

Market Profile for Food and Beverage in Canada

1.0 MARKET STRUCTURE¹

1.1 Background

Canadian consumers generally select their day-to-day food on the basis of price and convenience. Other significant factors that affect choices are brand name and reputation, health and nutrition, safety and quality, processing methods, packaging, environmental considerations and animal welfare. As Canadians have become more aware of food safety and nutrition, they are demanding that the food they purchase is healthy and safe. Canadians today are also generally more conscious of the nutritional components of their food.

Canadian consumers will pay more for foods that are healthy, nutritious and easy to prepare. Gourmet or specialty items, functional foods, environmentally friendly products and ethnic foods are also increasingly popular. Of continuing importance, especially at the upper end of the market, are high-quality speciality products that appeal to the growing demand for natural and safe foods. These include organic, low-fat and sugar-free foods.

Asian-style foods are particularly prominent in the Canadian diet and the trend is towards an increasing mix of ethnic style foods. This partly reflects the ethnic composition of the country, with 13 percent of the population foreign-born (most prominently 27 percent and 26 percent in Ontario and British Columbia respectively). Most of these immigrants come from China and South Asia.

Both Bovine Spongiform Encephalopathy (BSE) and avian influenza have made Canadians much more aware of food safety issues, and as a result consumers can be expected to demand increased assurances that the food they consume is safe. This creates a tremendous opportunity for New Zealand food exporters who are able to capitalise on New Zealand's clean, green image.

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1.2 Market Size

The population of Canada is approximately 33 million. The largest provincial markets are Ontario at 12.6 million, Quebec at 7.6 million, British Columbia at 4.3 million and Alberta with 3.3 million.²

Many large food retailers have remodelled and expanded their stores to include non-food items, such as pharmacies, health and beauty boutiques, photo services, florists and news agents. Likewise, non-traditional food outlets, such as drug stores, are growing their food and beverage ranges. New types of food retailers have become increasingly important in recent years, including warehouse clubs, mass merchandisers, drug stores and online order and delivery services.

Total food service spending in Canada in 2006 was valued at over C\$51 billion, while total retail food spending in Canada in 2006 was just over C\$73 billion.³ The number of food service outlets in Canada has declined in recent years from 63,000 to 62,500, of which 63.5 percent are independently owned and operated.⁴ However, growth in consumer food and beverage spending over recent years has been driven by the growing popularity of premium brands and functional foods offering health benefits to consumers.⁵

In 2004, the average Canadian household spent C\$1,777 on food and alcohol from restaurants, which represents about 41 percent of the household food dollar, continuing a trend in recent years of the increasing importance of hotels, restaurants and institutions (HRI) in consumer food spending.⁶

1.3 Growth Rate

1.3.1 Retail

Per capita retail food product sales in 2007 are estimated at C\$2,288 which is a 1.8 percent increase over 2006.⁷ The annual growth rate for retail food products has remained relatively stable since 2003, fluctuating between 2-2.5 percent growth per annum. A similar growth rate is expected up to 2010.⁸ Grocery sales rose by 10.6 percent from 2003 to 2006 with total grocery sales increasing from C\$65.5 billion to C\$73.3 billion for the period.⁹ Sales at independents were 39.3 percent of total spending and sales at chains were 60.5 percent.

In the province of Quebec, consumers tend to do most of their shopping at independents and this trend is slowly becoming apparent in Ontario and British Columbia as well.

² *Economist Intelligence Unit*

³ *IGD Retail Analysis*

⁴ *USDA GIN Report: HRI Food Service Sector 2006 - Canada*

⁵ *Economist Intelligence Unit*

⁶ *USDA GIN Report: HRI Food Service Sector 2006 - Canada*

⁷ *IGD Retail Analysis*

⁸ *Datamonitor*

⁹ *IGD Retail Analysis*

Growth in retail food expenditure in recent years has largely been driven by the growing popularity of premium brands and demand for functional foods.¹⁰ However, as a percentage of total retail spending, grocery products will remain stable at between 35 and 36 percent per capita.¹¹

1.3.2 Food Service

The tourism industry across Canada saw reasonable growth in 2004 and 2005. High energy prices partly offset a robust economy and a rebound in international travel to limit growth during this period.¹² In 2006 and 2007, however, increasing rates of economic expansion (3 percent per annum gross domestic product growth) and declining unemployment have seemingly helped consumers absorb further increases in energy prices to propel consumer spending higher.

