Back row (standing from left to right): Joseph Brick, national practice leader, trade and customs practice, KPMG; Stephen Smith, senior vice-president and director, KPMG Corporate Finance; Jay Wright, president, Vincor Canada; Annalisa King, senior vice-president, vertical coordination, Maple Leaf Foods Inc.; and Brian Read, general manager, Levinoff Meat Products. Seated (from left to right) are: Bruce Barber, vice-president, general manager, candy division, Dare Foods Limited; Ingrid Eilbracht, publisher, **Food in Canada**; Deanna Rosolen, associate editor, **Food in Canada**; and Sandra Eagle, editor, **Food in Canada**.

FOOD IN CANADA 2005 KPMG Executive Roundtable

KPMG, a leading worldwide professional services firm with a dedicated food and beverage industry practice, again facilitated the annual executive roundtable for *Food in Canada*. Our group met in June in Toronto for a lively discussion on such things as trade issues, the Canadian dollar, food safety, the rising cost of energy, consumer trends and our Canadian identity.

Stephen Smith: What is the number one challenge your company faces this year?

Brian Read: I guess the number one challenge for our company and probably for the entire beef industry is the unknown of the future. Being 60 per cent reliant on exports has really put Canada at the risk of other countries' political and legal systems. So it's probably re-tooled our thought process to sell locally and think globally. We've probably lost focus, over the last 10 or 15 years, of our domestic consumer and what they can actually do to sustain our industry.

Bruce Barber: Our biggest challenge would have to be generating profitable growth. We need to address changing consumer needs. It's going to come from innovation and marketing products that are nutritious, good tasting and affordable as the key consumer drivers. It's a challenge because of the cost of developing, researching and then entering the products to market. It's a very expensive proposition. You're going to need to work on 20 to 30 ideas to be able to launch five and have two or three that are going to be successful in the long term.

Smith: Are you finding, as part of that challenge with respect to profitable growth, some of your longer lived products being susceptible to private label competition more and more?

Barber: Private label is certainly one aspect of that, which is why we've been working so hard to ensure all our brands have a meaningful point of difference versus all competitors. It's a very competitive market and the retailers have a hard time accepting price increases. If you feel your brand can deserve it, that's one thing, but actually selling it through and getting accepted by customers is another challenge.

Jay Wright: The wine business in Canada is growing and consumers are moving up-market. We need to contin-

ue providing consumers with value for the money at a higher price – in the $15 per bottle–plus range. That's what we're providing with our Canadian wine brands, as well as the imported wine brands we're bringing into Canada.

Smith: Is Vincor still finding that to be a challenge?

Wright: We're still the only country in the world where our domestic business is smaller than the imported business. In Canada, consumers still have an insecurity complex about our own product. We know from our blind taste tests that our wines are as good, and frequently better, than the wines from other countries. But in the higher price points we have more challenges convincing consumers of that. So the focus is really on marketing, convincing consumers that we've got the best quality grapes, world class people and winemaking facilities, and very capable wine makers.

Smith: What is the challenge for Maple Leaf?

Annalisa King: The changing trade landscape is something that we're continuing to deal with. We have all been impacted by the BSE issue from a commodity market standpoint. As the trade landscape continues to evolve and as a company that exports a lot on the meat side of the business, that's obviously something that we need to keep an eye on. Customer consolidation is another consideration for us; we have to make sure that we're providing the products and services that those customers need. We need to keep our eye on the Canadian dollar, whether the dollar is moving up or down, and how we're modifying our cost structures and business to manage that.

Smith: What about the number one long-term issue for the food industry?

King: Well certainly food safety, animal disease and the trade implications that

Photo: Jean Héguy

this would have are probably the biggest long-term issues that we are concerned about. As an industry we need to look at the safety of our food system, both from a consumer and a trade standpoint, and spend time driving forward on risk management strategies for disease control, such as regional zoning, emergency preparedness and protocols, as well as biosecurity from farm to fork.

Smith: Is there learning that came out of the avian flu issue in B.C.?

King: Zoning was a critical component that allowed the balance of Canada to do business. I thought the Canadian Poultry Processors also did a good job of rallying behind the cause and putting aside its differences to get through the crisis. Traceability systems and ensuring that we understand the movement of pigs and beef across zones is critical, as well as advanced protocols for things like disposal and pre-emptive culls. We need to be proactively looking at those types of things to provide that safe platform that is a risk mitigation strategy but ultimately can work to our benefit as Canadians.

