Ontario Food Exports®

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Exporter

GLOBAL Retailers

A new report from OFEX offers a comprehensive look at the five major global retailers

The OFEX Global Retailers report provides Ontario suppliers with an in-depth look at five global retailers: Ahold, Carrefour, Metro Group, Tesco and Walmart. The report contains information on sales, growth, number of stores, private label strategy and the banners each company uses in their global operations.

"This overview report is especially valuable to Ontario manufacturers who are developing an export strategy of working closely with global retailers and expanding into new markets with those retailers," says Dean Post, Supervisor, Communications, Research and Events. When working with global retailers you can develop an understanding of them in one market that can lead you into additional markets with the same retailer; you benefit from established relationships, says Post "If you are already selling WalMart in the US, you may see opportunities to sell to them in Mexico, Latin America or South

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EXPORTER Readership Survey

OFEX is in the process of emailing Ontario exporters an electronic Readership Survey to get your input about the *Exporter*, our quarterly newsletter. By completing the short online questionnaire, you can help us measure the effectiveness of this publication and look for areas of improvement. "Our goal is to create publications that optimally meet our clients' needs and expectations," says Dean Post, Supervisor, Communications, Research and Events. "Your participation in the survey can help us determine what we're doing well in the *Exporter* and what we can do better."

ONTARIO Food Exports (OFEX) Trade Events

Increase your exporting potential by participating in an OFEX trade-related event

Our seminars, incoming and outgoing missions and international trade show participation are all geared to developing and maximizing export opportunities for Ontario companies. Through them, we can help you generate export sales, get in-market exposure, meet buyers face-to-face and gather first-hand information about export markets. If any of these events fit your strategies, contact your client account officer for further details on how your company may participate. (See the contact list on page 7.)

Outgoing Missions

Sample Canada Mexico
Nov 23-25, 2011
Ontario Food Exports, in collaboration with the Canadian Embassy in Mexico, and Agriculture and Agri-Food Canada invite you to participate in the third edition of the Canadian Trade Mission targeting the retail and foodservice sectors in Mexico. Exporters are invited to travel to Mexico where they will participate in a tabletop exposition and have the opportunity to promote their products to local buyers and importers from Mexico City. Additional activities in Mexico include a reception at the Ambassador's Residence, matchmaking sessions as well as visits to supermarkets. Please contact Shannon McCarthy at (519) 826-7765 for more information.

Incoming Missions

Morrisons
Fall/Winter 2011
The UK-based retailer, Morrisons, will be returning to Ontario to source private label products at a date to be confirmed soon. Please contact your Export Marketing Officer for more information.

ASDA (Walmart UK)
Fall/Winter 2011
The UK-based retailer, ASDA, will be returning to Ontario to source private label products at a date to be confirmed soon. Please contact your Export Marketing Officer for more information.

Liverpool, Mexico
Fall/Winter 2011
Buyers from Liverpool Department Store will be visiting Ontario (date TBA) to source shelf-stable gourmet and beverage products for their Branding Canada promotion. More information will be available in the next edition of the Exporter or by contacting your Export Marketing Officer.

OFEX Seminars

International Development for Organics Workshop
November 22, 2011
Speakers from the Canada Organic Trade Association and other organizations will be presenting information to organic companies interested in international development. Topics will also include updates on the EU organic equivalency negotiations. A detailed agenda is forthcoming. For more information, please contact your Export Marketing Officer.

PROFIT International
February 7-8, 2012
This two-day seminar will assist and educate Ontario companies interested in exploring export opportunities in international markets. PROFIT International will explore markets such as Mexico and Latin America, Asia, the EU and emerging markets. For more information, please watch for the next edition of the Exporter or contact your Export Marketing Officer.