By 2010 it is expected that 45 percent of the total Canadian food dollar will be spent on food service. Real growth rates in the food service sector have strengthened slightly from 1.9 percent in 2005 to 2.1 percent in 2006, slightly outpacing population growth.¹³

Specific food trends driving market expansion in 2005 are listed as follows:

- croissants (fastest growing morning item at chain restaurants)
- pancakes/waffles (fastest growing morning items at independents)
- doughnuts (fastest growing lunchtime item at chain restaurants)
- hamburgers (fastest growing lunch item at independents)
- rolls/other bread (fastest growing dinner item at chain restaurants)
- Japanese (fastest growing dinner item at independents).

1.4 Known Factors Influencing Growth Rate

There is a strong trend in Canada for “super-sizing” and purchasing items in bulk packages. There are several chains of warehouse clubs that allow Canadians to stock-up on certain foods. These outlets have seen significant growth recently and are very popular with Canadian shoppers. However, the heavy discounters dominating the US market have yet to arrive en masse in Canada. This is expected to change in the near future.¹⁴

Gourmet food products generally experienced higher growth rates in 2007 and the food service industry has enjoyed strong growth rates after a decline in 2003. Organic and premium products, particularly those with a functional health benefit, will also drive spending growth, though not necessarily volume.¹⁵

¹⁰ *Economist Intelligence Unit*

¹¹ *IGD Retail Analysis*

¹² *USDA GIN Report: HRI Food Service Sector 2006 - Canada*

¹³ *USDA GIN Report: HRI Food Service Sector 2006 - Canada*

¹⁴ *IGD Retail Analysis*

¹⁵ *IGD Retail Analysis*

2.0 COMPETITIVE ENVIRONMENT

2.1 Major Players in the Market

Canada has a well-developed food manufacturing sector and Toronto is North America's second largest food and beverage production location after Chicago.

Major chain stores proliferate in Canada and these are the primary vehicles for retail food sales. Supermarket and other grocery chains such as Loblaw Companies, Sobeys, IGA and Safeway (US) dominate the market for retail food in Canada.

The arrival of Wal-Mart is a major factor affecting the future of these dominant chains in Canada. Wal-Mart currently carries a wide range of food items and its share of the retail food market is expected to grow. Canadians have embraced Wal-Mart for non-food items and it is safe to assume that more food purchase will be made by Canadians at Wal-Mart in the future, particularly following the launch of its first super centre stores in October 2006. However, there remain relatively few bulk-store discount hypermarkets in Canada. The majority of discount operators in Canada are "soft" (rather than "hard") discounters.

Convenience stores are much more numerous than the large chains and play a very important role in Canadians' spending habits, especially for snack foods and confectionery. While there are a large number of outlets, this segment is dominated by only a handful of operators.

There is a large variety of other retail food stores across Canada. All large cities will have local chains that serve the region and the largest cities will have a chain of high-end, specialty, gourmet food stores. These stores are an excellent way to access the premium end of the food market in Canada.

Canada: Major grocery retailers¹⁶

| Retailer | Total Canadian Sales (US\$m) | Grocery Sales (US\$m) | Grocery Market Share (%) | No. of Stores |
|---------------------------|------------------------------|-----------------------|--------------------------|------------------------------|
| Loblaw | 21,469 | 21,469 | 29.3% | 1,077 (Incl. 405 franchise) |
| Sobeys | 9,635 | 9,635 | 13.2% | 1,296 (Incl. 753 franchise) |
| Costco | 8,122 | 8,122 | 11.1% | 68 |
| Metro Inc. (Includes A&P) | 8,204 | 7,500 (e) | 10.2% | 561 (Excl. 262 drug stores) |
| Safeway | 5,200 | 5,200 | 7.1% | 222 |
| Couche-Tard | 2,295 | 1,427 | 1.9% | 2,064 (Incl. 583 affiliates) |
| Wal-Mart | 9,280(e) | 480 | 0.7% | 289 (Incl. discount stores) |

