

OPPORTUNITIES AND INNOVATIONS IN CONNECTION WITH CHANGING DOMESTIC AND INTERNATIONAL CONSUMER DEMAND

By

Hubert Paulmer P.Ag.

November 8, 2006

**AGRICULTURAL INSTITUTE OF CANADA
2006 CONFERENCE
Winnipeg, Manitoba**

BACKGROUND

- **Agriculture / Agri- food = 8.5 % of GDP**
- **1400+ companies ~ \$ 60 billion**
- **Total Farm receipts ~ \$ 28 billion**
- **Export revenues including food processed ~ \$ 26.5 billion**

BACKGROUND

- **Canada's agri-food industry is recognized for**
 - Quality
 - Environment Responsible
 - Food Safety
- **Known for expertise and innovation**
 - Processing and Storage Technology
 - Packaging Technology
 - Biotechnology
 - Genomics
 - Environmental Impact
- **Cutting-edge Research**
- **Predictable / well established Regulatory Systems**

WHAT ARE WE LOOKING AT

- Canada's ingredients
- "Consumer"
- Trends
- Opportunities

CANADA'S AGRICULTURE INGREDIENTS

- Strong Economy
- Plentiful Resources
- High Standards for Food Inspection
- Established Regulation
- Clean Environment
- Temperate Climate

CANADA'S AGRICULTURE INGREDIENTS

Largest Exporter

- **Lentils / Peas**
- **Malting Barley**
- **Blueberry**
- **Maple Syrup**
- **Mustard Seed**
- **Bread**
- **Canola**
- **Canola Oil**
- **Live Pigs**
- **Pork**
- **Breakfast Cereals**
- **Wheat Germ**
- **Canary Seeds**

CANADA'S AGRICULTURE INGREDIENTS

2nd Largest Exporter

- **French Fries**
- **Live Turkey**

• 3rd Largest Exporter

- **Wheat**
- **Beef / veal boneless**
- **Macaroni**

CANADA'S AGRICULTURE INGREDIENTS

4th Largest Exporter

- Dry Beans
- Potato Starch
- Raspberry

6th Largest Exporter

- Soya bean
- Egg Products

5th Largest Exporter

- Sea-food
- Chick Peas
- Bacon-Ham
- Buck Wheat
- Potato
- Sweet Potato

7th Largest Exporter

- Beer
- Honey

OUR EXPORTS!!!

Limited Market - dependency

- 60% of agriculture / food exports to USA
- Another 10% to Japan

Commodities – little or no value addition

- 18% - meat / edible meat offal
- 13% - grains / bulk cereals
- 9% - oilseeds / seeds for sowing
- 8% - edible vegetables / roots / pulses
- 6% -live animals

