

An Agri-value Added Strategy

for

Grey Bruce

Prepared for: **Grey Bruce Regional Economic
Development Partnership**

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**AN AGRI-VALUE ADDED STRATEGY FOR GREY BRUCE
EXECUTIVE SUMMARY**

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EXECUTIVE SUMMARY

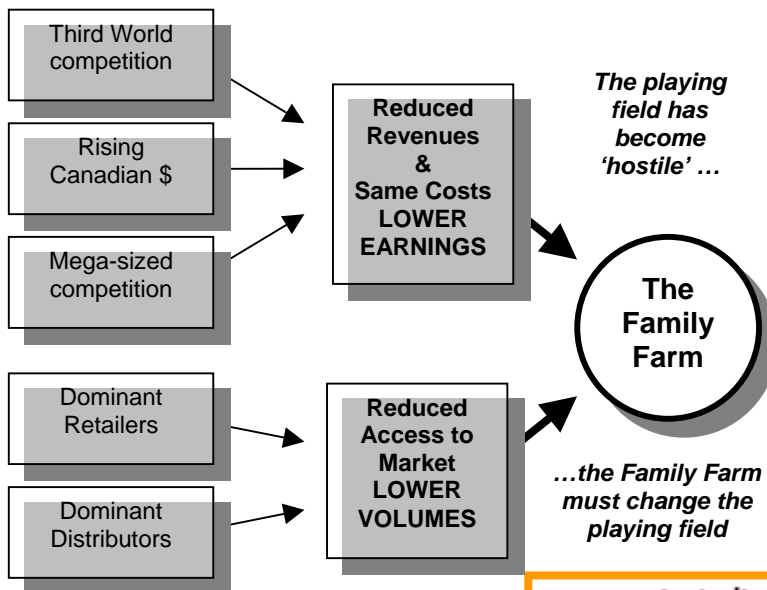
Throughout this Executive Summary the following abbreviations are used:

- *The Grey Bruce Regional Economic Development Partnership – “GBREDP”*
- *The geographical study area of Grey Bruce – “Grey Bruce”*
- *The Ontario Ministry of Agriculture, Food and Rural Affairs – “OMAFRA”*

Background and purpose

This project was to develop an agri-food strategy for Grey Bruce that addresses the retention, expansion and attraction of agri-food businesses,

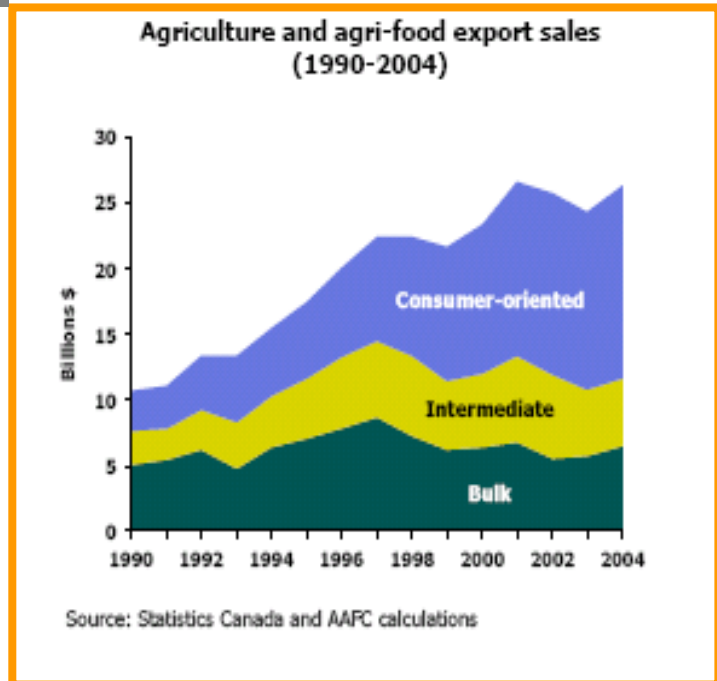
While clearly there are agri-food resources available and examples of successful agri-food businesses, there was not a complete understanding of these strength, nor



possible weaknesses, or of the opportunities that may lie therein. As such, developing a fully fledged economic development investment attraction strategy would be fraught with uncertainties and might result in a ‘hit or miss’ process. Further, the farming sector, in many respects, is undergoing a trying time and must be regarded carefully in all such development plans. The entire mainstream agri-industry food chain has experienced, and will continue

to experience, an increase in the level of consolidation, rationalization and integration. The demand for increased profits coupled with the impact of the continued development of emerging nations as global producers of both raw materials and processed food products, has driven the industry to drive towards higher economies of scale and resultant lower costs per unit produced.

