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Market Development Reports

An Overview of Selected Segments of the Canadian Frozen Food Industry 2002

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Report Highlights:

In Canada, there is a demand for a greater variety of dinners/entrees, healthier foods, and innovations that enhance flavor and save time. In this context, opportunities exist for the introduction of new frozen food varieties that fit this profile.

Includes PSD changes: No
Includes Trade Matrix: No
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Table of Contents

SECTION 1	Page 2
Industry Profile & Size	Page 2
Sub-Segment Profiles	Page 3
Frozen Breakfasts	Page 3
Frozen Meat/Fish/Poultry	Page 5
Frozen Prepared Foods	Page 6
Frozen Vegetables	Page 7
No Name – Private Label	Page 8
Regional Differences	Page 10
Brand Information	Page 13
SECTION 2	Page 15
Manufacturing of Frozen Food	Page 15
Distribution, Wholesale, Retail	Page 16
Trends	Page 17
Opportunities	Page 19
Market Entry Strategy	Page 21
General Information	Page 21
Regulatory Framework	Page 21
Frozen Food	Page 22
APPENDIX	Page 23
Categories Included In A.C. Nielsen's Frozen Food Report	Page 23
Vegetables- Frozen/Canned/Fresh	Page 23
Retail Food Stores in Canada	Page 24
Web Sites and Primary Data Contacts	Page 27
Find Us on the World Wide Web	Page 28
Related FAS/Ottawa reports	Page 28

SECTION 1

Industry Profile & Size

The frozen food industry has seen numerous changes in product, packaging and merchandising over the years. The continuous addition of categories and sub-categories has created discussion as to what categories should be included when profiling the Canadian Frozen Food Industry. The Standard Industrial Code (SIC) for Frozen Food is 31141 and the principal elements of this sub-sector are as follows:

- Frozen French Fries
- Frozen food entrees and side dishes (excluding seafood)
- Frozen fruits, fruit juices and vegetables
- Frozen fruit juice concentrates
- Frozen pizza
- Fruits and vegetables that have been quick frozen

The Canadian Consumer Grocery Food Store sales data can be purchased from the Canadian offices of AC Nielsen Inc., an international marketing research company that specializes in acquiring sales data from a combination of scanned data and inventory data sheets. This information is marketed as the AC Nielsen Market Track Grocery Reports and it includes a section on "Frozen Food". The most recent report presents sales in dollars and units sold, for virtually everything frozen¹ which is sold in Canadian² grocery stores.

This Report will focus on information relative to three particular segments of the Frozen Food Industry in Canada. The specific segments are:

- Value added meat/fish/poultry
- Frozen vegetable entrees
- Complete meal replacements (CMR)

Data and information obtained for the CMR segment is presented in two distinct sub-segments:

- Frozen Breakfasts
- Frozen Prepared Meals (all others)

For purposes of this analysis CMR will be split into Breakfasts and Prepared Meals.

1

The list of categories included in the A.C. Nielsen Market Track Report is presented in the Appendix of this Report.

² A.C. Nielsen data for Canada excludes the sales information from Newfoundland and the Northwest Territories. The combined population from these two regions represents only 1% of the Canadian population.

Retail sales of the categories of the Frozen Food Market in Canada under discussion are presented in the Table below:

Selected Frozen Food Category Sales
by Year in Millions of Cdn.\$

Categories	1997	1998	1999	2000	2001
Breakfasts	\$127	\$112	\$99	\$93	\$87
Meat/Fish/Poultry	\$194	\$289	\$371	\$414	\$454
Prepared Food	\$527	\$776	\$1,054	\$1,211	\$1,344
Vegetables	\$213	\$272	\$323	\$348	\$374
Total	\$1,061	\$1,449	\$1,847	\$2,066	\$2,259

To put the spending on these food categories into context, note that the average Canadian household spends approximately \$285 a year on the products listed in the Table above; or, slightly more than \$7 each trip to the supermarket.

Sales for the two categories that are directly related to making it easier to prepare the evening meal, "Meat/Fish/Poultry" and "Prepared Food", are both increasing at a rate greater than the population's growth rate. The category, "Frozen Vegetables", is increasing, but at a much slower rate. National sales for the "Frozen Breakfast" category show a definite decrease over time. In essence, this data shows that the consumer wants healthy, quality food quickly!