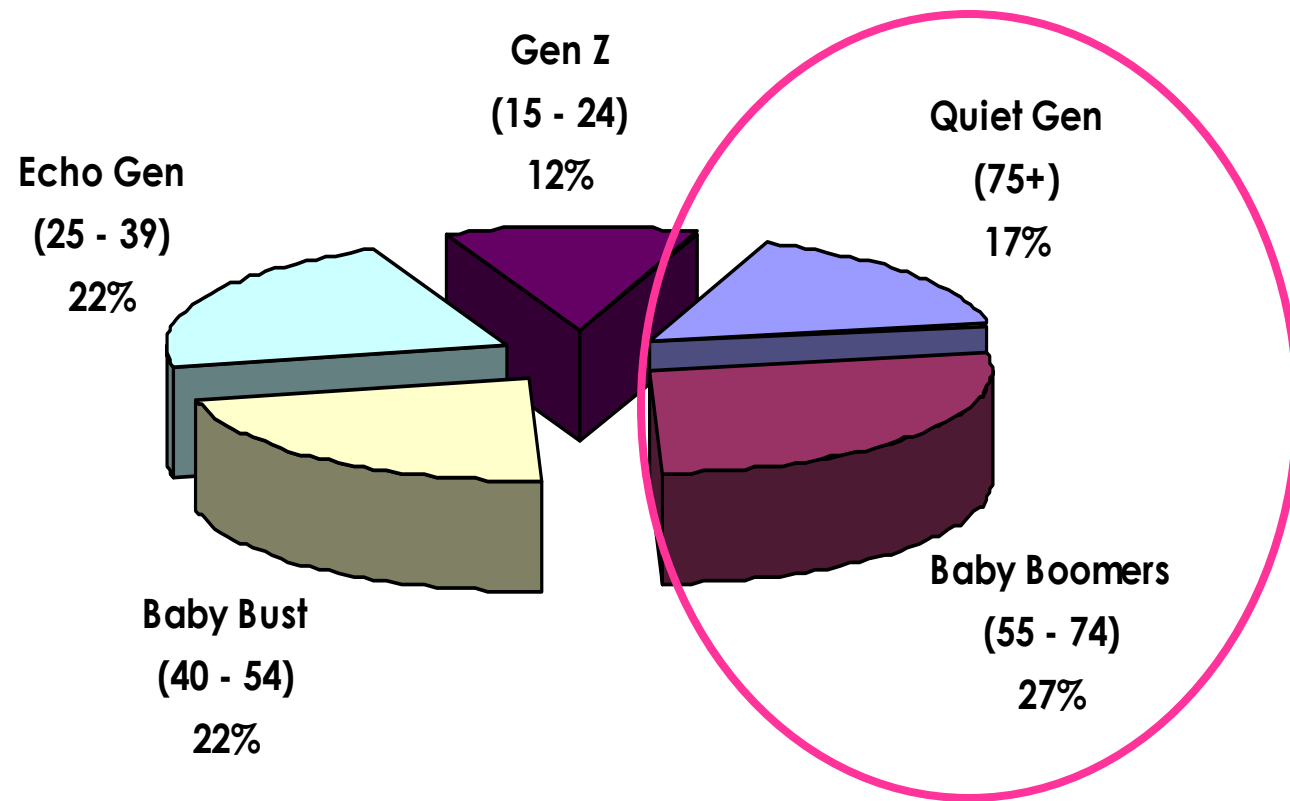
“CONSUMER” - CANADA

AGE GROUP	POPULATION (in Mn)		% CHANGE
	2004	2020	
< 15	5.7	5.4	-5.2
15 - 24	4.3	4.1	-4.6
25 - 34	4.4	4.8	+9.1
35 - 54	10.0	9.6	-4.0
55 - 64	3.4	5.1	+50.0
65 - 74	2.2	3.7	+68.2
75 +	1.9	2.7	+42.1
Total	31.9	35.4	+11.0