Further, the market has evolved into a predominantly consumer-oriented arena.



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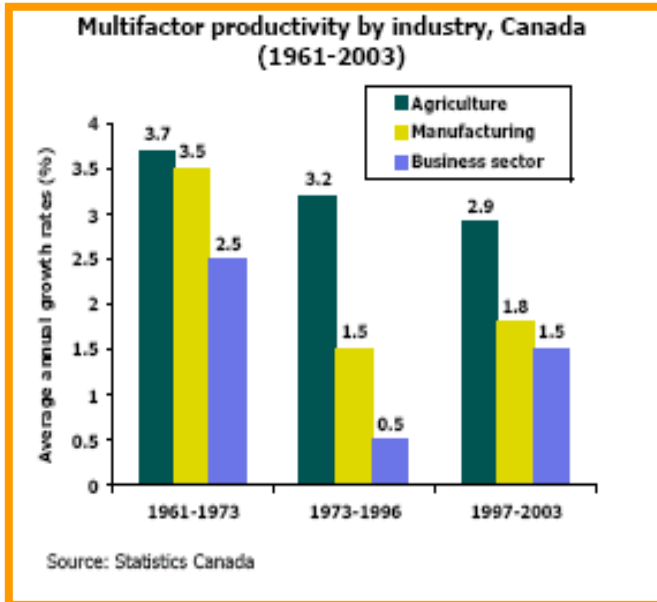
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Bulk, commodity shipments have remained essentially flat over the past decade and a half, while value-added consumer products have risen six-fold.

However, the farmer has not sat back in the face of these challenges. Outside of the farm community it is little known that the farm has seen ***the most significant increases in productivity***, far outstripping those of the manufacturing and business

sectors. ***Yet, despite these clear efficiencies, family farm incomes are dropping.*** Why? This can be likened to an escalator. The farmer is running ever faster up the escalator while the other forces are turning the escalator even faster in the *opposite* direction, producing net erosion in the position of the family farm.

Since 1990, the nature of the agri-food sector has changed considerably in Canada. At the export level, while the value of bulk production (farm-gate, commodity) has remained essentially flat, there have been significant increases in the value of intermediate processed food and 'consumer-oriented' food product.



All processed food exports had risen from a value-parity position with bulk food in 1990 to approximately five times that value in 2004. This strong gain in value-added output is a trend that is unlikely to diminish and this is where the growth and future profit potential is strongest.

However, the farmer has not sat back in the face of these challenges. Outside of the farm community it is little known that the farm has seen the most significant increases in 'productivity', which is simply a measure of *'how much you get out, for how much you put in'*. The multi-factor productivity statistics make it clear that productivity gains in the agriculture sector have far outstripped those of the manufacturing and business sectors. These improvements have come through farm concentration, the adoption of new technologies and significant investments in capital equipment.

As the third largest manufacturing sector in Ontario, food processing has grown as a key economic force in the Province. Food processing locations are spread throughout Ontario in five clusters, the largest of which is in and around the Greater Toronto Area. In recent years, Toronto has emerged as the second largest food industry cluster (to Chicago) and fastest growing cluster in North America. Much of this growth has been driven by the expanding multicultural nature of that City. This has provided both the demand for various ethnic foods as well as a labour force to produce it. The growth of new food processing firms can be measured at the small and medium-sized firm level but not at the large and multinational subsidiary level.



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In most food industry sub-sectors, there is a high level of wage sensitivity. Food products are relatively low margin at the processor door and employee pay can represent a significant portion of overall costs. Hence the industry is characterized by relatively low wage jobs compared to other manufacturing sectors and this is most evident in the medium-sized and smaller operations.

