

# rebuilding NEW BRUNSWICK

New Brunswick Value-added Food Sector Strategy  
2012-2016

*growing together*

New  Nouveau  
**Brunswick**

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## Sector Definition

New Brunswick's value-added food sector encompasses companies producing agriculture and seafood-based products, beverages and other food made from both local and imported resources. The sector includes live, fresh, frozen, packaged, processed and preserved food products whose value and profitability has been increased by making them more appealing and valuable to the buyer. Under this definition, the sector includes some companies which are involved in primary production.

## Industry Overview

New Brunswick's value-added food industry is an important player in the province's food sector. Its importance lies not only from direct impacts associated with food processing/manufacturing activity but also through backward and forward linkages with primary producers and harvesters, transportation and logistics companies, and food distributors. Value-added food companies are important employers throughout the province, serving often as anchors of the economic and social fabric in rural and coastal communities.

The province's food and beverage manufacturers directly employs approximately 10,000 people in close to 200 processing locations. Food and beverage manufacturers generate three per cent of provincial Gross Domestic Product (GDP). Primary food production in New Brunswick, including crop and animal production and fishing, generates 7,600 jobs. New Brunswick food suppliers have exported more than \$1 billion in each of the last ten years, representing close to 10 per cent of total merchandise exports. These exports are in addition to significant sales in shipments to other markets within Canada.

The domestic Canadian market for food is considered mature as population growth is expected to result in minimal increases in food demand. The opportunity in the domestic market will be in responding to shifting demand associated with ethnic preferences. By 2017, it is estimated that visible minorities will constitute 20 per cent of the Canadian population. They will also represent 70 per cent of the growth in spending to the end of the decade.

The international market is being shaped by a growing, richer and more urban population which translates into more food requirements by populations in urban areas without the means to produce food. Given the current trends toward healthy diets and functional foods, blueberries, cranberries, and salmon are a few examples of primary products grown in considerable quantities in New Brunswick where there may be significant opportunity for development of new, high-value products. Though food demand is growing, the capacity of existing suppliers is also expanding as a wave of consolidation has resulted in bigger and more efficient producers. New Brunswick's success in the

international market will be determined by its effectiveness in minimizing costs and developing innovative products that surpass health and safety requirements and respond to foreign preferences.

A review of the value-added food sector in New Brunswick reveals the following main strengths, weaknesses, opportunities and threats (SWOT).

### **Strengths**

- Global leaders in the food industry with an established reputation
- Location and transportation infrastructure available to serve major markets
- Positive image in domestic and international markets
- Supported by access to core expertise and primary product
- Flexibility to meet wide range of clients' demands

### **Weaknesses**

- High cost of production (e.g., energy, infrastructure and labour)
- Lack of capital investment in efficient equipment and facilities
- Cumbersome regulatory environment
- Lack of adequate labour and shortage of experienced management

### **Opportunities**

- Strategic export and domestic markets (e.g., Eastern United States, Europe, China and India, Central and Atlantic Canada)
- Strategic business alliances (e.g., co-packing, distribution augmentation and joint ventures)
- Consumer demand for foods with specific attributes related to nutrition, convenience and/or unique properties

### **Threats**

- Varying client requirements for third-party certification
- Corporate concentration of food producers and retailers
- Volatility of the Canadian dollar
- Competition from lower-cost food production areas
- Requirement for continuous investment
- Tariffs and non-tariff barriers

Several major drivers for growth and change in the food industry have been identified including:

- consumer preferences (e.g., healthy foods, ethnic foods, environment/sustainability, local production, convenience)
- food safety and traceability requirements
- demographic change (e.g., age, disposable income, ethnicity)
- major shifts in product demand due to information in the media

- global trade and increasing commodity prices/emerging economies
- costs of production/decreasing margins/competition
- efficient use of resources (e.g., energy, land, water, biomass availability)

Various strategic areas for investment and activity have been identified as key to enhancing the competitiveness of the value-added food sector:

- improving/increasing the application of business skills
- building strategic alliances between companies both within and outside the province
- productivity improvement (e.g., automation/modernization, increased throughput, improved energy efficiency, decreased labour dependency)
- product diversification to meet market opportunities (e.g., new product development, emerging healthy food and ethnic markets)
- improving product marketability (e.g., lifespan, consumer appeal)
- certification ( e.g., third-party/specialty certification – organic, eco-certified, peanut-free)
- markets and trade (e.g., market intelligences, market access-existing and new, trade agreements, tariffs, non-tariff barriers)
- streamlining regulations

Strategic objectives have been developed under five pillars including People, Innovation and Productivity, Business Environment and Regional Cooperation, Access to Capital and Infrastructure, and Market Access. The strategic objectives flow directly from the SWOT analysis above. Each is followed by initial work plan items which have been identified as a means of contributing to fulfillment of the strategic objective.