Source: Compiled from Statistics Canada 2005

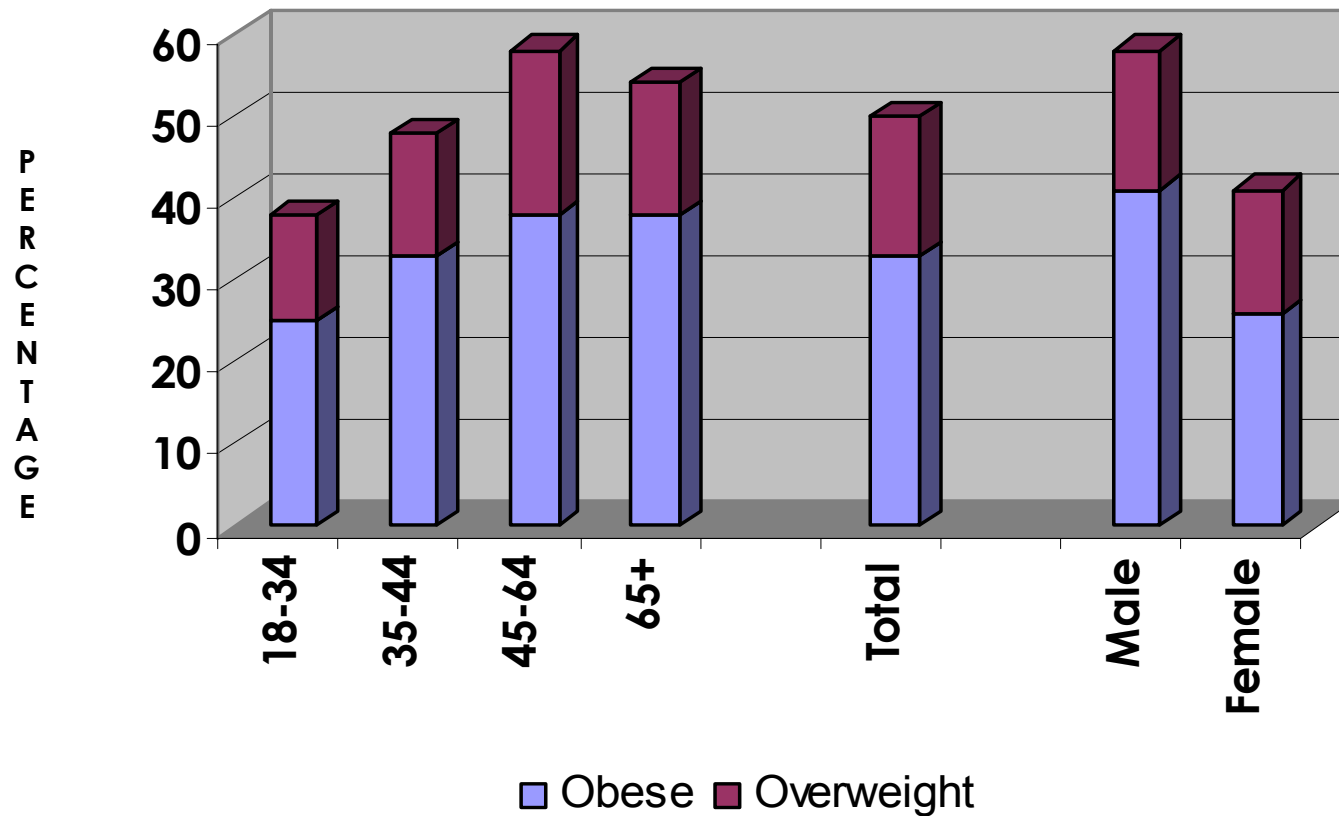
“CONSUMER” - CANADA

CANADIAN POPULATION – AGE DISTRIBUTION - 2020

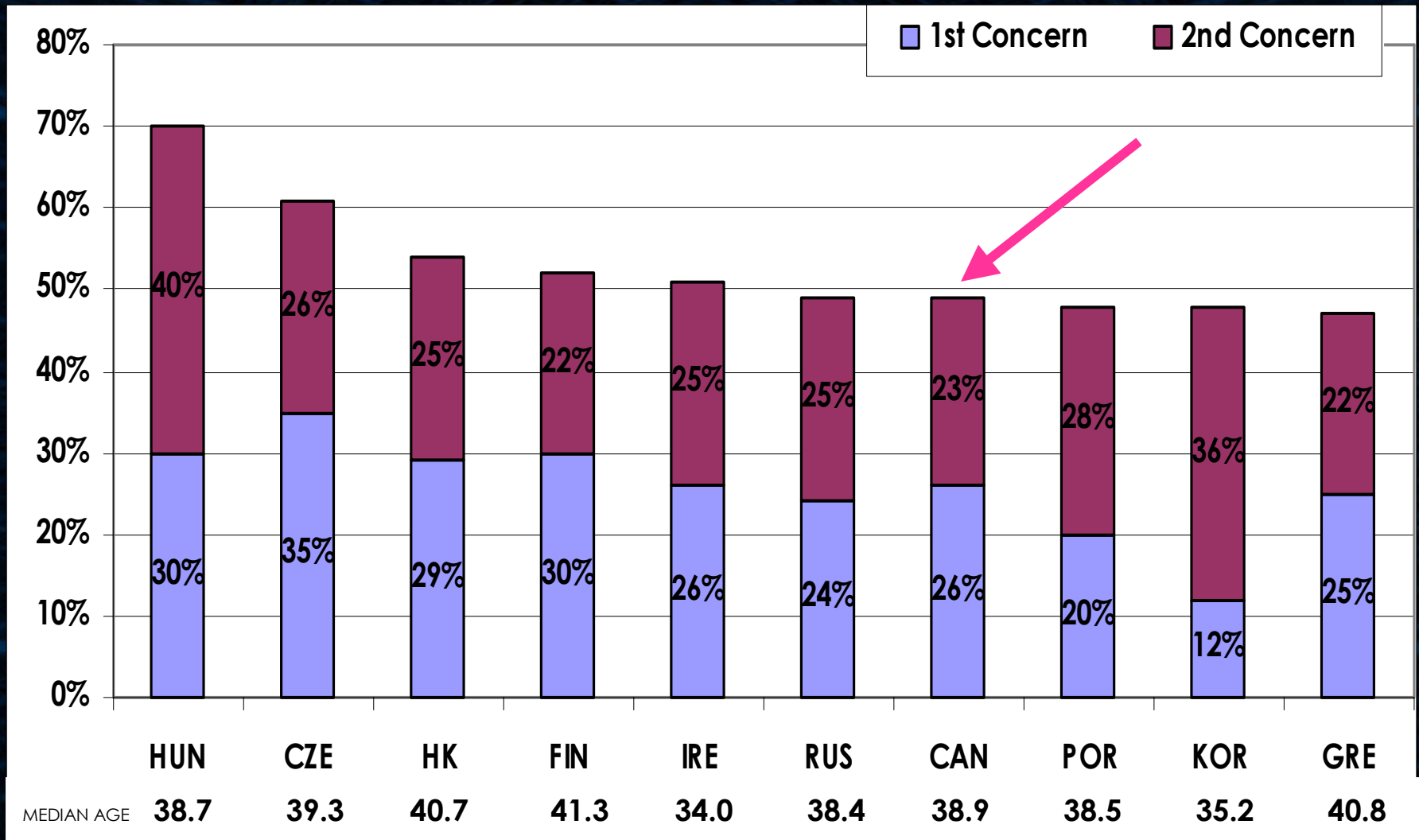


“CONSUMER” - CANADA

CANADIAN POPULATION - OVERWEIGHT / OBESE - 2003



TRENDS – TOP TEN HEALTH FOCUS



Source: ACNielsen, Global Online Consumer Survey November 2005

“CONSUMER” - CANADA

- **Aging Population**
- **An Evolving Society – Socio Economic Drivers**
 - **Shrinking household**
 - **Environmental Awareness**
 - **Globalization**
 - **Media Fragmentation**
- **The New Face of Canada**
 - **Urban centres with more than 50% “visible minorities”**
 - **Fusion and Blended cuisines**
 - **Religious influences**
 - **Travel and job mobility**
 - **Ethnic mix**

WHAT DOES THIS LEAD TO

- **Changing Meal Patterns**
- **Shift in Expenditures (prepared meals and take outs)**
- **Dietary Changes**
- **Food for Health – Functional Foods / Nutraceuticals**
- **Organic Foods / Local Foods**
- **Gourmet Foods / Ethnic Foods**

“CONSUMER” - GLOBAL

- **Global Population – 6.4 billion**
- **Shift in Population around the World**
 - Europe will have 70 million fewer people by 2050
 - Africa will have 1 billion people or more by the same time
 - Migration
- **Diversity of the globe – Different cultures become more prevalent**
- **“Established” Economies are aging**
- **“Growing” economies skew younger**

AROUND THE WORLD

- Incomes have risen in many countries
- Consumers are purchasing more high value food items
- The sales of high value product is increasing in the last 10 years
- Imports into markets
- Investment in markets
- Markets are competitive
- High value products produced locally

DRIVING FORCES

- **Consumer is the primary driver**
- **Globalization**
- **The structure of global food industry is changing**
- **Urbanization**
- **Increase in income / Job mobility**
- **High value food products**

IN THE DEVELOPED MARKETS

- **Beyond Sensory Attribute to**
 - Health
 - Lean cuisine
 - Functional Foods
 - Nutraceuticals
 - Convenience
 - Ready to eat
 - Single / Smaller portion
- **Look towards to Process Attributes**
 - How food is grown (organic, local)
 - How is it processed (kosher, halal)
 - How is it marketed (private retail brands, packaging, nutrition value, etc)

DEVELOPING ECONOMIES

- **Income Growth**
 - Increased purchasing power
 - Change in basket consumed
- **Demographic Factors**
- **Life style changes**
 - Urbanization
 - Away from home employment of women
 - Increased level of information