Sub-Segment Profiles

Proportion of Sales by Category

Dinner/Entrees	59%
Meat/Fish/Poultry	20%
Vegetables	17%
Breakfasts	4%

Frozen Breakfasts

Sales of Frozen Breakfast Products by Sub-Category
by Year in Millions of Cdn \$

	1997	1998	1999	2000	2001
Waffles	\$86	\$79	\$73	\$70	\$67
Pancakes	\$14	\$12	\$10	\$9	\$8
Other	\$27	\$21	\$16	\$14	\$12
Total	\$127	\$112	\$99	\$93	\$87

The Frozen Breakfast category includes frozen pancakes, frozen waffles and a category for “other” frozen breakfast food, which includes miscellaneous sub-categories such as frozen egg whites and frozen French toast.

This market is dominated by two companies that are well known internationally; Kellogg’s and Pillsbury (General Mills). The leader in the segment is Kellogg’s, well known as a marketer of breakfast cereals. Kellogg’s sells a host of package sizes, flavours and presentations in the frozen waffle and frozen pancake sub-categories. The company’s frozen products are sold under the brand name Eggo®. Sixteen different Eggo stock keeping units (SKU’s) are available in most Canadian Grocery stores.

Eggo SKU's by Kellogg's

Nutri-Grain Whole Wheat Waffles; Low Fat	Cinnamon Toast Waffles
Nutri-Grain Whole Wheat Waffles	Chocolate Chip Waffles
Minis, Home-style Waffles	Buttermilk Waffles
Buttermilk Pancakes	Blueberry Waffles
Special K Waffles	Banana Bread Waffles
Waf-Fulls, Apple Cinnamon	Apple Cinnamon Waffles
Waf-Fulls, Strawberry	Waf-Fulls, Blueberry
Strawberry Waffles	Home-style Waffles

In second position in this market segment is Pillsbury with its breakfast substitute; a pastry filled with fruit marketed under the brand name, Toaster Strudel®. This brand was originally launched to compete with Kellogg’s Pop Tarts®, a pastry positioned to teenagers as a quick, breakfast substitute. Much like Eggo, Toaster Strudel comes in a variety of flavours.

Flavours of Toaster Strudel by Pillsbury

Apple	Cream Cheese
Blueberry	Cream Cheese and Strawberry
Brown Sugar Cinnamon	Cream Cheese and Raspberry
Carmel Apple	Raspberry
Cherry	Strawberry
Chocolate	Wild Berry

Pillsbury also offers a line of frozen pancakes, waffles, turnovers and bagels, but its line of Toaster Strudel is more popular in Canada.

Kellogg’s pancakes and waffles are the leaders in this segment following by “no name” and “private label” brands.

The frozen food breakfast segment shows a steady decrease in sales. This trend is undoubtedly attributable to the consumer’s demand for healthier fast food, and consciousness of the need to reduce fat intake. The present frozen breakfast offerings are high in both calories and fat.

Frozen Meat/Fish/Poultry

The following Table presents sales for the most recent five years for Frozen Meat/Fish (& Seafood) /Poultry – Value Added by sub-category.

Sales of Frozen Meat/Fish (& Seafood)/Poultry - Value Added
by Year in Millions of Cdn. \$

	1997	1998	1999	2000	2001
Packaged Fish/Seafood	\$145	\$217	\$279	\$310	\$340
Fish Sticks	\$18	\$17	\$16	\$16	\$16
Shrimps	\$39	\$66	\$89	\$100	\$112
Fish & Chips	\$8	\$7	\$7	\$6	\$6
Other Fish/Seafood	\$81	\$127	\$167	\$187	\$207
Meat Patties	\$35	\$55	\$73	\$82	\$90
Prepackaged Meat (all other)/ Poultry	\$13	\$17	\$20	\$22	\$23
Total	\$194	\$289	\$371	\$413	\$454

The sales of all “value added” frozen meat, fish, seafood and poultry products are included in this category. An example of “value added” is frozen meat patties packaged in a box of eight units and positioned as a time-saver for those people planning to have a B.B.Q., or shrimp, cleaned, cooked and then packaged frozen.

