O F P M C

Ontario Farm Products Marketing Commission

Newsletter

February 2002 - Issue #94

Four Viewpoints on Consolidation

"We have accomplished price stabilization. We have also improved industry co-operation." That assessment was from Jim Jensen whose co-op, CherrCo, now controls 90% of North America's tart cherry production.

But it wasn't always that way. Prior to consolidation, price swings were the norm. Jensen noted that, "prior to 1997 when we started, we had years when we were selling frozen cherries in the 20 cents/lb range, so growers got nothing. We also had situations in 1986 and 1991 where the price got so high we drove some of our customers away. Our customers said, 'You know, we like cherries, but we don't like them at 88 cents/lb. So we're going to use apples or blueberries or something else."

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When Jensen reflected on the conditions that led to consolidation he presented a list of five factors.

"First you need red ink. I don't believe things would have happened if it wasn't real ugly.

(L to R) John Scott, John Pigott, Jim Jensen, Peter Twynstra

Secondly, you need a facilitator. You have to remember you are trying to put together competitors. These are people who are chasing the same market.

Thirdly, you need a commitment from key players. That doesn't necessarily mean only the large players. There are some key individuals and you have to have them.

Fourth, you need to have critical mass. In the cherry business we determined that we needed 80% commitment. We needed 80% of the frozen tart cherry (production) inside our organization.

Finally, I urge patience."

When CherrCo was founded on July 1, 1997, they estimated the organization could add $20 million revenue to the tart cherry industry. A recently released study out of Michigan State University puts the figure closer to $40 million.

Peter Twynstra, owner and founder of The Great Canadian Bean Company, lamented the fragmentation he sees in the producer community. He thinks it makes downstream consolidation more of a harm than an advantage to producers. "We have build at least 128 farm organizations in Ontario alone. Associations, marketing boards, industry groups...the list goes on. But have we thought in terms of what structure we can build to more effectively put a price on the product? We are not the astute business people that we should be. Simply put, I think the financial difficulty on the farm is brought on by a lack of bargaining power."

Twynstra went on to comment, "consolidation is taking place at a frantic pace (in the processing and retailing

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sectors)…. and producer clout is at an all-time low. Well established is the recognition in the food processing and marketing sector that competition destroys profits. So there is but one direction to go. Consolidate….buy out your competitor. While this process is taking place, the primary producer is squeezed by fewer buyers while also competing with global treasuries as well as the province next door and the neighbour down the road."

John Pigott, Morrison Lamothe Inc.

John Pigott spoke to the crowd as a further processor who deals daily with the ramifications of retail consolidation. In keeping with his positive approach to the challenge, Pigott kicked off his remarks with a quote from the founder of his Ottawa-based company, Morrison Lamothe. According to Pigott, "my grandfather always used to say, where there is a pile of manure, there is a pony. My attitude in life is, I'm looking for ponies."

All has not been smooth for the third generation, self-described S.O.B. (Son of the Boss). In 1980, Morrison Lamothe, was primarily a producer of white bread. With the advent of free trade, his tariff protection slipped to nil. "We were forced out there in the cold and a cold shower tends to work. We had to get market responsive. Originally, we were bakers of white bread. That was a market that was in decline. We recognized that and we got out of that business."

Commenting on why retailers need a lot of medium-sized suppliers, Pigott pointed out that, "the choice for consumers today isn't between Tide or Sunlight, it's between what parking lot you drive into. Are you going to drive into a No Frills, Zehrs or M&M Meats. That is the real fight for the consumers' attention because once you've got them in the store, they are going to buy what they want to buy and if you can merchandise well, they will buy even more. So what they have to do is differentiate themselves and a smart retailer does that with products. But a smart retailer says I'm not in the manufacturing and the product development business. They need suppliers who can do that for them. So all of a sudden they start to form alliances with suppliers who can give them those tools to allow them to win."

"Their core suppliers are Ontario processors, which means they are buying Ontario product. That's our opportunity. I mean, we've got a winner here. And it's not the big guys who are winning the consolidation game. It's a whole lot of people like ourselves who have learned how to play the game differently," according to Pigott.

"Think of what Loblaws spends on President's Choice. They have built a world-class brand in 15 years. President's Choice isn't a label, it's a brand. Sure

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OFPMC Update

The following is a summary of issues recently addressed by the Ontario Farm Products Marketing Commission.

OSMA Strategic Planning

Representatives from the Ontario Sheep Marketing Agency met with the Commission to discuss outcomes of its 2001 strategic plan. Five key strategic areas were highlighted.

The Commission was pleased to see successes on many fronts including board-member relations and increased marketing opportunities for producers.