POPULATION – THE FUTURE

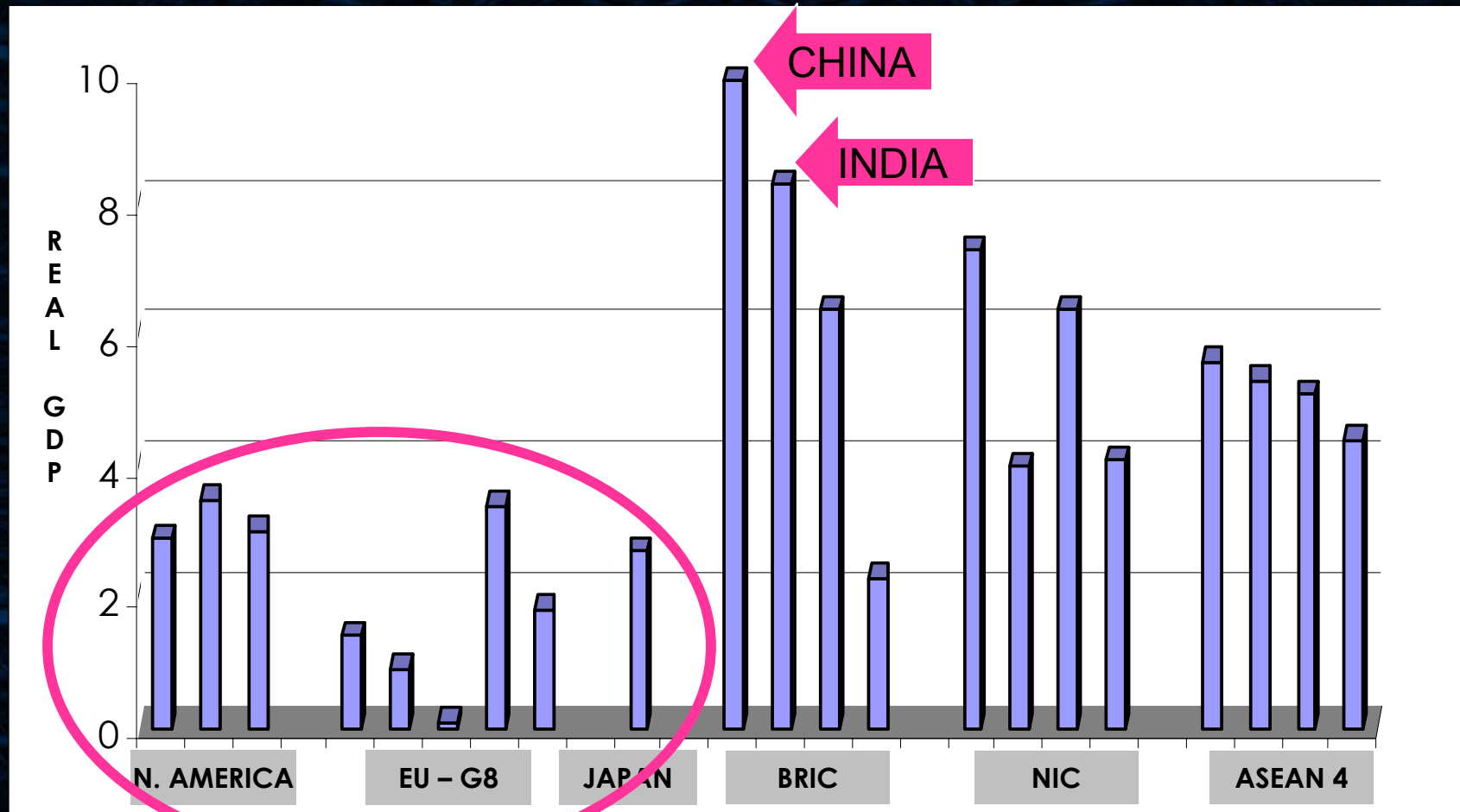
2005 POPULATION (in millions)

1. China	1304
2. India	1104
3. USA	296
4. Indonesia	222
5. Brazil	184
6. Pakistan	162
7. Bangladesh	144
8. Russia	143
9. Nigeria	132
10. Japan	128