Fish and seafood dominate the segment by a ratio of almost three to one (fish and seafood sales compared to sales of all other sub-categories combined). Although there is expected to be a surge in sales of value added poultry³, it is unlikely that the result will be sales which exceed the value of fish & seafood sales.

Notice the decrease over time in sales of both fish sticks and fish & chips. It is suspected that the decrease in sales in both sub-categories is related to the perception that these product presentations are less healthy than non-breaded prepared frozen fish.

Sales of frozen shrimps have increased steadily and are likely to continue to increase. Frozen shrimp is often marketed as "cleaned and cooked". They are relatively easy to include in a meal – simply defrost and serve. As well, shrimps are low in calories and high in omega fatty acids.

The market leader in the Frozen Fish and Seafood segment nationally is High Liner. The company claims to be the seventh largest, by dollar volume of sales, of all companies that sell frozen food in Canada, and holds a 46% share of the Total Frozen Fish & Seafood category nationally⁴.

By and large, value added meat and chicken, is presented to the market regionally. A few manufacturers will service two or even three regions but are unlikely to cover the entire country. The only sub-category

³ Report prepared by Earl New, Agriculture Canada, December 2001

⁴ Annual Report 2001- High Liner Foods

in this product group that has increased significantly is frozen sausages⁵. Nationally this sub-category is up 20%.

Frozen Prepared Foods

Frozen Prepared Foods
Sales of Frozen Prepared Foods for Canada
by Year in Millions of Cdn. \$

Description	1997	1998	1999	2000	2001
Chinese	\$22	\$32	\$39	\$43	\$47
Italian	\$82	\$128	\$169	\$189	\$209
Mexican	\$14	\$14	\$15	\$15	\$16
All other Dinners & Entrees	\$269	\$422	\$556	\$622	\$689
Dinners & Entrees incl. Spring Rolls	\$387	\$596	\$779	\$870	\$961
Meat Pies	\$37	\$44	\$50	\$53	\$56
Pizza, French Bread and Subs	\$45	\$63	\$140	\$197	\$230
Pizza Snacks	\$43	\$61	\$76	\$83	\$91
Other (meals)	\$15	\$12	\$9	\$8	\$6
Total	\$527	\$776	\$1,053	\$1,211	\$1,345

Of the frozen food product categories under discussion, prepared foods is the leading category in terms of both absolute sales and rate of growth. 60% of the sales are accounted for by this segment.

Frozen pizza took consumers by storm! It is, and has been, the leading frozen food in Canada. "Pizza snacks" is a line extension of pizza that is also selling quite well; so much so that the sub-category is reported separately from pizza.

There are approximately 10 different brands of frozen pizza, plus a host of private label brands, sold in grocery stores across Canada. The most popular brands are products manufactured and distributed to the grocery store chains by companies that have a national presence. Included in this group are Kraft Foods, McCain Foods, Heinz and Pillsbury Foods.

The sub-segment "Frozen Prepared Foods", involving hundreds of different SKU's⁶, is the largest sub-category under investigation. Not only is the volume the greatest, but the category is growing at a rate of 11% annually and looks as though it will continue to register double digit growth for at least the immediate future. It is suspected that the increase results from Canadian consumer demand for a variety of flavors and sizes of good tasting, healthy, quick home meal replacements. Note the separate categories for Chinese, Italian and Mexican frozen dinners. Experts feel that it will not be long before sales data for other popular ethnic dishes will be collected and presented separately. Apart from the demand for ethnic foods, there is also demand to meet other particular segment requirements; such as

⁵ A.C. Nielsen Market Track Report

⁶ 2001, "Frozen Dinners/Entrees" accounted for 39 of the 100 new grocery items launched nationally

low fat, low salt, weight watchers, etc. At least two national brands have line extensions directed towards the weight conscious target market.

The frozen prepared food market is dominated by three national brands:

- Swanson by Pinnacle Foods
- Stouffer's by Nestlé (Carnation)
- Michelinas by J.M. Schneider

Smaller companies have developed strength regionally by focusing on regional ethnic loyalties. An obvious example is the varieties of frozen quiche presented to the Québec market.