## 1. People

The KPMG Competitive Analysis report has identified labour costs as one of the province's competitive advantages against other North American jurisdictions in the value-added food sector. However, the labour market for the value-added food sector faces different challenges depending on the sub-sector and region of operation. A shortage of workers and high turnover is being experienced by some companies involved in processing seafood and agri-food products. It is hard to attribute the exact cause for the labour shortages, but wages and working conditions are often prime reasons affecting employment decisions. The aging population and associated attrition is also contributing to labour shortages.

Unrelenting competition will force food industries to continue to invest heavily in modernizing their production lines, resulting in changes to labour skill requirements. Computer literacy and functionality will continue to replace physical effort and manual dexterity on the production line.

Management skills are critically important to maximizing productivity and ensuring competitiveness in the food industry. Effective managers in the industry must possess the skills to develop and strengthen supply chains, recognize and respond to market trends, implement a labour force development and retention strategy, and manage risks.

Developing and strengthening the workforce will focus on addressing immediate skill shortages through programs such as the Temporary Foreign Worker Program, but also ensuring that provincial training capacity corresponds to the evolving requirements of a more automated and globally competitive industry. Developing a comprehensive report on the labour market in the sector, including the skills required and the capacity to meet those requirements, will frame annual actions to ensure the province's labour resource becomes a competitive advantage.

### **Strategic Objectives - People**

- a) Develop a comprehensive understanding of the industry's human resource needs and the current training capacity.
  - i. Develop a human resource profile for the industry.
  - ii. Develop a plan to address labour needs, identify training requirements and potential changes to existing training programs based on the human resources profile.
- b) Strengthen management and leadership capacity to ensure companies can effectively address challenges and capitalize on business opportunities.
  - i. Develop a diagnostics tool to help companies self-evaluate and develop management and leadership capacity.

## **2. Innovation and Productivity**

As the value-added food sector is extremely global and competitive, it is imperative that New Brunswick companies continuously work to improve their productivity. A wave of consolidation in the industry has created some very large competitors which operate at a scale that enables them to significantly cut production costs as well as to exert influence on suppliers to keep input costs down.

Innovation is considered the prime driver of productivity improvement. Global leaders in the value-added industry have maintained their position through making significant research and development (R&D) investments and forging strategic alliances that have resulted in new products, improved taste and more convenience. Given the current trends toward healthy diets and functional foods, blueberries, cranberries and salmon are examples of products where there may be significant opportunity to apply R&D to create new value streams. New product lines that respond to the demands of an increasingly multicultural population will also position companies at the forefront.

In addition to product innovation, process innovation is a key to helping companies improve productivity and increase competitiveness. This may involve streamlining production through adopting lean practices or installing state-of-the-art equipment. Making industry aware of “on-the-shelf” solutions that may already be available at research institutions such as the National Research Council, as well as linking researchers to industry, are ways to help the sector capitalize on the benefits of R&D.

Companies need to understand their competitive environment. To this end, it is important that they be exposed to the level of competition and are aware of the latest information regarding product and process development in the value-added food sector. Exposure to competition will enable companies to self-diagnose with respect to their performance as compared to others.

Given the small scale of many of our companies, they often lack the means to conduct in-house research, finance contracted research, or invest in new processes. While resources are available to support basic research and commercialization, they are lacking in the mid stages of product development, specifically product demonstration and testing.

There are a number of support programs available from the Departments of Economic Development, Post-Secondary Education, Training and Labour, Agriculture, Aquaculture and Fisheries, the Atlantic Canada Opportunities Agency, the National Research Council and others to support R&D investment and productivity improvement. The resources of all players need to be harnessed and coordinated. The provincial government will play a leadership role in helping to ensure financial support is available across the full product development continuum, helping companies understand their competitive environment, and helping companies make financial investments in technologies and plant modernization. The Province will also continue to work closely with the federal government to strengthen research capacity to help value-added food companies continue their R&D efforts at facilities such as the Research and Productivity Council (RPC) and Coastal Zones Research Institute.

## **Strategic Objectives - Innovation and Productivity**

- a) Stimulate more investment in mechanization and innovation.
  - i. Plan and provide funding towards technical missions and workshops related to recent developments and new technologies.
  - ii. Support industry initiatives related to lean manufacturing and energy efficiency.
  