Smith: What about Vincor Canada? What's the biggest long-term issue that your company needs to address?

Wright: We want the consumer to make Ontario and B.C. wines their wines of choice. Canadian wines represent about 40 per cent of consumption in Canada today. Our goal is to build that to more than 50 per cent in the next 15 years. We've brought experienced people here from around the world to help our industry get to the next level with respect to viticulture in winemaking. It's important to support your own domestic business if you've got the products that deliver the quality. Probably the most important issue for us long term is securing the supply of high quality grapes. We're investing a lot of time and money doing research on the right clones and rootstocks to bring to Canada to ensure that they survive our winters. I was at a blind taste test last week with some of the best Burgundy and Pinot Noir from France against similar vintage with some Pinot Noir from Inniskillin, where Inniskillin performed as well if not better. To be in the same company as a premier cru from Burgundy says to me that we've come a long way.

> It's important to support your own domestic business if you've got the products that deliver the quality.
> – Jay Wright

Smith: Biggest long-term issue for Dare?

Barber: It's taking advantage of the opportunity of changing consumer trends. We have a portfolio of products that's bang-on for consumer needs right now, but we need to do a better job of marketing that. I'd like to share a little story about how quickly the consumer is changing. Two years ago we were doing research with consumers on the Grissol brand and we asked consumers whether they were aware of trans fat. About 20 per cent of consumers were aware of it. About six months ago, we were doing some follow-up research on other ideas and again asked about trans fat and what they were doing about it. There was a 90 per cent to 100 per cent awareness of trans fat. Participants were saying: "If you read the ingredient list and it says 'hydrogenated' that's what you've got to avoid." So not only is the consumer completely aware of it, they know what to look for in the ingredient list.We've got to be quick to change and predict those consumer demands and be ahead of them, as well as communicate the positive attributes of our products that already are on trend.

Joseph Brick: The next question talks a little bit about the increasing cost of energy in Ontario. You know what it's doing to your pricing; can you pass it on?

King: We see cost increases, particularly in energy. Are we successful in passing them on to our customers and then through to the consumer? I think it depends on a lot of other factors. We look for ways to offset it within our own system first, as you cannot expect to always pass all or even part of it on. The largest division affected is our rendering operation. We're taking a lot of the by-product of the meat industry and converting it into meat and bone meal and tallow. We've actually started producing biodiesel and began operating the first commercial scale biodiesel plant in Canada in July this year-that is based in Quebec. Biodiesel is an environmentally friendly renewable fuel that provides an alternative energy source. From an environmental standpoint, we have a responsibility to step up to the plate on innovation and also provide alternatives that help us manage our costs.

Read: But it's one of those issues like food safety. You've got to have it to go. So when it comes down to energy to produce the product it's just expected. The lights have to come on, steam has to be generated and water has to be produced. It's just like food safety programs; it's a requirement of our business.

Barber: On energy I think we're pretty good at cost control, and we're finding offsets in other parts of the business in terms of efficiency. We're also working on margining up some of our businesses. As we add new brands, like Bear Paws, for instance, we were able to command a higher price for that because it's differentiated from the competition. I think the challenge for those of us on the vendor side is selling through a price increase to the retail trade in Canada. When your costs have increased or your brand has the appropriate added value, as an industry we have to get better at implementing a price increase without going through months and years of agony trying to convince every customer that we're being fair and everybody's retail is appropriate.

Brick: What's the strategy for emerging markets? I was in Bermuda three weeks ago and when we asked for a Canadian wine to go with our dinner there was none on the menu. Could you talk a little bit about the export business? Is it a reality for Ontario wines?

Wright: Icewine has done the missionary work for us around the world. I'm proud when I see Inniskillin Icewine in the Singapore and Heathrow airports. In the last 12 months we launched our Okanagan table wines in the U.S. that have done very well in the early days. Where we sell Canadian wines outside of the country, they tend to be very well accepted. Building the export business of Canadian table wine is critical for us. We haven't had sufficient supply of the high-quality wines available to be able to present them to restaurants in Bermuda, but we will in the next five years.

Brick: Are you feeling an impact in either direction, Bruce? Whether it's exports or influx from other countries?