Source: IDG Estimates

Canada: Major hypermarkets and supermarkets

¹⁶ Data is for grocery formats only except for Total Sales which includes non-grocery if applicable.

| Banner | Format | No. of Stores | No. of Company Owned Stores | No. of Franchised Stores |
|------------------------------|--------|---------------|-----------------------------|--------------------------|
| Atlantic Superstore | H | 53 | 53 | |
| Dominion | H | 14 | 14 | |
| The Real Canadian Superstore | H | 97 | 97 | |
| Atlantic SaveEasy | S/S | 45 | 1 | 44 |
| Fortinos | S/S | 20 | | 20 |
| Loblaws | S/S | 91 | 91 | |
| Provigo | S/S | 101 | 80 | 21 |
| SuperValu | S/S | 16 | 1 | 15 |
| Valu-mart | S/S | 57 | | 57 |
| Your Independent Grocer | S/S | 50 | | 50 |
| Zehrs | S/S | 50 | 50 | |
| Other | S/S | 39 | 2 | 37 |

Key: H = Hypermarket, S/S = Superstore/Supermarket

Source: IGD Retail Analysis

Canada: Major cash and carry and discount stores

| Banner | Format | No. of Stores | No. of Company Owned Stores | No. of Franchised Stores |
|----------------------------------|--------|---------------|-----------------------------|--------------------------|
| Cash & Carry | C&C | 35 | 35 | |
| Presto | C&C | 20 | 20 | |
| The Real Canadian Wholesale Club | C&C | 37 | 37 | |
| Extra Foods | H/SD | 106 | 79 | 27 |
| Maxi | H/SD | 96 | 96 | |
| Maxi & Cie | H/SD | 16 | 16 | |
| No Frills | H/SD | 134 | | 134 |

Key: C&C = Cash and Carry, H/SD = Hard/Soft Discount

Source: IGD Retail Analysis

2.2 Marketing Strategies

Promotion is an integral part of the successful launch of any grocery product in Canada. New Zealand exporters must be prepared to spend marketing dollars on promotion (advertising, discounts, sampling, etc). In some cases, listing fees are required in order to have products on the shelves of the major supermarket stores in Canada. These listing fees can be very high in some cases and the space on the store shelves can often be lost to other products if the item is not successful in the short term. Listing fees must be researched before making an evaluation of a potential product's likelihood of success in Canada.

2.3 Distribution Channels

The industry structure includes retailers, wholesalers, brokers and other buying groups. Wholesalers or distributors typically buy, take possession of, and resell products. They

provide a variety of services to suppliers including warehousing and physical distribution. The top 10 food wholesalers control over 80 percent of all food wholesaling in Canada.

Brokers essentially perform the role of a manufacturer's sales force and are paid a commission for their services. Brokers do not take title to the goods.

Retail food buyers include large retail chains (supermarkets, convenience stores and mass merchants) with wholly-owned wholesaling arms and independent wholesalers (which generally serve independents and smaller food retail chains). There are also specialty wholesalers who tend to carry limited product lines and specialise in niche markets.

Both the foodservice and retail food sectors in Canada have a sophisticated distribution network that must be understood in order to succeed. A variety of companies, both large and small, will do the initial importing. These companies may do the distribution within Canada as well, or they pass it along to another company.

New Zealanders must learn to see Canada as a country of regions. Some of the largest foodservice buyers may only have regional buying authority, while other organisations may buy at a national level and then distribute the product to the regions.

Once a relationship has been established, large chains will deal directly with New Zealand exporters. The most difficult and sometimes time-consuming task is getting in front of the correct people. This will require much work up front in relationship building. New Zealand Trade and Enterprise (NZTE) can provide assistance in establishing contacts with the appropriate decision-makers and establishing relationships with the correct buyers.