Profile

PROFILE OFEX's Trade Advisors

OFEX trade advisors help Ontario food and beverage suppliers connect with buyers in the US and the UK

Rick Tuma

Joe Senft

Nick Orledge

Joe Senft and Rick Tuma, OFEX's trade advisors for the northeast and central US, respectively, assist clients with market information, introductions and assistance in market visits. "Our trade advisors play both a tactical and strategic role," says Alan Crawley, Manager, OFEX. "They can help suppliers determine what they want to achieve in exporting plus help make introductions to that one targeted buyer."

When Ontario suppliers are traveling to Chicago or New York, Tuma and Senft can offer their expertise to help companies organize their exporting programs. Recently, Tuma helped organize a four-day visit for an Ontario supplier who wanted to tour the Chicago food terminal to investigate opportunities and meet with potential purchasers. "Our trade advisors both dedicate their schedules to supporting Ontario exporters," says Crawley. "More companies should be taking advantage of their market visit services."

In the UK, trade advisor Nick Orledge provides assistance to Ontario suppliers on a project basis, playing an important role in introducing Ontario manufacturers to key UK buyers. "He's had great success in encouraging Ontario companies to take a realistic view of opportunities in the UK," says Crawley. Orledge has been actively involved in developing incoming UK buyer missions with OFEX, including the upcoming ASDA and Morrisons visits to Ontario planned for fall 2011. He's also a key contact for Ontario suppliers participating in key EU trade shows."Many of the UK buyers that Nick is working with also attend these events," says Diana Campbell OFEX geographic specialist for the UK. "That keeps Ontario and Canada in front of UK buyers and keeps the projects that we are working on with these retailers progressing."

> "More companies should be taking advantage of [our trade advisors] market visit services."

REGULATORY Update

The Canada-European Union Organic Equivalency Arrangement

Canadian organic food and beverage producers now have more opportunities to export their products: Canada and the European Union recently reached an historic agreement to recognize each other's organic standards and laws. The arrangement will allow the import and export of certified organic products between Canada and the EU without the need for additional certification. Certified organic products can now carry the Canadian and/or the EU organic logo.

"This is an absolute game-changer for Canadian farmers and food manufacturers," said Matthew Holmes, Executive Director of the Canada Organic Trade Association (COTA). "With full access to European markets, suppliers, and ingredients, Canada's organic sector now has a strategic edge. This agreement will increase trade and boost Canada's organic sector, from the farm to the consumer."

The agreement is the second one of its kind in the world; in June 2009, the Canadian Food Inspection Agency (CFIA) and the United States Department of Agriculture (USDA) signed the first organic equivalency arrangement, which opened the significant US organic market to Canadian exports. Canada is now the only country in the world able to deal directly with these two key markets through its domestic standards.

Canadian companies export over $390 million worth of organic commodities, ingredients and products to the US, EU and other parts of the world annually. "This recognition of Canada's organic standards by both the EU and the US shows that Canada's organic standards are among the best in the world," said Holmes.

OFEX, along with the Canada Organic Trade Association are developing an International Development for Organics Workshop, taking place on November 22. Please see more details on page 2, under Trade Events.

For more information on Canada's organic products regulations and standards, please visit the CFIA website at www.inspection.gc.ca.

biologique Canada organic

TREND *Watch*

BRANDING Canada

A branding strategy will help strengthen the Canadian food and agriculture sector

What is the benefit of a brand?
The Canadian food and agriculture sector relies on exports: Close to 45% of Canada's total food and agriculture production, valued at $38.8 billion is exported in the form of primary or processed goods. Today's consumer is increasingly demanding yet has less time to evaluate products. International competition to meet market demands is also intensifying; manufacturers compete on price and quality but those are no longer enough to ensure market success.

The Canada Brand for the food and agriculture sector was developed in close partnership with industry and provincial governments to help take Canada's strong international image and leverage it to increase sales of Canadian food and agriculture products.

Why have a branding strategy for Canadian food?
Consumers use information about a product's country of origin to help them determine its quality and other attributes. While Canada has a positive image and good reputation around the world, there is a low awareness of Canadian food and specific Canadian brands in the global marketplace and Canadian foods are difficult to identify. A branding strategy for the Canadian food and agriculture sector will create a shortcut in a customer's mind.