Barber: We do think there's an opportunity to expand our international business. The majority of our business is in Canada. We have a nice business in the U.S. But there's the rest of the world. We compete in 28 countries all together. We have very small business in Asia; we see the market opportunity there, especially in China. We're in the process of setting up distributors and looking at joint ventures in order to get production and distribution of some of our unique products.

Read: It's an issue for a Canadian company to produce at what exchange we're at. We're okay at around $1.25. Let that go anywhere and we're somewhat at risk as a manufacturer in Canada. Especially on the beef side. When you look at the emerging markets with Brazil and Uruguay coming into our country for manufacturing type meat, it's all based on price. Why should a further processor pay more money for Canadian product? We have to be able to identify the difference. What is the value of Canadian beef products versus the imported products? That's a big challenge because further processors are looking for proteins and binding points for their finished products. Is the Canadian product superior? We have to identify that in order to be able to sustain it for the future. We have to be able to brand Canada: the Rocky Mountains, the fresh water and blue skies. I believe we owe it to ourselves, whether it's wine, cookies or pork, to brand Canada.

> We try to insulate ourselves from low-price competitors coming into the market by having a strong direct store delivery sales force and established, differentiated brands that consumers love.
>
> – Bruce Barber

King: I think Canada has a lot to offer. We have a positive reputation worldwide. Maple Leaf Foods exports to about 80 countries today. China is still very undeveloped and it's a rapidly changing market. We're developing strategies and looking at it very carefully, but don't want to just jump in with both feet and do anything too rash. Within the next few years, we'll be spending a lot of time thinking about how we proceed there as well as in other emerging markets.

Brick: Brian, you made reference to the exchange rate, and $1.25 being a rate where the industry can make its way. Since the Canadian dollar increased recently what sort of responses has that caused within the four companies here?

Read: We're buying our raw materials strictly in Canadian funds. If it goes the other way, it gives them greater buying power out of our country for our raw material. Our strongest asset is people. Whether it's the person who's loading the truck or whether it's our presidents, it's a people industry. The meat industry is not a pleasant environment to work in from a labour standpoint. It's cold, wet and you have to wear safety equipment, or it's hot and you have to go into the cold. The only way you keep people is to pay them, and we have to maintain our skilled labour. But the next generation is critical. And the only way you're going to get them is to pay for them. So as long as we're at that $1.25 we can stay in the game.

Smith: Just to be clear then, if the Canadian dollar declines and assuming the borders are open to live cattle, you start to worry about the availability of domestic supply or domestic supply becoming more expensive for Levinoff?

Read: Absolutely. That will drive the commodity price up. We're coming back to the whole discussion: what's the value of Canadian products? Agriculture is our country's stronghold in the world. I'm a believer in that, or I guess I wouldn't be here. How do we make sure we sustain that for tomorrow?

Brick: Jay, this improvement in the Canadian dollar must have helped your popular-priced end of the business with bulk wine imports from some U.S. regions. I'm talking about some of the blended products now. How helpful is it?

Wright: Well, there are two ways to answer the question: as a company we are becoming more global. Currency stability is a good thing. Any rapid shift up or down in the Canadian dollar creates consternation because of expectations and how it can affect input costs and consumer pricing. We compete against wine from around the world. We've seen some stability in the last three to six months around 79 cents to 83 cents. The fact that a stronger Canadian dollar can help us import doesn't necessarily offset the fact that we have to compete against subsidized imports and the ability that they have to compete against us at relatively low price points because of the fluctuation in the dollar.

Brick: Bruce, you made reference to possible concern about more competition from the U.S. in some segments of the business as a result of what's happening with the currency. Can you elaborate on that?

Barber: Most of the companies we compete against are U.S. based. If the Canadian dollar goes up, it's good in some ways for us and bad in others. We bring product in from a plant in the U.S. to Canada, so if the Canadian dollar strengthens, the product becomes more affordable, even with the transportation costs factored in. So there is a threshold where you look at your exports being unaffordable if the Canadian dollar reaches a certain point. Most of the economists would say 80 cents is a pretty good spot for the Canadian dollar. And you can do your planning better if it's at a number that you can plan on. So I'm voting for stability. Like everyone, we're worried about low-cost products coming into Canada. We try to insulate ourselves from low-price competitors coming into the market by having a strong direct store delivery sales force and established, differentiated brands that consumers love.

