrate the potential for above average margins and sales growth for those prepared to launch and promote brands backed by high and consistent quality standards.

Strong Domestic and Export Markets


Canadians rediscovered their love of animal proteins last year and all the meat and poultry processors, with the exceptions of lamb and veal packers, benefited. Per capita consumption rose 2.4 per cent to 81.1 kilograms, the largest increase in six years. Chicken and the other white meat – pork – led the way with turkey bouncing back from a slight decline in 2003 and beef adding a percentage point to its five per cent gain of 2003.

Kevin Grier suggests that while the low-carb craze of the Atkins and South Beach diets may have faded, the lasting effect has been "a growing awareness among consumers concerning the importance of protein in their diets." Grier, senior market analyst for the Guelph-based George Morris Centre, forecasts a better 2005 for most poultry and red meats.


While veal and lamb processors lost volume in domestic markets they more than made up for it in export sales. The Canadian Meat Council reports that veal and lamb output increased by 14 per cent and three per cent, respectively, in 2004.

The big story, of course, was the partial re-opening of international borders to Canada's beef exports. Production jumped 22 per cent to 1.4 million tonnes to accommodate foreign demand, putting 2004 output 12 per cent ahead of pre-BSE levels of 2002. Pork processors won back half of the domestic consumption it lost to beef in 2003. The biggest driver for volume gains, however, came from exports markets that now account for over half of pork shipments. While exports to the U.S. rose by five per cent and those to Japan by 10 per cent, the next three largest markets – Mexico,

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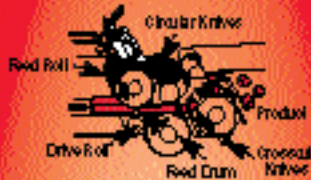


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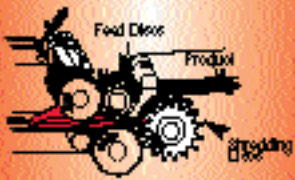
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Canadian Red and Poultry Meat Consumption Per Capita 1998 to 2004

	Annual Change 1998-2002	2002	2003	2004	Annual Change 2003-2004
	Per Cent	Kilograms Per Capita			Per Cent
Beef – retail weight	-0.9%	22.2	23.4	23.5	+1%
Veal – retail weight	-1.1%	1.0	1.0	0.9	-15%
Pork – retail weight	-0.6%	21.2	19.1	19.9	+4%
Lamb – retail weight	+4.5%	0.9	1.0	0.9	-9%
Chicken – eviscerated	+3.1%	30.7	30.5	31.7	+4%
Turkey - eviscerated	0%	4.3	4.2	4.3	+1%
Total	+0.7%	80.3	79.2	81.1	+2%

Source: Canada Food Stats for pre-2004 data + George Morris Centre, Canadian Meat Council and Canadian Turkey Marketing Agency estimates for 2004

Canadian Shipments, Imports, Exports and Domestic Market for Processed Meat and Poultry Products

	Annual Change 1998-2002	2002	2003	2004	Annual Change 2003-2004
	Per Cent	\$ Million	\$ Million	\$ Million	Per Cent

Red Meat Slaughtering and Processing

Shipments	+ 6%	\$14,670	N/A	N/A	N/A
Imports	+5%	\$1,542	\$1,452	\$1,024	-30%
Exports	+11%	\$5,053	\$4,355	\$5,171	+19%
Domestic Market	+4%	\$9,617	N/A	N/A	N/A

Poultry Processing

Shipments	+4%	\$4,155	N/A	N/A	N/A
Imports	+4%	\$378	\$357	\$452	+27%
Exports	+10%	\$181	\$178	\$216	+21%
Domestic Market	+4%	\$4,351	N/A	N/A	N/A

Source: Statistics Canada – Trade Data Online

Australia and South Korea – increased their purchases by 42 per cent to \$270 million.

Turkey may be the growth leader in 2005, says Robert de Valk, because McDonald's has at last added turkey to its menu with the December 2004 launch of its Turkey BLT. De Valk, general manager of the Ottawa-based Further Poultry Processors Association, suggests that this could do for turkey consumption what McDonald's 1983 launch of Chicken McNuggets did for chicken demand.

Kevin Grier suggests that domestic market growth will continue but at a more moderate pace in 2005 and the shares held by the major meat and poultry categories will trend toward pre-2003 levels. On the export front, Myles Frosst of the Canadian Agri-Food Marketing Council notes that significant expansion in out meat packing capacity augers well for future growth in U.S. and overseas markets.

Doug Burn is a Toronto-based freelance writer and editor and regular contributor to Food in Canada.

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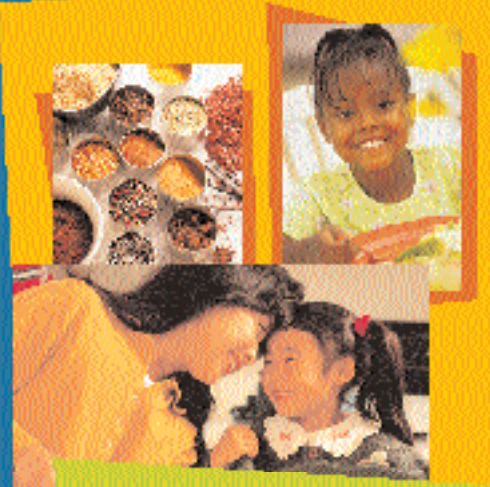
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