Findings

The energy sector in Bruce County has been a major source of employment as have rock quarries. However, agri-food, while a founding and long-standing industry has been lower on the list when defining the strengths of the area and there are few crops that are non-commodity in nature and, hence, subject to world market prices. Countering this, agri-tourism is strong, leveraging on the existing tourism industry.

The area has very scenic landscape including features such as parks, rivers and beaches. Grey Bruce has become a notable tourist destination as well as attracting retirees. The demographic data reveals a higher age than the Ontario average figures and this is driven by the ingress of retirees and an egress of younger persons seeking sustainable employment. There are fewer families with younger children in evidence. This has longer term (10-20 years) implications for the local labour force and the consequent economic development potential that will require a younger labour force.

Although the 2006 census data may not support this position, currently, the 2001 census showed lower than average family incomes:

- Bruce County was at 85% of the Ontario average
- Grey County was at 83% of the Ontario average

Local levels of educational attainment show a university achievement level of only half the overall Ontario percentage. However there is a strong and continuing tradition of high skills levels in agriculture and construction, augmented now with the addition of utilities experience in Bruce County.

There is one large value-added food processing firm in the area, Chapman's, and many smaller enterprises. While Chapman's has established a very large geographic market and has a strong, established growth record, the remaining firms serve, essentially the local market, either through local retail or directly to the local population.

Together, some of these smaller firms have created mini-clusters:

- Meat and poultry packers – there are three larger plants operating under provincial regulations.
- Micro-breweries.
- Three suppliers of fingerlings to the Northern Ontario aquaculture industry.
- Organic grain producers and first stage milling.
- Organic baking.
- A recent mission from China has revived interest in Bruce Packers.
- Grain elevators could have expanded uses.
- Many micro-enterprises have started that could develop and expand with assistance and coordination.



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Also in various stages of exploration/development are bio-technology projects:

- Bio-diesel from soy.
- Nutraceuticals.
- Switchgrass for bio-fuel.
- Corn for methane production.

The wealth of raw materials in the primary agricultural sector of Grey Bruce is not a competitive advantage unless these can be brought to market in a manner that will supply a sustainable livelihood to the producers. The motivation and means to convert that raw material into value-added products is also required if the local producer is to obtain some element of control over their opportunities. This requires risk-takers (entrepreneurs), technology (the means) and capital.

The competition

In the agri-food business, with the relatively short distances tolerable due to shipping costs, it is reasonable to compare Grey Bruce with Eastern Ontario as the main competitor. The attached graph shows

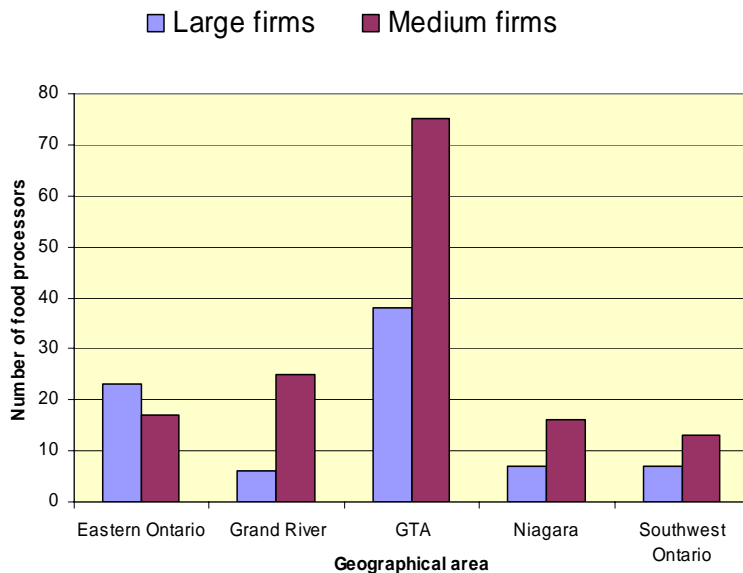
Transportation costs and accessibility

Transportation costs and accessibility are major hurdles for Grey Bruce. Food businesses are very sensitive to transportation costs as this example will demonstrate. For the same consumer-drinkable product, orange juice made from concentrate is cheaper at the retail level than that sold fresh. Consider that the costs of concentration and frozen packaging are lower than the transportation costs for the fresh product.