2.4 Pricing

Groceries are priced very competitively and prices are very specific to each product category. Most retailers use distinctive products and private label programmes to provide a point of differentiation to the consumer and to improve margins. Private label products are very popular in Canada and many of the large chains carry a wide variety of private label products ranging from discount products to more high-end and premium products.

In the food service industry fierce competition means that pricing must be competitive. The higher average spend at independent restaurants versus chain operators (C\$8.66 vs C\$4.96) is tempered by the dominance of chain operators within the marketplace. Independent restaurants account for only 31 percent of total customer restaurant visits in Canada.

3.0 REGULATORY OVERVIEW

3.1 Duties/Taxes

Import tariffs are applied to many goods that are imported into Canada. Due to the complexity of the tariff system, and the need for information specific to product categories, NZTE recommends exporters undertake regulatory research prior to market entry. For information on tariff rates please consult the Canadian Customs Tariff:

www.cbsa.gc.ca/trade-commerce/tariff-tarif/menu-e.html#current

3.2 Regulatory and Licensing Restrictions or Difficulties

Canadian Food Inspection Agency

All food entering Canada is subject to inspection by the Canadian Food Inspection Agency (CFIA), www.inspection.gc.ca. The CFIA is responsible for enforcing the food safety and nutritional quality standards established by Health Canada, www.hc-sc.gc.ca. All food items entering Canada must meet the standards established and administered by the CFIA. The CFIA does not automatically physically inspect every shipment that enters Canada. Rather, all food shipments are subject to inspection for a variety of potential reasons, including historically problematic shipments or goods, the focus on a particular good, country or region, documentary problems, or simply a random inspection.

Alcohol Products

All imports of alcohol are administered and regulated by provincial liquor boards, with the exception of Alberta, which has deregulated and privatised the distribution of alcohol products. These large customers have very strict requirements, but can place significant orders. NZTE can assist exporters by providing the information required to gain access to these boards. In addition, NZTE has recently produced a profile of the Canadian wine and alcoholic beverages market, available at: www.marketnewzealand.com

Laws and Regulations

A selection of the important laws and regulations that might be applicable to New Zealand exporters are listed below. This is only a selection and NZTE recommends that regulatory research be undertaken prior to exporting to Canada. More information about the relevant acts and regulations are available on the Canadian Food Inspection Agency website:

<http://www.inspection.gc.ca/english/reg/rege.shtml>

Canada Agricultural Products Act

This Act and associated regulations are designed to set national standards and grades for agricultural products and to regulate the marketing of agricultural products in import, export, and inter-provincial trade.

Export and Import Permits Act

The Act provides for the establishment of a series of lists including the *Import Control List* (ICL), the *Export Control List* (ECL) and the *Area Control List* (ACL). The Act sets out criteria that govern the inclusion of goods on the ECL and ICL. Through the issuance of import and

export permits, the government controls the import and export of items included on these lists and the export of goods to ACL destinations.

Fish Inspection Act

The Fish Inspection Act establishes composition, quality, labelling and packaging requirements for fish and fish products traded internationally and interprovincially. Regulations also set standards of construction, operation and maintenance for processing establishments.

Fisheries Act

The *Fish Health Regulations* under the Fisheries Act are designed to prevent the spread of infectious fish diseases. They apply to live and dead cultured fish and eggs (including any fertilised or unfertilised sex products) of cultured and wild fish. These regulations apply to certain types of fish from the family Salmonidae.

Food and Drugs Act and Regulations

This Act is a consumer protection statute dealing with food, drugs, cosmetics and medical devices. It establishes minimum health and safety requirements, as well as provisions preventing fraud and deception for all food sold in Canada. Regulations contain food labelling requirements and standards of identity, composition, strength, potency, purity, quality or other properties for several classes of foods.

Health of Animals Act

This Act is designed to prevent the introduction of animal diseases into Canada and to protect the agricultural sectors and the economy.

Meat Inspection Act

This Act regulates international and inter-provincial trade in meat and meat products. It provides for the registration of establishments involved in the slaughter, processing or packaging of products traded internationally or inter-provincially.

Before meat and poultry products are imported into Canada, the Canadian Food Inspection Agency must evaluate the exporting country. Also, the Canadian Food Inspection Agency must inspect and approve individual foreign manufacturing and processing companies before they are eligible to export their products to Canada.