Identifying the Canadian brand
Recent research has examined what consumers in key markets, including Japan, Mexico and Canada think about Canadian products. These were some key findings:

Japan: There is low awareness of Canadian food in Japan; the top-of-mind Canadian foods for Japanese consumers include maple syrup and salmon/redfish. Nevertheless, the Canada Brand logo is widely recognized in Japan. To help develop more focused creative materials and messages, concepts were tested with consumers and "taste" was the most preferred positioning for the Japanese market. Concepts like "natural environment" and "food safety" will not carry the Canada brand on their own in Japan.

Mexico: In four recent surveys of Mexican consumers, there was low awareness of Canadian foods, yet the Canada brand is again well recognized. In concept testing, "great ingredients" was the preferred positioning for food products, followed by nutrition, which is very important in Mexico.

Canada: In Canada, brand played more of a role than price. With Canadian consumers, prominent Canadian content information on the front of a label and a maple leaf in close proximity to the label increases sales. Researchers found that a specific Canadian ingredient statement, such as 'Made with 100% Canadian apples' on a can of apple juice was highly effective with consumers.

Capitalizing on Canada
"Foreign buyers and consumers have a lot of name recognition for Canada and a very positive image of Canada as a country and Canadians as individuals," says Paul Murphy, Director General of the International Markets Bureau. "With the qualities associated with Canada nationwide—open spaces, clean air, honesty—there is a lot of equity for exporters to build on." Using the Canada Brand can also help Canadian exporters gain a competitive foothold in foreign markets: "The big challenge of selling product in any marketplace is differentiating from the competition.," says Murphy. "The Canadian origin is one of the elements every Canadian exporter should be considering for differentiating their products."

Jakeman's Maple Products in Woodstock, Ont. exports its maple syrup, which carries the Canada Brand maple leaf, to the US, Europe and Japan. "Canada is one of the most recognized brands in the world and the maple leaf is immediately recognized as Canadian with the image of a pristine wilderness," says Bob Jakeman, president. "We like that image for our product." Over the years, Jakeman has taken advantage of Branding Canada's promotional tools. "We've found it valuable to use their graphics at trade shows and their library of photographs for promotions."

Nepean, Ontario cookie manufacturer Isobel and Company, also uses the maple leaf on its exports to Japan. "It's great because the Canadian branding gives our product instant credibility in other markets," says owner Bruce Holbrook.

Building the Canada Brand
Tools, including a photo bank and templates, to help manufacturers promote the Canada brand are available at www.marquecanadabrand.agr.gc.ca/.

PAYING Taxes in the US

Planning ahead helps Ontario exporters avoid penalties

Ontario exporters who fail to meet their tax obligations in the US are putting their companies at risk for big penalties. "The participants in our new-to-exporting seminar, PROFIT, are often seeking answers to the question of tax implications when exporting into the US," says Jennifer Hannam, OFEX's client information coordinator. "The tax discussion is often one of the longest and most interactive of the two-day seminar." Here's what every Ontario agri-food exporter to the US needs to know:

> "...Canadian companies should understand that their footprint in the US continues to grow."

US governments: hungry for revenue

The public perception that federal and state tax departments are diligently reviewing the tax status of foreign suppliers to generate revenue is bang on. "Federally there's been a lot of focus on international activity and rightly or wrongly there's a perception that international business don't pay their fair share and some people are getting a free ride," says Michael Shumate, CPA and partner at MNP in Toronto. "They are trying to create a fair playing field from the country of import's perspective."

US states, in particular, are also taking a closer look due to their current financial challenges. "And it's really easy to tax people who don't vote," says Mark Feigenbaum, a Toronto-based US attorney and CPA, and frequent speaker at OFEX's PROFIT seminars. "It's very favourable politically to make sure you're collecting revenue from outsiders doing business in your state so they are looking for foreign businesses who don't comply."