- b) Support small and medium enterprises in their new product development and/or diversification efforts.
  - i. Implement programming to support pre-commercial development efforts of companies (pilot projects/prototypes).

### **3. Business Environment and Regional Cooperation**

Operating margins in the value-added food sector are being squeezed by a number of factors, including a growing concentration of distributors, limiting the ability of suppliers to set and raise prices. The sector is sensitive to the business environment created by government, which includes taxation, user fees and the cost of compliance to regulations.

New Brunswick has one of the most favourable tax regimes in North America which has been validated for the food sector by KPMG. The competitive position is largely influenced by the corporate income tax rate which, at 10 per cent, is tied for lowest in Canada. Smaller companies can take advantage of the small business tax rate of 4.5 per cent which applies to income up to \$500,000. Aggressively marketing this competitiveness, along with location advantages, strategic infrastructure, and research capacity, may help attract more investment and strategic partnerships to the province.

The often cumbersome nature of the regulatory environment needs to be addressed. For example, gaining approval to use new food ingredients can require significant research and effort on the part of product developers. The onerous process for regulatory approval impacts the ability of companies to react quickly to satisfy new demands for products. Certain provincial regulations can also present challenges to growth in the value-added food sector. Government and industry need to work collaboratively to ensure a responsive regulatory framework that minimizes impediments to growth while addressing health and safety concerns.

Regional cooperation will also be encouraged where opportunities present. The Partnership Agreement on Regulation and Economy (PARE) between Nova Scotia and New Brunswick provides a forum for harmonization between the two provinces. The Council of Atlantic Premiers can be used to build alliances and define a regional position to an issue such as food regulation with the federal government. The International Business Development Agreement, a federal-Atlantic provinces funding agreement, provides the financial means to access new markets for value-added food.

Small companies in the sector may also face challenges identifying support in order to comply with regulations. The provincial government will play a leadership role in helping companies navigate the different programs and required regulatory approvals.

The business environment can also support the value-added food sector by facilitating a culture of cooperation among industry players. Networking forums provide an opportunity for companies to understand one another's capabilities and potential partnership arrangements. Industry champions can play an important role in uniting companies to develop solutions to challenges and actions to capitalize on opportunities.

#### **Strategic Objectives - Business Environment and Regional Cooperation**

- a) Promote New Brunswick's competitive business environment for the value-added food sector.

- i. Develop a prospectus specific to value added food for use in investment attraction.
- b) Help ensure a regulatory environment that minimizes impediments to growth while addressing health and safety concerns.
  - i. Advocate, in cooperation with the other Atlantic Provinces, for regulatory change where excessive or undue process creates a barrier to investment, innovation and/or increasing productivity.
- c) Facilitate the development of strategic business alliances.
  - i. Create opportunities, with industry partners, for business matching, such as a regional forum.

#### ***4. Access to Capital and Infrastructure***

New Brunswick companies need access to financial capital to make investments in innovation and productivity and to acquire plant and process certifications to comply with national and international standards. A major challenge for many companies in the value-added food industry is securing adequate working capital to finance inventories payroll, and other operations. Financial bridging is especially challenging when payment terms of large customers are in the 60-90 day range. Commercial financial institutions are generally risk-averse, especially as it relates to debt secured by anything other than capital assets (i.e. accounts receivable, inventory). Compounding this is the fact that the decisions by large financial institutions are made outside of New Brunswick where there is less understanding and willingness to support local credit requirements.

The financing challenges are perhaps more acute for smaller firms with limited financial means or creditworthiness with commercial lenders. To help mitigate this issue, the Province offers financial assistance through several programs that are designed to support entrepreneurship, working capital requirements, and investments in technology adoption and expansions. These programs need to be continually monitored and discussed with industry to ensure that companies have access to programs to support their growth and development.

The province will also work to encourage more lending from private sources. This will include working closely with the New Brunswick Securities Commission to market the Small Business Investor Tax Credit program as a means of raising capital for small value-added food producers. It will also involve meeting with private-equity firms to discuss the strength of the value-added food sector to build awareness of investment opportunities.

Recognizing financial challenges of companies, the province and its federal partners can help value-added food companies with infrastructure investments. Moving product to market is a significant cost for value-added food producers. The government will continue to work with partners to ensure a transportation network that minimizes costs. Companies will also be encouraged to take advantage of the province's comprehensive broadband coverage by adopting business-to-business applications.