King: I'm going to sound like a broken record; stability really is the order of the day. When you see a rapid appreciation in the Canadian dollar, such as we saw, it gives very little time for all the partners in the supply chain to reconfigure the components of their business and change their cost structures to manage everyone's profitability. When you have long-term contracts, let's say packaging, for example, it takes time to sort through adjustments. And when you are dealing with a very speedy change it gets difficult to create enough stability in terms of supplier pricing as well as pricing with your customers on an export basis. Everyone moves to very short-term thinking. However, we all got a bit comfortable when the dollar was at 65 cents. It hid a lot of sins in terms of productivity. We are in a new world now in terms of cost structure, regardless of where the dollar ultimately lands on any given day.

Sandra Eagle: With changing consumer preferences there's a move toward healthy, value-added, functional foods. Is the marketplace changing what products you offer your consumers?

Barber: I don't think this issue is going to go away. We're only one part of the whole equation. There's the whole issue of exercise and the amount of time people spend in front of the TV or a computer screen. I've been very impressed with how quickly we've reacted to making more nutritious products available to the consumer – brands such as Bear Paws, Real Fruit Gummies and Grissol Crispy Baguettes are great examples. I think the challenge is how do you find a way to do it cost-effectively and still [make the product] taste great. And how do you make it price-competitive. Consumers want healthier, convenient foods, but they don't want to pay a premium for them.

Eagle: What about you, Annalisa?

King: The two big trends I would point out would be the aging population and the underlying theme of eating healthier. In terms of the bread business, there are lots of opportunities with healthy grains and we've been at the forefront in launching some of those products under the Dempster's brand, including Dempster's Whole Grains. As for the aging population, things like omega-3 fatty acids are really important for your body. If you can get those through normal food systems, it's a lot easier to manage your own health. Healthy proteins and added value for convenience is also very important in order to eat healthy. Cooking is a chore. If there are easy, healthy alternatives to traditional meals, we want to be meeting those needs.

Wright: People are spending a lot of money on casual entertaining and that plays into the wine industry. I was just looking at some stats that show that if you're over 50, you drink 16 litres of wine a year. Someone told me the other day that red wine is heart medicine. In Canada red wine now represents 58 per cent of all wine consumption. And 10 years ago it was less than 50 per cent. It's growing by double digits. Wine in Canada has definitely become an everyday beverage. A red wine called Sofia Coppola was just launched in the U.S. It's in a little red can and looks like Coca Cola. So when you're starting to drink a little can of red wine you know that the evolution of the industry is shifting from one of being intimidating to one that's more of an everyday occasion. When you see that happening, it's more than just the aging population that's driving the growth. And we haven't really figured out where that other growth is coming from. We think it's because of the soft health connotations of red wine especially.

Eagle: We're all happy to contribute to the cause. My next question is concerning the Smart Regulation project of the federal government. I was wondering if you could give me your thoughts on government regulation and how it impacts your business?

> We have to improve communication between the regulatory people and industry so we have an understanding right across this country. So that we can be part of building the policies, because we all want to do it right.
> – Brian Read

Read: In some respects it's seen as an opportunity to clear out some of the legacy regulation that's been around forever. Even though it may have been completely superseded by something else. So that's one example of where it could be beneficial.

King: We commend the government's commitment to meaningful regulatory renewal to better support Canadian businesses. The Smart Regulation concept sounds positive, by getting a streamlined approach within the different departments within Canadian government. I think most of the people around this room would say that's probably a good thing. It's very difficult to navigate through those waters. Having said that, there are good reasons for the government to remain very thorough. For example, "no animal by-products" is a packaging tag that we have on our Prime Naturally chicken products today. The government has very strict guidelines in terms of what that means and I respect that. We're supportive in terms of managing the bureaucracy and streamlining it to ensure that it's clear. Where Smart Regulation gets complicated is this notion of eliminating small regulatory differences between Canada and the U.S. and reducing regulatory impediments. Although that sounds very positive from a free-trade standpoint, there's a regulatory complexity that doesn't necessarily eliminate the non-tariff trade barriers. The Canadian food processing sector has demonstrated an ongoing willingness and ability to adapt to regulatory points of difference between the Canadian and U.S. markets. And today Canadian companies are successfully accessing the U.S. market despite regulatory differences. The end result of moving forward with "eliminating small regulatory differences" is increased market access for American companies, not for Canadian companies. Large U.S. conglomerates will be able to make use of already significant production runs, versus today where Canadian product must be run separately, based on Canadian volumes. So that can create a lot of issues. The other issue that we would face is that we have an international set of guidelines, which we would like everyone to move towards. However, the U.S. guidelines are not necessarily congruent with that. Regulatory differences between Canada and the U.S. are a direct reflection of differences between Canadian and U.S. consumer values and a reflection of the differences between international market targets for Canada and the U.S. It is critical that our government recognize the initial rationale for these "small" regulatory differences before moving forward with broad regulatory reform activity.