With the exception of confectionary and food ingredients, many other food products exhibit, for the most part, a low 'value to weight/volume ratio'; that is, they are relatively heavy and take up more space per dollar of value than most other products. The amount of water in many foods contributes to this.

Thus the transportation and storage costs are a higher proportion of the total costs.

Distribution of large and medium-sized food processors
Ontario Investment Service and OMAF Database -2003



the food processing clusters as identified by OMAFRA. Grey Bruce does not register on this scale.

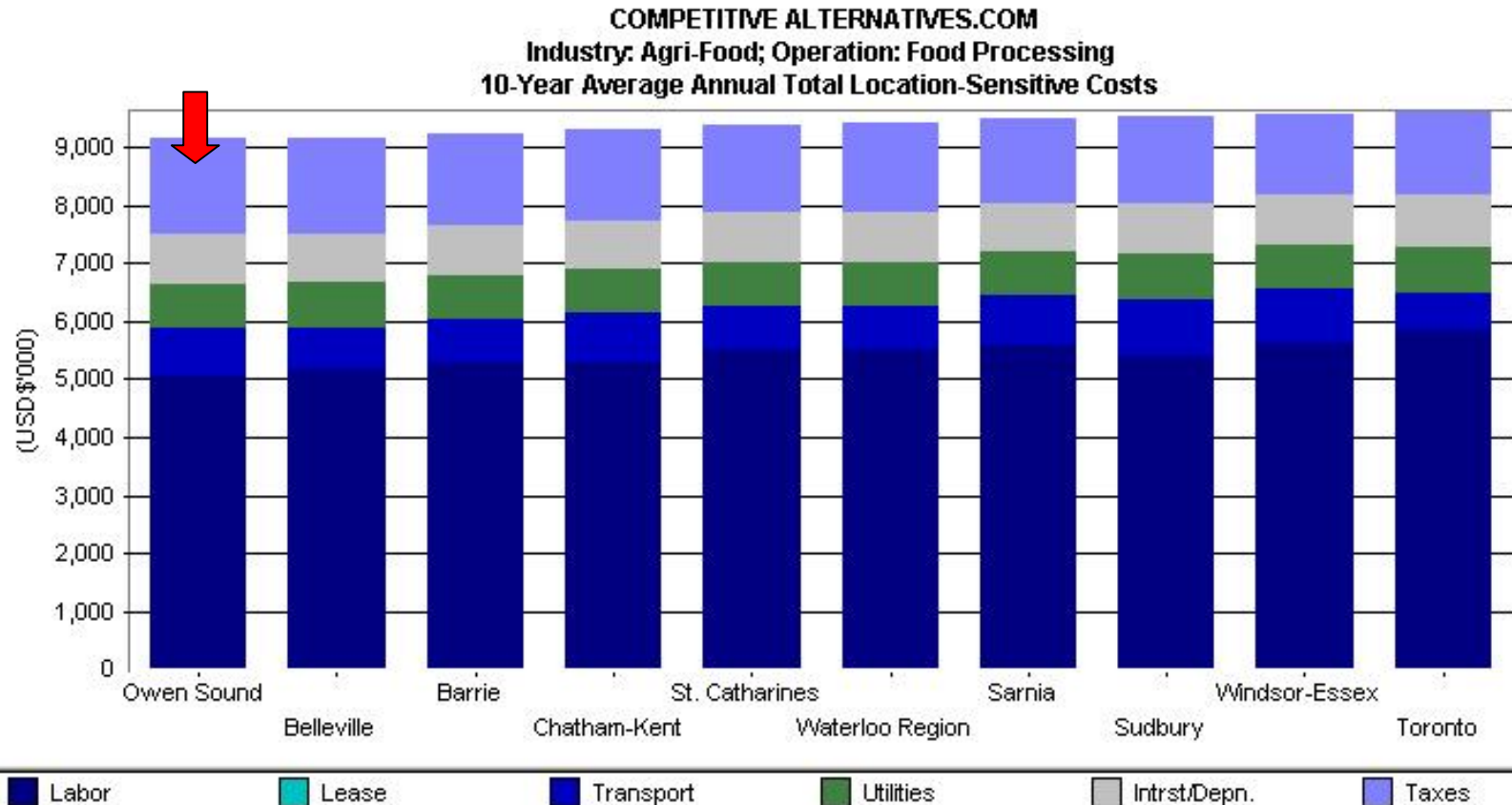
Each area has a large assortment of smaller food processors serving local or near-local needs but the focus here is on the medium and larger sized firms. Usually the expected analysis will show many smaller firms, some medium-sized and fewer larger firms. *Note the 'inversion' of this 'rule' in Eastern Ontario.* Simply, this has come about due to the migration of the indigenous smaller firms to the GTA marketplace in order to grow, there being, apart from one or two relatively isolated