Ontario exporters who think their activities are going unnoticed in the US are making a potentially costly mistake. "It's a voluntary system but the penalties are extremely severe if you get caught so you want to do what's right in the first place."

Tax planning for the US

Ontario companies often don't understand the line of taxation, says Shumate. "You need to understand with specificity when you're going to cross that line so you can plan for it." Many manufacturers know that certain business practices, like creating a permanent establishment for their Canadian company in the US can have adverse consequences from a tax standpoint. Your sales force could also cause you to be taxable in certain states. "There are 50 different sets of rules for the 50 states, so while you might be okay in one state doing nothing, you might have to fill out tax forms in another," says Feigenbaum. "If you do what's right in the first place, thanks to the treaty and dual tax system, you don't pay more tax." Often the US tax is creditable on your Canadian return, says Shumate, so you may pay in New York State for example but then you get the amount as a tax credit in Ontario so you pay less in Ontario and federally in Canada.

Avoiding common tax mistakes

Ontario companies often think that since they're paying tax in Canada, they don't want to file the paperwork in the US, says Feigenbaum. "But most often it's just a one- or two-page form but when they don't do it, they expose their company to some extremely stiff penalties."

It's common for companies to ignore the tax rules even when they're aware of them, says Shumate. "If they haven't been caught, they think, 'why change now?'. But just because you haven't been caught yet, doesn't mean you won't be. It's a digital world and Canadian companies should understand that their footprint in the US continues to grow; the majority that get caught, get caught because of some sort of audit of their client that comes back to them."

Correcting past tax oversights

Planning before you do business in the US is less painful than remediating after the fact. But remediation is better than doing nothing, says Shumate. "It's almost always better to tell your version of the story before the government comes with their version. If you're subject to tax at the federal level in the US, you don't file a tax return and you get caught, the US government has the right to disallow all of your deductions on that tax return when they catch you. So you end up with this life-threatening liability."

Contact information

"It is important for all companies who are exporting, or thinking about exporting into the US to get professional tax advice", says Hannam. OFEX can help – find out more about the tax implications of exporting at OFEX's annual PROFIT seminar or by speaking with your Export Marketing Officer.

Mark Feigenbaum
CPA and US Attorney
905-695-1269
Mark@feigenbaumlaw.com

Michael Shumate
CPA, JD, LLM at MNP LLP
416-260-3509
Michael.shumate@mnp.ca

IN Good Company:
The Ontario Food Exporter Award (OFEA) Winner

BFG Canada Ltd. won the prestigious Award for creativity and excellence in exporting

The company: BFG Canada Ltd. in Georgetown and Kitchener, Ontario

The challenge: Staying competitive despite a strong dollar

How OFEX helped: By connecting BFG with buyers at OFEX events, such as Street Smart, and providing market intelligence and information on exporting regulations

Words to grow by: "As manufacturers we're thinking globally," says Ray Franklin, Vice President, International Business Development, BFG Canada Ltd. "That requires significant investment and streamlining to achieve greater efficiencies."

BFG Canada started as PL Foods in 1991, with one baking oven to serve one UK customer. Two partners from PL Foods formed JT Bakeries for the purpose of manufacturing private label crackers for the export market. The company had added five ovens and was shipping to clients throughout North America and the US by the time they were acquired by Ralcorp Holdings, Inc. the leading value-brand and store-brand producer, headquartered in St. Louis, Missouri. They consolidated management under Ralcorp with the new company name BFG Canada in 2010.

Specializing in private label and gourmet snack crackers, BFG Canada manufactures more than 50 varieties including water crackers, whole wheat, whole grain, cheese and multigrain offerings. In response to consumer demand, the company also offers organic, non-GMO, low-calorie, kosher and wellness products, in a wide variety of packaging formats.