Read: What we do support though is a single food safety system across this country so that everybody is on the same playing field. We have to improve communication between the regulatory people and industry so we have an understanding right across this country. So that we can be part of building the policies, because we all want to do it right. When you talk about efficiencies and energy costs, it's doing it right the first time so that we don't have to do it the second time. I think I agree with Annalisa. It's a slippery slope.

Barber: Well, the ideal would be if we had world standards. But that's not going to happen. We have a free-trade agreement with the U.S. so let's make it easier to free trade. And I think it's silly how now if we have an oversupply of a product for the Canadian market and we want to sell it to a customer in the U.S., we have to re-sticker the nutrition panel and we have to stick the ounces on the front of it. Can we not just get together and agree on what they should be and have them the same in the two markets? And there are a number of examples in this whole thing with free trade that are frustrating. I'd love to see true free trade with the U.S. in terms of having products in the Canadian market that you can also get in the U.S. On balance, I'm in favour of it. I think it's just going to streamline things.

Wright: I support what Annalisa said about simplifying the departments of government. So maybe we should re-prioritize and fix the things within our country first before we sort of look on a broader basis.

Smith: Canadian pork is sold worldwide and a number of countries in these regions are moving to implement country of origin labeling. Do you believe this will be harmful or helpful for Canadian pork marketing efforts?

King: I think that country of origin labelling, in its conceptual form, ultimately can be viewed as a positive. Notwithstanding all the political implementation issues and posturing that is currently getting all the discussion. As a concept, in Japan, for example, Canadian pork is very well regarded. And, at Maple Leaf, we build on Canada having one level of quality and awareness, and Maple Leaf having a point of difference beyond that. And I think that having Canada at a high level helps us all in terms of the attributes that go along with that. I think that it's very important for us to make sure that those attributes have strategies behind animal disease, food safety, and a minimal level of quality and expectation. If those are at a very high level, it gives a sense of confidence around the world in terms of our leadership but it also gives us a platform as a "Canada Brand" to lead in the global industry. Then country of origin labelling will not be an issue – it'll be a positive. We'll want it to be labelled "Canada." And secondly, we will be able to command a premium in places like China and Japan.

Smith: How do trade barriers affect your company and what steps have to be taken to access international markets?

Wright: There's a real trade imbalance with Canada importing a large amount of wine from the E.U. countries. We signed an agreement last year with the E.U. to open the door. So we're now able to sell Icewine and table wines in Europe. The French wine industry is heavily subsidized and is struggling in many markets because the new world wine industry has grown from 20 per cent to 27 per cent of world consumption in the last three years. So there's a huge shift going on in the world of wine. Actually we see the E.U. as a great opportunity, not France and Italy necessarily, but the U.K., as well as Scandinavia and northern Europe.

Smith: Any last comments?

Barber: I think as an industry we all need to be putting better nutrition into food. But on the whole issue of obesity, it's a broader issue than just the food industry. And I think the stats would say that the calorie intake has not gone up, the calorie burning has gone down. So, it's a much bigger issue than just looking at the food industry for the solution to it. There's a cultural aspect of this that needs to be addressed in our schools and in the activities we put our kids into.

Read: We made a commitment to the federal government and the cattle associations across this country that we would increase capacity to handle any livestock available for process. That cost also included improved interventions for food safety. We had competition before when the border was open and we're not worried about competition tomorrow. It's healthy for an industry. And we should be focusing more on science – it prevailed in the reopening of the border to Canadian cattle. And we have to remember that consumers are the most important issue and we will protect them. I think Canada is well respected around the world and there should be a huge push – supported by all governments and industry – to brand our country. And I think we owe it to ourselves and our next generation. There's no sense talking "me-you," it's "us."