centres, insufficient market mass in Eastern Ontario with which to accomplish this.



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These charts are derived from the latest available (2006) data on the KPMG Competitive Alternatives website. They show the comparative location sensitive cost factors for various locations in the world for different industries. www.competitivealternatives.com



The above chart is the composite for all location-sensitive cost factors considered in the food processing sector for the locations shown. Ontario locations are compared and in this and subsequent charts, Owen Sound is used as the surrogate for Grey Bruce.

Overall, it can be seen that Owen Sound and Belleville have the lowest overall location-sensitive cost.

This is a positive attractor factor for Grey Bruce.



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At the same time, **larger multinational subsidiaries have identified Eastern Ontario as a prime location** (see table following). Toronto has legacy industry and this still dominates the scene but firms are finding that cost pressures, as well as space limitations, are forcing them to uproot. However the Toronto market ‘magnet’ is still over-powering and they will most often move west or north, into ‘905’ territory.

Eastern Ontario exhibits a significant dependency on the food-processing sector. This reflects historical clustering and the current overall competitiveness of the area – see the following table. An existing cluster is a tremendous competitive advantage and acts as ‘proof of propaganda’ for the region. Note that the presence of an existing multinational subsidiary is not *actual proof* that the local area is *currently* well suited to such firms.

Location factor	Attractive to multinational firm	Less attractive to multinational firm
Transportation	Along the 401 corridor or with easy access to that corridor for: <ul style="list-style-type: none"> ➤ road ➤ rail ➤ ‘seaboard’ ➤ U.S. border access 	Away from the 401 corridor or with no major links to that corridor
Population base	➤ Industrial area with a labour pool of more than 50,000 within 30 minutes	<ul style="list-style-type: none"> ➤ Smaller rural centre ➤ Industrial area with labour pool of less than 50,000 within 30 minutes
Proximity to large urban centres	<ul style="list-style-type: none"> ➤ Close enough to ease transportation costs with a central location relative to several markets ➤ Not so close as to lose employees to higher paying jobs available in these centres - a minimum 60 minute drive 	Closer to the larger urban centres, with the consequent competition for workers seeking higher paying job opportunities
Existing multinational subsidiary presence as ‘proof of propaganda’*	Strong, multiple existing multinational subsidiary base	Isolated, singular or weak existing base
Demonstrable jurisdictional advantages	<ul style="list-style-type: none"> ➤ One or two ADVANTAGES, rather than being simply ‘COMPETITIVE’ - better than others ➤ Has a good answer to the question ‘why would they come here?’ 	<ul style="list-style-type: none"> ➤ ‘COMPETITIVE’ only - as good as others ➤ Must ask themselves the question ‘why would they come here?’
Industrial Park	➤ ‘Investment -ready’ parks - zoned, serviced, utilities capacity	➤ Lack of ‘ready-to-go’ industrial land or utilities infrastructure

While Eastern Ontario and Grey Bruce have similar overall cost competitiveness characteristics it can be argued, all things considered, that the Eastern Ontario region may be amongst the best positioned in all of Ontario to attract multinational food-processing plants. However, not *all* regions of Eastern Ontario are likely to experience equal success in this regard and this is illustrated in the table. Grey Bruce may be compared similarly.