"We are a leader in product development," says Ray Franklin, Vice President, International Business Development, BFG Canada Ltd. "We have the expertise to customize products and provide innovation solutions for our customers and we specialize in emulating national brands and modifying formulas to meet specific country regulations, such as developing products for the UK market with non-GMO ingredients." BFG's two separate plants in Georgetown and Kitchener, Ontario have both received British Retail Consortium (BRC) certification; the highest globally recognized food safety accreditation. BFG Canada customers include major retailers in North America, the UK, Denmark, Sweden, Norway, Australia and South Africa. "We're very customer-focused and pride ourselves on developing long-term collaborations with retailers," says Franklin. "One of our strengths is visiting the markets to personally meet with potential and existing customers. Nothing fosters a connection with a customer more than personal dialogue."

As is the case for many Ontario exporters, foreign currency exchange and excessive tariffs are an ongoing challenge for BFG Canada. BFG pays 9% import duty exporting into the UK plus a variable element fee levied by weight which results in 14-15% total, says Franklin. Similar goods coming into Canada are subjected to less than 5% in total. "We could all go after more export sales but the return on investment becomes questionable when you're dealing with an unlevel playing field. We continually look for solutions to help us deal with tariffs and the strong dollar and be cost-efficient and streamline production."

To develop its exporting business in the early years, the company sought support from OFEX to help identify market trends, find buyer contacts and gather information regarding exporting regulations specific to each country. BFG Canada continues to participate in OFEX events such as Street Smart, to connect with US buyers and attended SIAL Canada in May 2011. "These events are extremely valuable," says Franklin. "SIAL Canada was worthwhile because we were able to showcase our goods and services to a relatively new audience."

During the Canadian Agri-Food Export Gala at SIAL Canada 2011, BFG Canada received the inaugural Ontario Food Exporter Award. "We feel really good about winning," says Ray. "It illustrates just how good ideas and communication can bring success. Food from Canada has gained more exposure than ever in the last few years. We are now shipping product to a lot of countries but there are still many more out there."

Watch for information about the 2012 Ontario Food Exporter's Award in an upcoming issue of the Exporter or from your Export Marketing Officer.

"Nothing fosters a connection with a customer more than personal dialogue."

GLOBAL Retailers

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Africa." The Global Retailers report was produced to help Ontario agri-food exporters better understand these larger global organizations and thus consider them when expanding into new markets. Here are the highlights:

Ahold

Ahold opened in the Netherlands in 1973 and now operates in 11 countries. Its top markets include the US, the Netherlands, Sweden, Norway and the Czech Republic. In 2010, there were 5,225 Ahold stores globally and the company reported US$50 billion in sales. After some challenges in 2003, Ahold streamlined buying and supply chain management, which included shutting down unprofitable stores and chains internationally in markets including Central and South America, among others. As part of a reorganization plan in 2009, Ahold's US division was reorganized from two branches to four: Stop & Shop New England, Stop & Shop Metro New York, Giant Landover and Giant Carlisle.

Ahold sells many private label brands in its stores across Europe and North America, however there isn't one uniform brand; products are created to suit the local market or region. Globally, Ahold private label accounts for 25-30% of sales. In the Netherlands private label totals about 50% of sales. For private label purchases in Europe, Ahold is part of the buying alliance AMS with its economy private label, Euroshopper.

Carrefour

An international grocery store chain originating and based in France, Carrefour has a retail presence in 38 countries. With worldwide sales of $100 billion, Carrefour is the second largest retailer worldwide. The company's top five markets are France, Spain, Brazil, Italy and Belgium.

Carrefour's success can be attributed to its multi-format strategy of providing both popular brand names and strong private label brands. The company is looking to expand further into desirable markets such as China and Brazil.

The retailer is committed to supporting and assisting their suppliers: 90% of Carrefour's products are sourced locally, often from small- or medium-sized enterprises. Carrefour has 20 global sourcing centres around the world, including 14 in China and runs four different banners - hypermarket, supermarket, discount and convenience stores. Its major private label, Carrefour is carried in the hypermarkets and supermarkets and covers 27,000 everyday consumer goods including organic foods.