Natural Health Products Regulations

These regulations place requirements on people who manufacture, package, label, import or distribute natural health products, and are intended to regulate substances that are safe for over-the-counter use.

Plant Protection Act

Plants and plant products, including certain fresh fruits and vegetables, are subject to plant protection import requirements.

Weights and Measures Act

This Act establishes net quantity requirements for commodities sold on the basis of measure and sets out the criteria for determining commodity compliance to those requirements. It does not apply to food packaged for direct sale to the consumer, but does apply to foods in shipping containers destined for commercial or industrial enterprises or institutions, products sold in bulk, and foods served by shop assistants at retail.

3.3 Labelling

The Consumer Packaging and Labelling Act provides for the uniform labelling of consumer packaged goods for sale at the retail level. The regulations prescribe requirements for bilingual labelling, metric net quantity declarations and for the size and location of mandatory labelling information. The basic packaging and labelling requirements are:

- labels in English and French
- net quantities in metric,
- list of ingredients
- durable life date (if shelf life 90 days or less)
- common name of product
- company name and address
- minimum type size specifications
- conformity to standardised package sizes stipulated in the regulations, and
- country of origin labelling.

In addition, nutrition labelling became mandatory for most pre-packaged foods in December 2005. Detailed information on the nutrition labelling regulations is available on the Health Canada website:

http://www.hc-sc.gc.ca/fn-an/label-etiquet/nutrition/index_e.html

3.4 Quotas

There are some industries that are still protected by quotas in Canada. Of particular interest to New Zealand exporters are the quotas that exist in some agriculture sub-sectors and the dairy industry. Imports of some agriculture products into Canada are subject to tariff rate quotas (TRQs) which are administered by the federal Department of Foreign Affairs and International Trade (DFAIT), www.dfait-maeci.gc.ca and the Canada Revenue Agency, www.cra-arc.gc.ca.

The quota system in Canada can be quite complex as certain importers bid for, and are granted, access to the annual import quotas. Quotas are given to Canadian companies, and only those importers, distributors or retailers holding quota are able to import dairy products. Contacting the correct importers with access to quota is essential for products that are still regulated by the quota system. NZTE Canada can identify importers with access to quota.

3.5 Security

In December 2003 the federal government created the Canada Border Services Agency, www.cbsa-asfc.gc.ca. The CBSA brings together all the major players involved in facilitating legitimate cross-border traffic and supporting economic development while stopping people and goods that pose a potential risk to Canada.

In April 2004 the CBSA instituted a new 24-hour advanced notice rule for marine cargo. The Advance Commercial Information (ACI) programme requires all marine carriers to electronically transmit marine cargo data to the CBSA 24 hours prior to the loading of the cargo in the foreign port. The CBSA will risk assess the data and reach agreements with foreign customs authorities to examine any shipments identified as a potential security threat.

3.6 Organic regulations

In December 2006, new *Organic Products Regulations* were published. Over the following two years, the Canada Organic logo will be permitted for use only on those food products certified as meeting the revised Canadian standard for organic production and that contain at least 95 percent organic ingredients. Following this phase-in period, it will be mandatory that all organic products be certified for inter-provincial and international trade. More details are available on the Canadian Food Inspection Agency website:

<http://www.inspection.gc.ca/english/fssa/orgbio/otfgtspbe.shtml>

3.7 Other regulatory issues

In 2006, the Trans Fat Task Force led by Health Canada submitted recommendations to the Minister of Health to reduce the levels of trans fats in Canadian food. In June 2007, the Canadian Government announced that it would adopt the task force's recommendations by asking Canada's food industry to limit the trans fat content of vegetable oils and soft, spreadable margarines to 2 percent of the total fat content, and to limit the trans fat content for all other foods to 5 percent, including ingredients sold to restaurants.