Strategic Planning

Every two years the Commission undertakes a start-to-finish review of its strategic plan. The 2002 strategic planning session is scheduled for February. A preliminary session was completed in December.

New Commission Members

Two new members have been appointed to the Ontario Farm Products Marketing Commission. The Commission looks forward to the contributions of Mr. Nick Quickert of Trenton and Mr. Ron Dancey from Glen Morris, near Paris.

A full biography of these new members will appear in our March newsletter.

Annual Meetings

Commission Chair, Rod Stork, has accepted invitations to address three Annual General Meetings in February and March. On February 20th Rod will be speaking at the first Annual Meeting of the newly formed Ontario Ginseng Growers' Association. The Annual General Meetings of Ontario Egg Producers and Chicken Farmers of Ontario are in mid-March.

New Board Chairs

Since our last newsletter, three new Chairs have assumed office. Mr. Jim Ricard has become the new Chair for Ontario Broiler Hatching Egg and Chick Commission. Members of Ontario Bean Producers' Marketing Board have elected Mr. Don McKercher as their new Chair. Mr. Pat Elliott has taken the helm at the Ontario Coloured Bean Growers' Association.

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they've created shareholder value, but they did it for us, the suppliers, too. It's the same industry…its just how you look at it."

John Scott, President of the Canadian Federation of Independent Grocers, made the point that while, "the retail grocery industry is a $56 billion industry, it has been relatively flat for the last six years." You have three dominant players who own stores under a variety of banners and control wholesaling and distribution. "We are lucky in Ontario to also have some very strong independents who", Scott asserts, " thrive because they are innovative. Imagine how good these guys have got to be to stay in the market."

"I took a trip across the country just a few weeks ago and met with some of the best and brightest young retail entrepreneurs that I've seen. We've got some amazing people who have grown up with the reality of WalMart and Loblaws, and they are doing extremely well. They are building their market and going ahead leaps and bounds even though the consumer market is flat. At the same time, I can take you to Toronto and I can show you four or five independents who think they are competing with Loblaws but they don't have a long term future because they are not innovative and they are looking at the good old days. The independents are being squeezed the same way that the producer is being squeezed and the processor is being squeezed. The independents that are being successful are either banding together with the big three under a franchise or being incredibly innovative."

This centralization of power means that a new product has to be "really, really innovative to get the attention of a category buyer. What they don't need is another, me-too mustard or me-too water" according to Scott. "Another factor is the move to wring every last dollar out of the system to be as efficient as they possibly can, to bring the lowest price to the consumer because if they don't somebody else is going to do it."

"Now somebody talked about government. I think the government is very concerned about this situation. Not just the Ontario government, but the federal government as well. They understand this situation very well. At the same time, you say to them, "Can you intercede?" Where would they intercede? At what point would they intercede? This is private enterprise at its best. I would put in front of all of you, that Sobeys and Loblaws are two of the most amazing examples of Canadian entrepreneurship we have ever seen. Why would you want to get in their way?"

"So what do you want the government to do? (I think you) want the government to facilitate you in front of those buyers. Or facilitate your opportunity to sell your product outside the country. That is why they came to us a couple years ago and said, 'Can you put something together that puts all those buyers on one trade show floor and guarantees it?' So we put together a huge trade show called Grocery Showcase International that occurs in October. So if you were the person that was going to exhibit and you wanted to meet with the category buyer in your category from X company, we would facilitate that. So you weren't just going on the trade show floor hoping. You were going in with a meeting."

Scott also drew attention to the emergence of non-traditional influences in the marketplace. "Thirteen percent of your grocery bill is not supplied by grocery stores. You can buy Kraft Dinner or a case of Coke, depending on the day, at Canadian Tire, for example. That's something that 15 years ago you would only find at your grocery store or your convenience store. The drug stores are getting more and more into the act too. Club stores like Costco are also an amazing phenomenon. If you told anyone in the supermarket industry 15 years ago that you can basically take a warehouse with no windows, stick it in an industrial area, don't advertise and charge you $20 for the right to go in there and pick up a few items and you're not even sure that they are there, they would have thought you were crazy. But it is phenomenally successful right across North America and growing."

"Then there is the interesting thing called WalMart. I will tell you that the only thing that makes them cramp up at Loblaws is the thought of WalMart coming in full throttle with groceries." Scott finished his comments reflecting on how WalMart's decision to experiment with a limited line of grocery and frozen foods two years ago hit pay dirt. Sales exceeded their expectations by 40%.

Correction

In our last newsletter, we wrongly stated that the new processing line at Heinz' Leamington plant is automated to the point of self-cleaning without a shutdown. We were wrong. We should have said the "Clean-in-Place filler system will eliminate hours of down time needed previously to manually clean the machinery between production runs."

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