Metro Group

A German company, Metro Group has been in operation since 1996 and is one of the world's largest retailers, with stores in 32 countries. Metro is divided into five segments including wholesale, grocery retail, electronics superstores, department stores and restaurants with its major growth in the wholesale and electronics superstore segments.

Metro had a difficult year in 2009 and has since been looking at cost-cutting measures to streamline the business including increasing their availability of internet banners worldwide. The company is focused on international growth in China and Eastern Europe, mainly Russia and Ukraine.

Metro Group is in the process of setting up central procurement offices for fresh produce. The retailer's new private label portfolio, which will be implemented in all countries, features six labels including Aro, Fine Food, Horeca Select, H-Line, Rioba and Sigma. Metro's goal is to offer private label products that are priced 10-20% lower than similar branded products, and to grow its share of international private label sales from 10% to 20% by 2012.

Tesco

Opened in 1919, this UK-based retailer, has a presence in 14 countries with 5,603 stores worldwide. Tesco's food sales total US$70 billion and the retailer's top markets include the UK, South Korea, Ireland, Thailand and Poland.

Tesco's success can be attributed to channel and product diversification, strong private label and loyalty programs along with overseas expansion.

While the UK is Tesco's largest market, the company hopes to expand their enterprise to other countries, including China and India, to stimulate future growth. In central Europe,

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Ontario Food Exports®

Ministry of Agriculture, Food and Rural Affairs
1 Stone Road West, 3 NE, Guelph, ON, N1G 4Y2, Canada
Telephone: 519-826-4210 Toll free: 1-888-466-2372
(in Ontario only. Ext. # is last five digits of applicable direct dial #)
Fax: 519-826-3460 Website: www.ontario.ca/omafra

SECTOR SPECIALISTS

Kathryn Liotta, Export Marketing Officer
Specialty/gourmet, health food, dairy, delicatessen
519-826-4018 kathryn.liotta@ontario.ca

Shannon McCarthy, Export Marketing Officer
Primary agriculture
519-826-7765 shannon.mccarthy@ontario.ca

Karen Moore, Export Marketing Officer
Bakery, prepared frozen foods
519-826-3686 karen.moore@ontario.ca

Debra Oliver, Export Marketing Officer
Prepared & dry ingredients, fruit, vegetables, horticulture, dry prepared foods
519-826-3945 debra.oliver@ontario.ca

Kiran Pandey, Export Marketing Officer
Protein, beverages & confectionary
519-826-3489 kiran.pandey@ontario.ca

GEOGRAPHIC SPECIALISTS

Diana Campbell
Geographic Specialist - UK, Germany, the Netherlands, Belgium
519-826-3982 diana.campbell@ontario.ca

Murray Howatson
Geographic Specialist - United States
519-826-3790 murray.howatson@ontario.ca

Shannon McCarthy
Geographic Specialist - Mexico
519-826-7765 shannon.mccarthy@ontario.ca

Kiran Pandey
Geographic Specialist - Asia/Pacific
519-826-3489 kiran.pandey@ontario.ca

EXPORT SERVICES

Karen Edwards, Export Marketing Assistant
Market research, library
519-826-3768 karen.edwards@ontario.ca

Pat Passmore, Program Support
519-826-3713 patricia.passmore@ontario.ca

Jennifer Hannam, Client Information Coordinator
519-826-3767 jennifer.hannam@ontario.ca

Dean Post, Supervisor, Communications, Research & Events
519-826-4477 dean.post@ontario.ca

Alan Crawley, Manager, Ontario Food Exports
519-826-3693 alan.crawley@ontario.ca

REPRESENTATIVES BASED OUTSIDE OF CANADA:

Joseph Senft, Ontario Food Exports: Eastern US
10 Pewter Lane, New Providence, New Jersey, USA, 07974 E-mail: joesenft@att.net
Phone: 908-790-0156 Fax: 908-898-1075