2050 POPULATION (in millions)

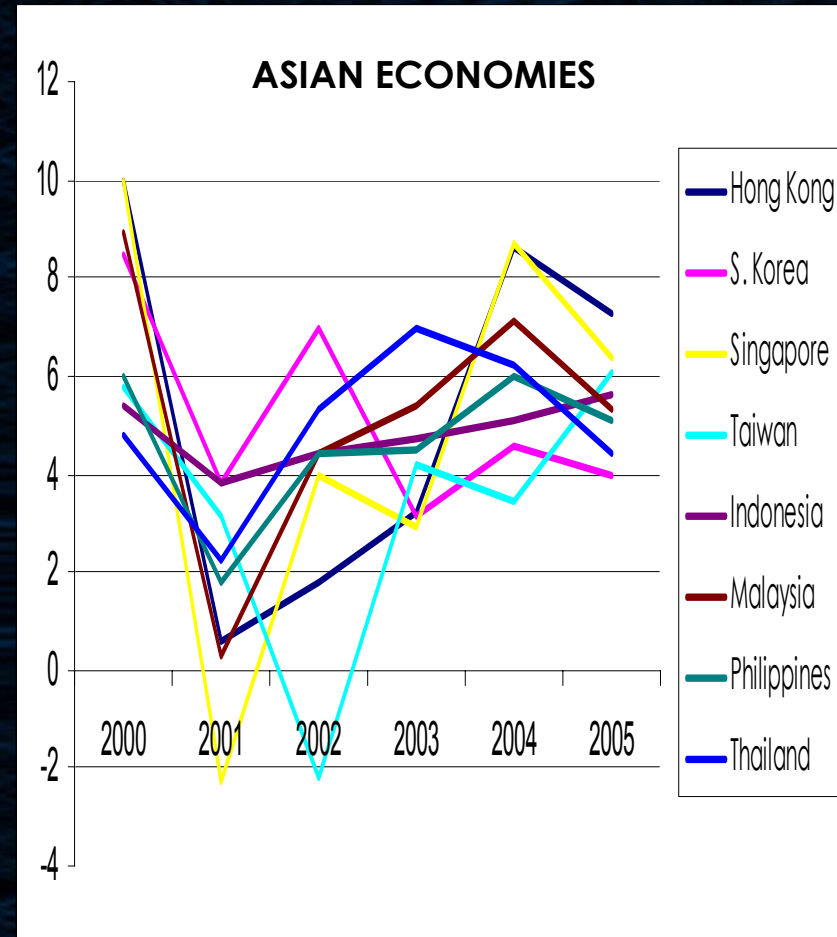
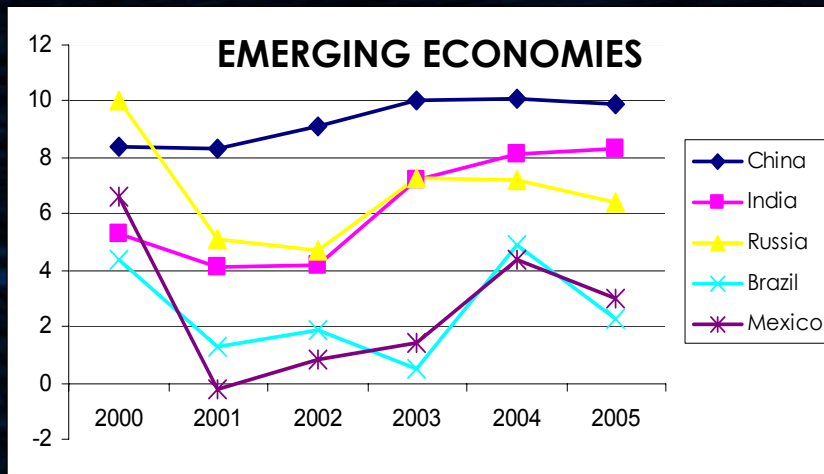
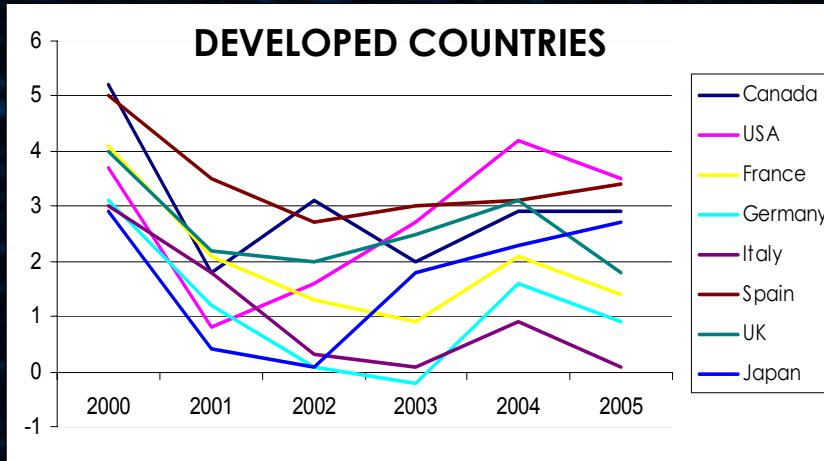
1. India	1628
2. China	1437
3. USA	420
4. Indonesia	308
5. Pakistan	295
6. Brazil	260
7. Nigeria	258
8. Bangladesh	231
9. DR Congo	183
10. Ethiopia	170

REAL GDP - 2006



Source: IMF, World Economic Outlook, April 2006

REAL GDP



TOP 5 GROWTH CATEGORIES

- **Soy Milk**
- **Yoghurt**
- **Sports Energy Drink**
- **Complete Ready Meals**
- **Cereals / Fruit / Muesli Bars**