## Strategic Objectives - Access to Capital and Infrastructure

- a) Ensure government financing programs are responsive to industry.
  - i. Review government funding programs and eligibility to identify gaps and opportunities to complement third-party funding.
- b) Improve access to private sector financing.
  - i. Work with New Brunswick Securities Commission to promote the Small Business Investor Tax Credit program as a means for companies to attract investment from New Brunswick residents.
- c) Strengthen strategic infrastructure capacity.
  - i. Provide financial assistance to strategic infrastructure initiatives in particular where regional or sector-wide benefits are anticipated.

## 5. Market Access

Strategic business alliances have been identified as an area of potential growth. Opportunities to partner with foreign companies targeting North American markets exist in areas such as co-packing, distribution augmentation and joint ventures. This builds on strengths of the sector which include being a convenient location to serve Atlantic Canada, Quebec and North-eastern United States, as well as the ability to provide smaller production runs to accommodate niche products and outsourcing from larger companies. These strategic alliances can help take full advantage of existing production capacity and subsequently improve productivity.

Strategic export and domestic markets (i.e., Eastern United States, Europe, China, India, and central and Atlantic Canada) have been identified as a significant opportunity to grow the value-added food industry in New Brunswick. While the United States is our dominant market, there is significant potential for greater geographic diversification, especially in emerging countries such as China and India where population and income growth are both driving forces for the food industry. New Brunswick can help capitalize on these opportunities by continuing to lead trade missions, exposing companies to new markets and strengthening their existing presence. The *Canada in the Global Economy* strategy released in July 2011 by the Council of the Federation identifies some opportunities that can be pursued with other provinces.

For new exporters and smaller entrepreneurs, emphasis on closer markets such as Central Canada or the North-eastern United States is strategic given market proximity as well as historical trade and culture ties which translate to lower investment risk.

Initiatives to encourage purchases of locally-produced food products may help to open up new markets. Aggressively marketing the benefits of local buying such as the economic spin-offs created, the importance local producers to ensuring food security, and the superior quality of local products may help influence consumer purchasing behaviour.

Demands by consumers, retailers and foreign governments for additional assurance of food safety, environmental responsibility and product traceability throughout the value chain are considered a significant driver of change in the sector. Certain markets like the United Kingdom are already going in the direction of requiring that the carbon footprint be stated on product labels. It is important for New Brunswick companies to stay on top of market trends and potential implications. The ability to attain certification for quality standards, environmentally sustainable production methods and traceability will enable New Brunswick companies to command top price for their product, increase their access to new and existing markets, and in many cases, to secure contracts with major clients. This is particularly important given the trend towards market concentration of distribution channels, resulting in more food products being sold through fewer distributors, retail and restaurant chains.

Provincial efforts to improve market readiness will include collecting and disseminating market research that will improve understanding of international trade and market requirements. Knowledge of global trends is important to enable industry to identify new opportunities and be aware of the type of products under development. For the New Brunswick value-added food industry, it will be strategic to target products that use raw material from local sources.

### Strategic Objectives - Market Access

- a) Support companies seeking to attain certification for market advantage.
  - i. Provide funding towards achieving third-party or speciality certification.
- b) Provide opportunities for New Brunswick companies to capitalize on outside markets.
  - i. Use market research information to identify global trends in consumer demands.
  - ii. Facilitate matching suppliers to key food brokers and distributors through incoming missions, trade shows, etc.
  - iii. Identify a list of top ten food importing countries and analyse potential opportunities for New Brunswick companies in these countries.
  - iv. Identify market demand with respect to concerns over food safety, health and nutrition, and growing ethnic concentrations within Canadian cities.
- c) Improve access to new markets.
  - i. Work with federal departments as well Atlantic provincial counterparts to provide input into proposed international trade and investment agreements. (e.g., Canada-EU, India, etc.)
- d) Encourage New Brunswick residents, visitors and businesses to purchase local food products.
  - i. Develop an initiative similar to “Produits du terroir”.
  - ii. Provide funding support for companies to better market their product locally.

## Performance Measurement

Key indicators for the value-added food sector that will be used to assess performance over the duration of the strategy include GDP, employment and productivity. Nova Scotia is a potential jurisdiction to be used for performance comparison.

Indicator	Base (2011)	Source
GDP	Primary (Crop & Animal Production & Fishing) \$390 million (2002\$)	Statistics Canada
	Manufacturing (Food & Beverage) \$690 million (2002\$)	
Employment	Primary (Crop & Animal Production & Fishing) 7,600	Statistics Canada
	Manufacturing (Food & Beverage) 10,000	
Productivity	Primary (Crop & Animal Production & Fishing) \$51,342 per worker	GDP/Employment
	Manufacturing (Food & Beverage) \$67,970 per worker	