Nick Orledge, Ontario Food Exports: United Kingdom
n.orledge@ontariofoodexports.co.uk

Rick Tuma, Ontario Food Exports: Central US
1006 Park Hill Circle, Aurora, Illinois, USA 60504
Phone: 630-820-7144 Fax: 630-820-7144
E-mail: tumarick@aol.com

MARKET *Watch*

HIGHLIGHTS of SIAL Canada 2011

Ontario food and beverage manufacturers got the opportunity to showcase their products to a global audience at the first SIAL Canada event, held in Toronto in May 2011. "Working with our partners at the SIAL organization, at Group Export, the Canadian Food Exporters' Association (CFEA) and Agriculture Canada as well as other provinces, OFEX was able to encourage a strong Canadian presence at this well-established internationally-focused event," says Alan Crawley, Manager, OFEX. The 30-company strong Ontario, Canada pavilion, led by the CFEA was selected to be a stop on the VIP tour during the opening of the show. The show was also an opportunity to introduce the first Ontario Food Exporter Award at the Canadian Agri-Food Exporter Gala. "The award was a great opportunity for us to highlight not only the strength of the three finalists but also the strength of the Ontario food processing industry and its representatives at SIAL Canada," says Crawley. "In terms of success, the international buyers we hosted with our partners welcomed the opportunity to visit Toronto and meet with Ontario companies and to tour the area grocery stores to spot both trends and new interesting products." In at least one case, a store tour during SIAL Canada has already led to ongoing discussions between a major bakery supplier and a leading US retailer.

The OFEX team worked on a wide variety of events at the SIAL Canada show, not the least of which was the organization of hundreds of business-to-business meetings with OFEX's Quebec and Agriculture Canada partners. Ninety-one Canadian food processors including 27 Ontario companies, and 34 international buying organizations took part in over 400 20-minute scheduled one-on-one sessions. "We surveyed participating companies and on average those surveyed ranked their overall satisfaction with the one-on-one meetings a 4 out of a possible 5," says Crawley. While OFEX is in the early planning stages for SIAL Canada May 2012, "we are looking to support another CFEA-led Ontario, Canada pavilion and look forward to working with international buyers to deliver more organized incoming missions."

OFEX incoming missions for 2011-2012

OFEX continues to have a full program of incoming missions for 2011, including buyers from Japan, Mexico and the UK during the fall. "Where traditionally our largest incoming mission would be Street Smart, this year, our largest incoming mission took place at SIAL Canada in Toronto in May," says Alan Crawley, Manager, OFEX. "In spring 2012, we're organizing a somewhat smaller trade mission for SIAL Canada in Montreal and are looking forward to Street Smart in fall 2012."

GLOBAL Retailers

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Tesco is beginning to diversify its store formats to target smaller gaps in the markets with the development of superstores, supermarkets and convenience stores. In the southeastern UK, where larger stores have already saturated the market, Tesco is looking to expand with the creation of convenience stores.

Tesco's private label sales account for anywhere between 10% (Thailand) and 50% (UK) of its total sales.

Walmart

The world's largest retailer, US-based Walmart has sales of US$208 billion, with 8,795 stores in 16 countries worldwide. Its top markets are the US, UK, Mexico, Canada and Brazil.

In its domestic stores, Walmart is currently focused on upgrades to existing locations as opposed to growth. In the international markets, Walmart is aiming to take advantage of growing countries and opportunities in markets such as China and Brazil. New stores in international markets are expected to add approximately 25 million square feet to the Walmart empire in the 2011 fiscal year.

Headquartered in Shenzen, China to help facilitate direct purchasing, Walmart's Global Procurement organization was created in 2002. There are 28 procurement offices in 25 different countries sourcing products from over 30 countries. Ultimately, the company's goal is to purchase 80% of goods directly from the supplier.

For a copy of the 90-page Global Retailers report, contact your Export Marketing Officer. See page 7 for contact information.

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