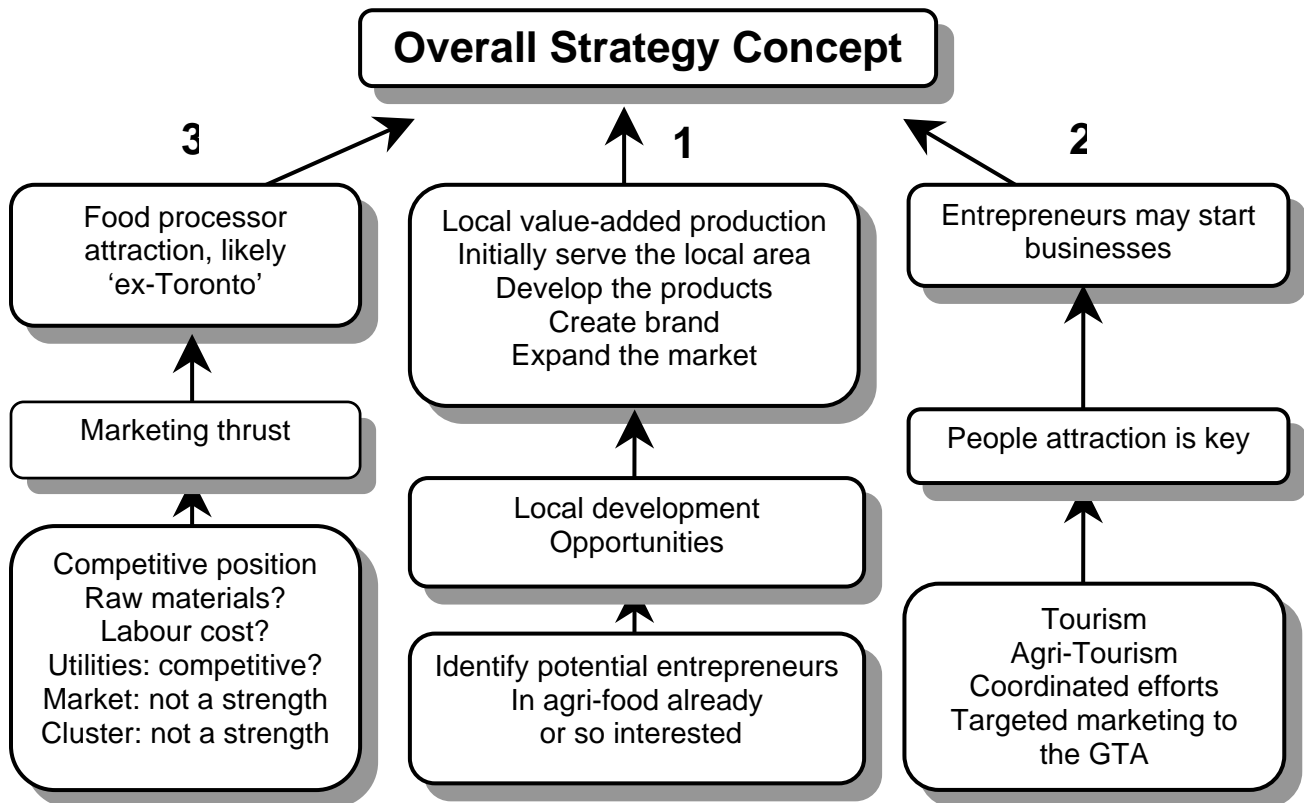


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Recommendations

While investment attraction should always be an element in any economic development strategy, making such efforts the sole focus is likely to produce less effective results than integrating this thrust into an overall strategy, as shown overleaf. The numerals indicate the order of effort and priority that should be implemented today in Grey Bruce and maintained until the economic competitive factors alter sufficiently to warrant a change in emphasis.