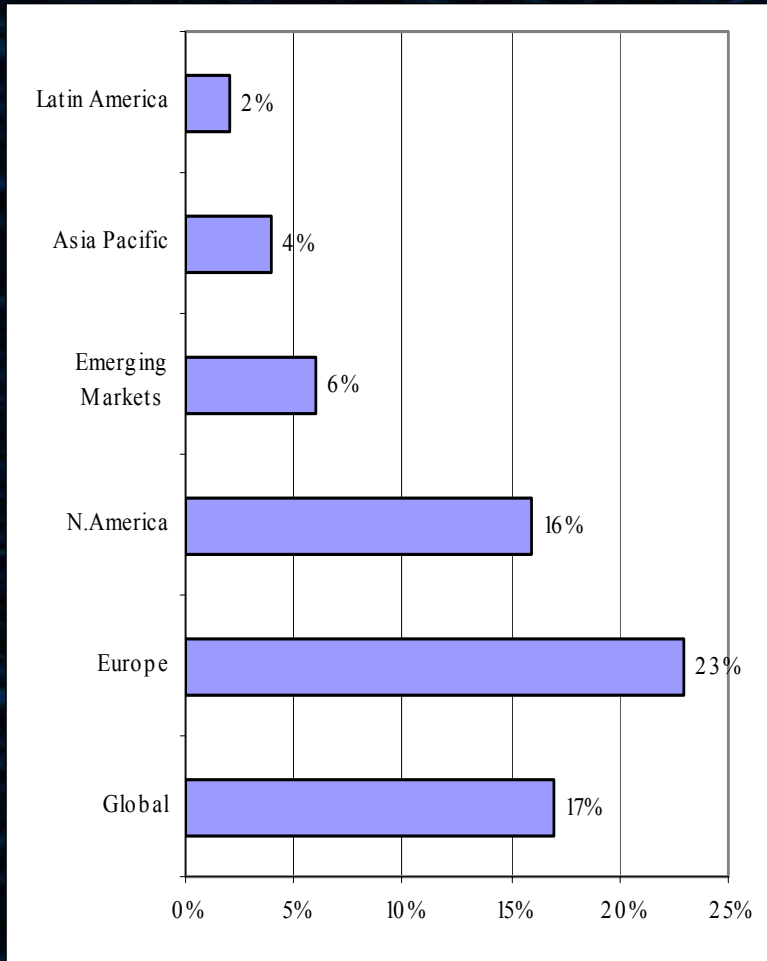
TOP 5 GROWTH CATEGORIES

North America	Europe	Asia - Pacific	South America	Emerging Markets
Sports Energy Drink	Soy based Drinks	Complete Ready Meals	Soy based Drinks	Meat / Poultry
Yoghurt	Yoghurt	Soy based Drinks	Cereal / Fruit / Muesli Bars	Baby Foods
Complete Ready Meals	Cereal / Fruit / Muesli Bars	Sports Energy Drinks	Yoghurt	Cereal / Fruit / Muesli Bars
Butter / Margarine	Flavoured Milk Drink	Flavoured Milk Drink	Potato Fries (frozen)	Sports Energy Drinks
Bottled Water	Complete Ready Meals	Cereal / Fruit / Muesli Bars	Meat / Poultry	Frozen Vegetables
Sugar Substitutes	Sports Energy Drinks	Sugar Substitutes	Bottled Water	
		Yoghurt		