The government has said that it will give industry two years to voluntarily reduce trans fat levels, but if significant progress is not made it will regulate the industry to ensure that the levels are met.¹⁷

4.0 RECOMMENDED STRATEGIES

4.1 Possible Points of Differentiation for New Zealand Companies

New Zealand is highly regarded as a supplier of premium food products. New Zealand firms have achieved success in Canada with many foods, including agricultural products, and now

¹⁷ Health Canada, 'Canada's New Government Calls on Industry to Adopt Limits for Trans Fat', June 2007: www.hc-sc.gc.ca/ahc-asc/media/nr-cp/2007/2007_74_e.html

wine. Other specialty items are becoming increasingly popular in grocery stores and specialty food retailers, however, most Canadians will be less familiar with New Zealand's specialty and premium food products. Consumers will tend to be familiar with New Zealand's traditional exports of beef, lamb, apples, seafood and wine. There is tremendous opportunity for New Zealand's specialty food items to succeed on Canada's store shelves. Many of these products will fit well onto the shelves of supermarkets and even more have the potential to find their way to the smaller speciality and gourmet food stores.

4.2 Tactical Recommendations on Market Entry

Opportunities exist for manufacturer-branded, as well as private and house-branded products. Private and house-branded products can provide an easier entry into the Canadian marketplace, especially when introducing a new category to the consumer. There is potential for New Zealand exporters to capitalise on generic in-house brands of the major chain stores. Initial access to the market could be under the in-store brands to test market acceptance for the product. The company brand could then be developed as a secondary strategy.

Gourmet foods have a good chance of success with higher-end specialty retailers in Canada. Canadians are familiar with a wide variety of foods from around the world and are always willing to pay a premium price for a unique and exciting new product to try at home.

4.3 Sustainability Issues

4.3.1 Packaging

The Canadian Council of Ministers of the Environment (CCME) is developing tools and resources for environmentally sound waste management in Canada, promoting sustainable use of materials and resources to reduce negative environmental impacts, and encouraging waste minimisation. In June 2007 CCME endorsed national principles for extended producer responsibility (EPR), which is an environmental policy approach in which a producer's responsibility for a product is extended to the post-consumer stage of a product's life cycle.

CCME's Extended Producer Responsibility Task Group is currently responsible for providing guidance on the development and implementation of initiatives to address the issue of packaging: http://www.ccme.ca/ourwork/waste.html?category_id=18

4.3.2 Food miles issues

Although Canada is a net exporter of agricultural products, the issue of food miles is becoming more prominent. One example of a group promoting local food and beverages is a Toronto-based organisation called Local Flavour Plus which also offers standards and certification for local sustainable products and producers.

4.3.3 Organics

An increasing emphasis on preventative health and environmental awareness has helped develop the organic sector across Canada in recent years. Organic products have increased in popularity recently and most of the large supermarket chains now have extensive selections of organic foods.

5.0 MARKET RESOURCES AND CONTACTS

5.1 Government

Canadian Food Inspection Agency - www.inspection.gc.ca
Canadian Dairy Commission - www.cdc.ca
Agriculture and Agri-food Canada - www.agr.gc.ca
Health Canada: Natural Health Products Directorate –
http://www.hc-sc.gc.ca/ahc-asc/branch-dirgen/hpfb-dgpsa/nhpd-dpsn/index_e.html

5.2 Industry

Canadian Restaurant & Foodservices Association - www.cfra.ca
Canadian Council of Grocery Distributors - www.ccgd.ca
Canadian Health Food Association - www.chfa.ca
Canadian Horticultural Council - www.hortcouncil.ca
Canadian Produce Marketing Association - www.cpma.ca
Canadian Federation of Independent Grocers - www.cfig.ca
Food and Consumer Products Manufacturers of Canada - www.fcpmc.com

5.3 Trade publications

Canadian Grocer - www.cdngrocer.com
Grocer Today - www.canadawide.com/grocertoday_ad.htm
Food In Canada - www.foodincanada.com

5.4 Trade events

Grocery Innovations Canada - www.groceryinnovations.com
Grocery Showcase West - <http://www.cfig.ca/gsw.asp>
SIAL Montreal - <http://www.sialmontreal.com/home.ch2>
Canadian International Food & Beverage - <http://www.crafa.ca/tradeshows/crfashow/>

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