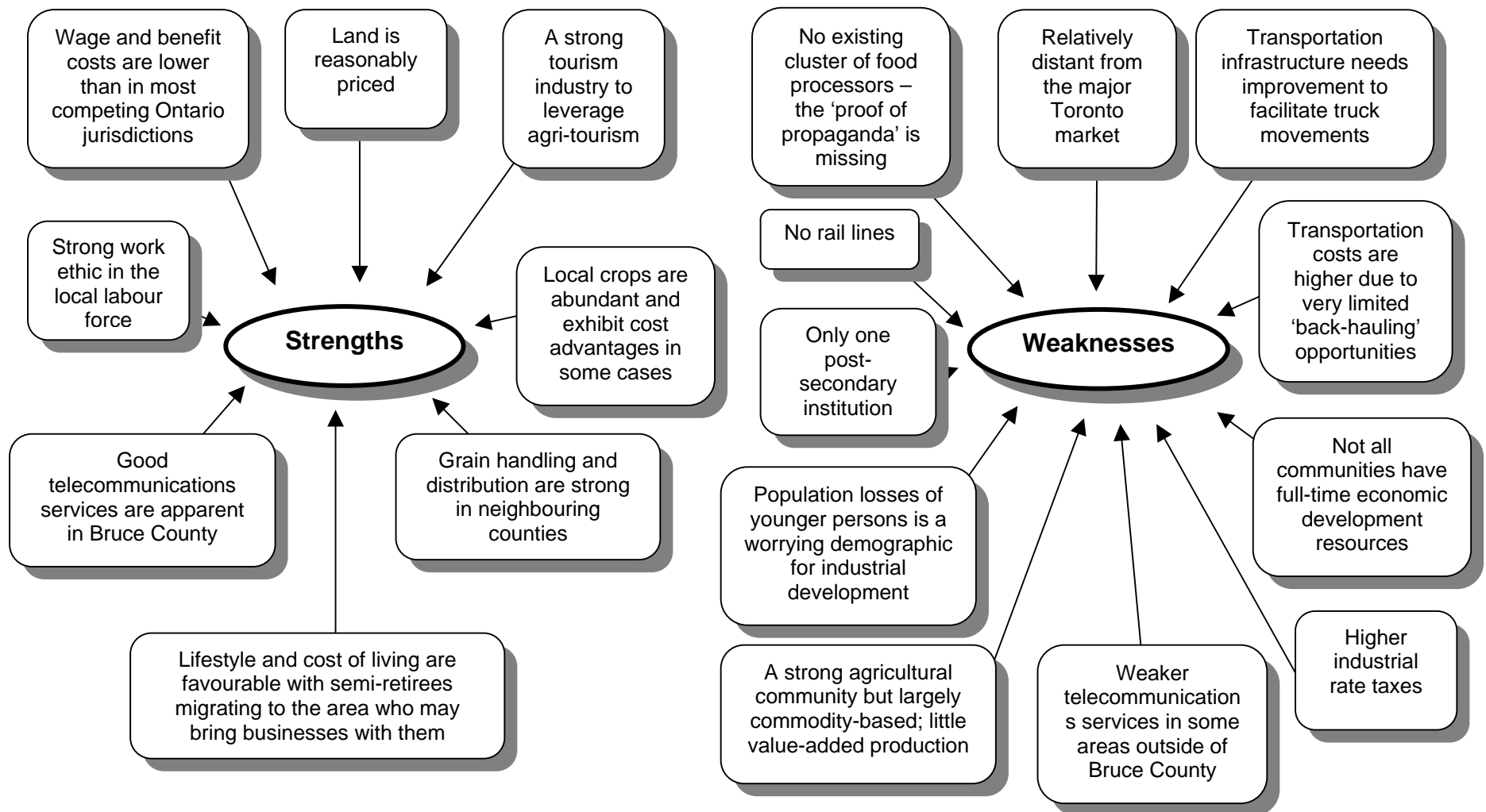
... Today, most food moves from the farm gate to the consumer through a process that provides the farmer with only a fraction of the retail food price. As such, there is growing dissatisfaction from farmers who continue to receive low commodity prices. Many farmers have responded to this trend by increasing the value of their agricultural product through direct farm marketing and agri-tourism. Both approaches involve selling products and/or experiences directly to the consumer...