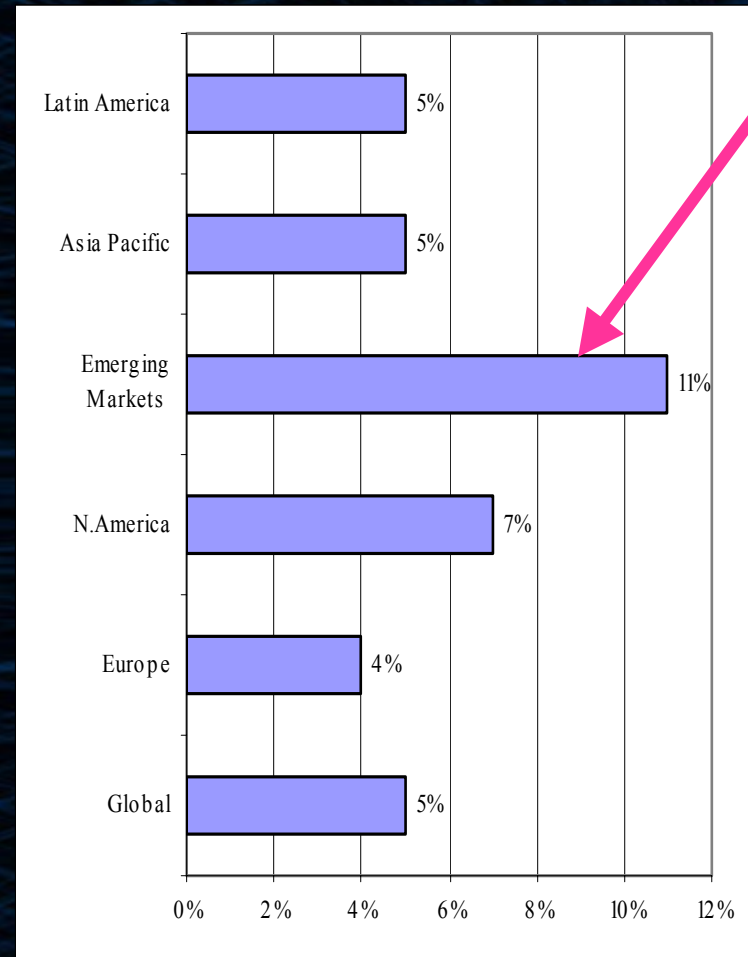
Source: Value Sales 2005 Executive News Report

TRENDS – PRIVATE LABEL

EUROPE – MOST DEVELOPED



EMERGING MARKETS – FASTEST GROWING



Source: ACNielsen, The Power of Private Label 2005 Report

INDIA – SLEEPING GIANT FOR FOOD

- The current economic Potential as producer and consumer of basic foods is expected to be \$ 45billion
- Urban Population in Class I towns – 73.7%
- 95% of retail trade is with mom & pop stores
- Retail food market size is estimated at \$330 billion
- Growing at 8%
- **Middle class segment – 155 million population***

CHINA – BOOMING MARKET

- **Middle class – 245 million**
- Currently 5% of world trade
- Dairy market is expected to double to \$ 22 billion in 2010
- Largest in Asia behind Japan
- Currently the market for high value product is 25% of milk consumption (this 60% in Japan)
- Demand for higher value products
 - Milk beverages will grow annually by 22%
 - Cheese will grow by 38%
 - Yoghurt will grow by 31%

OPPORTUNITIES

Growth Products

- Lean / white meats
- Egg
- Dairy Products
(yoghurt, butter,
cheese)
- Salad / Cooking Oils
- Health / Sports Drinks
- Organic
- Local Foods

High Value Products

- Convenience
- Packaged
- Ready to eat
- Functional Foods
- Nutraceuticals

Niche Markets

OPPORTUNITIES

- **High Value / Value Added Food**
- **Bio-products including bio-energy**
- **Food & Health**
 - Functional foods
 - Nutraceuticals
- **Export**
- **Technology**
 - Bio-technology
 - Genomics
 - New products / New Processes
 - ICT
- **Investments / Partnerships**

WHAT CAN WE OFFER

- **Export - Value added Products**
- **Investment in Technology / businesses**
- **Product Development**
- **Branding**
- **Channel Management**

UNDERSTANDING COMPLEXITIES

- Customer
 - Local needs / Tastes
- Value = Price + Quality + Convenience
- Older Population (developed countries)
- Younger Population (developing countries)
- Health Concerns
- Demographic Trends
- Higher (increasing) incomes

FUTURE INNOVATION STRATEGY

- Finance
- Regulation
- Supply chain / Value Chain
- Intellectual Property Rights

CONCLUSION

- Markets differ
 - Differences within markets
- Opportunities are increasing
- No one solution

CONCLUSION

- MACRO-ECONOMIC, SOCIAL & BUSINESS TRENDS SHAPE THE GLOBAL LANDSCAPE
- THERE IS A GLOBAL OPPORTUNITY
.....WE NEED A STRATEGY

CONCLUSION

- **Sustainable Funding Models**
- **New Value Chain Focus / Models**
- **High Value Export**
- **Infrastructure has to be matched with priorities**
- **CANADA brand**

THANK YOU



Hubert Paulmer P.Ag.

Project Manager

Ontario Institute of Agrologists

100 Stone Road West, Guelph, Ontario

projectmanager@oia.on.ca

Tel: 519-826-4226