*Best Practices for Land Use Planning Affecting Direct Marketing & Agri-tourism Operations
May, 2006 - OFFMA*



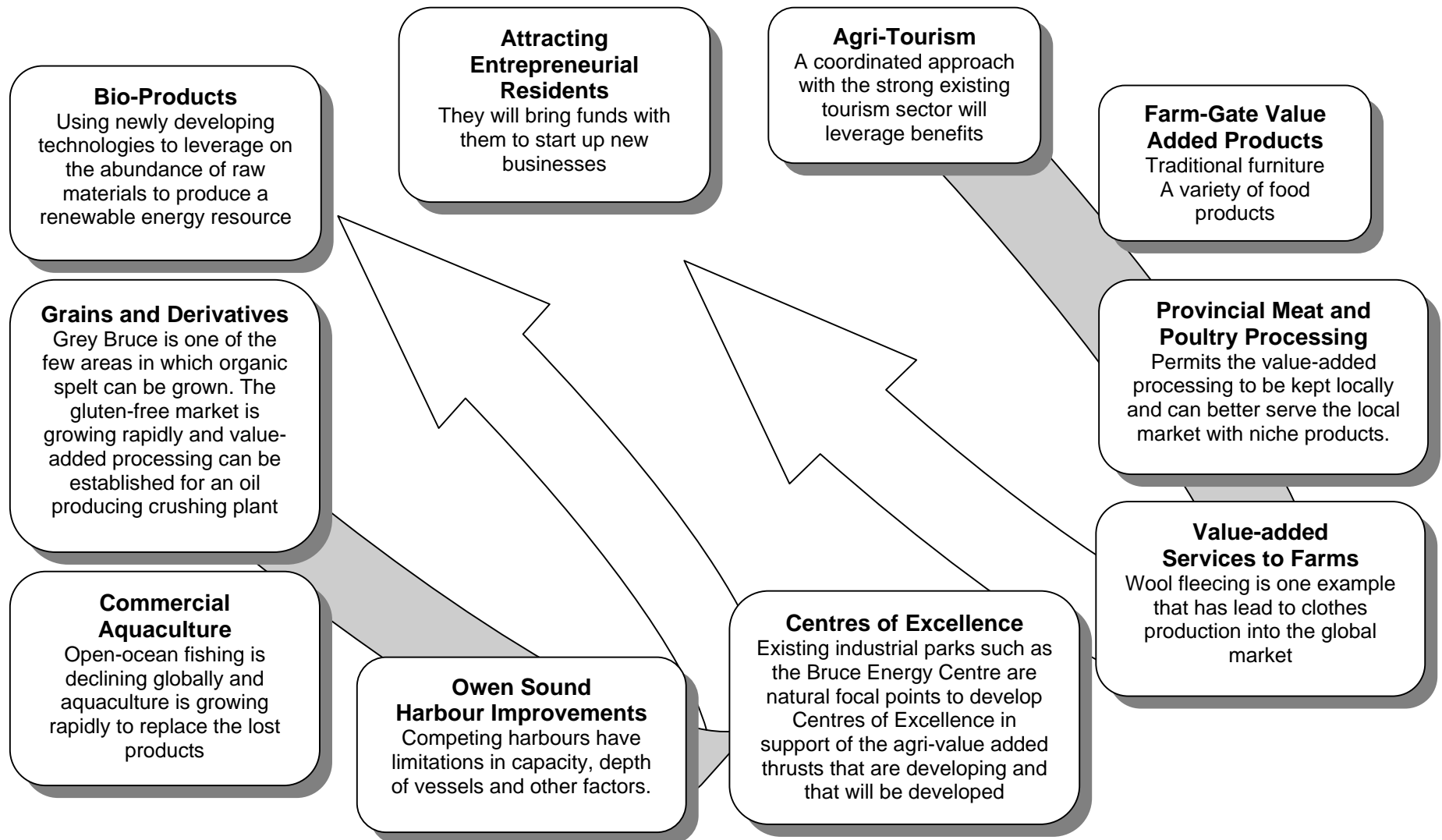
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Grey Bruce Agri-value Added Strengths and Weaknesses



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Grey Bruce Top Ten Opportunities



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Grey Bruce Umbrella Strategy in support of the Top Ten Opportunities



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