In contrast is the Wong Wing Foods Corporation, which successfully markets a line of Chinese frozen dishes nationally. The company is well-known for its line of egg rolls and spring rolls. Sales of frozen Egg Rolls alone are estimated to be Cdn.\$22 million nationally.

The balance of the market share in this sub-sector is held by the no name/private label brands.

FROZEN VEGETABLES

Frozen Vegetables
Sales of Frozen Vegetables for Canada
by Year in Millions of Cdn. \$

	1997	1998	1999	2000	2001
Asparagus	\$0	\$1	\$1	\$1	\$1
Broccoli	\$0	\$3	\$5	\$6	\$7
Cauliflower	\$1	\$1	\$2	\$2	\$2
Corn	\$30	\$30	\$30	\$30	\$30
Beans	\$5	\$6	\$8	\$8	\$9
Peas	\$33	\$33	\$34	\$34	\$35
Lima Beans	\$1	\$1	\$1	\$1	\$1
Onions	\$2	\$2	\$2	\$2	\$3
Spinach	\$5	\$6	\$7	\$8	\$8
Vegetables & Sauce	\$19	\$42	\$62	\$71	\$81
French Fried Potatoes	\$62	\$80	\$95	\$103	\$110
Non Fried Potatoes	\$22	\$28	\$33	\$36	\$39
Other Frozen Vegetables	\$32	\$38	\$44	\$46	\$49
Total	\$213	\$272	\$323	\$348	\$374

The sales of frozen vegetables over the past five years have increased marginally; primarily due to the French Fries sub-category. Ironically, even though Canadians want to eat healthier foods and foods that are lower in calories, sales of frozen fries continue to increase. As a matter of fact, in an effort to meet the increasing demand for the product, some farm land in Western Canada, usually reserved for wheat,

has been allocated to growing potatoes destined to be transformed into various shapes, sizes and flavors of Frozen French Fries.

Frozen vegetable consumption (excluding frozen French Fries) has decreased over time. It is believed that this slight decrease is directly related to the increase in consumption of fresh vegetables⁷.

There are only a few nationally distributed brands of frozen vegetables. The frozen french fry market is dominated by McCain Foods. Predominant in the freezer case is the Green Giant⁸ variety of frozen vegetable products. Arctic Gardens brand, by Carrière Foods of Québec, has succeeded in distributing frozen vegetables into Eastern Canada. Strathroy Foods of Ontario purchased Carrière Foods, and now the Arctic Gardens brand is available nationally.

No name/private label brands are much more dominant in this sub-category than in any other of the frozen food categories. This suggests that less brand loyalty and greater price sensitivity are key characteristics of the frozen vegetable market.

The growth of the vegetables and sauces sub-segment has been phenomenal. From nothing, this segment has exploded! This product category is a line extension that has evolved to meet consumer demand for more variety in home meal replacement products. The staples in the vegetable industry remain good sellers:

- Potatoes
- Peas
- Corn

No Name – Private Label

No-name/private label brands are quite predominant in the frozen food sections of Canadian grocery stores. If one considers corporate stores plus affiliates (including franchisees), four supermarket grocery store chains in Canada control almost 70% of the market. Each chain store and its affiliates carry both private label and no-name frozen food products, which they either have prepared for them under contract or actually manufacture themselves. Depending upon the product(s) and/or the region, a supermarket chain may have more than one contact manufacturer.

The “No Name” brand frozen foods at Loblaws and its affiliates are produced by a company identified as Sun Fresh Inc. of Toronto. Sun Fresh is a registered company owned by Loblaws which does not have its own physical place of business.

The more upscale private label brand sold at the Loblaws stores is *President’s Choice*. The identification on the packages states that *President’s Choice* is made by Sun Fresh Inc. specifically for Loblaws.

Sobeys Inc., with its head office Nova Scotia, owns grocery stores across the country under various

⁷ The per capita consumption of vegetables; frozen, fresh and canned for both Canadians and Americans is presented in a Table in the Appendix of this Report.

⁸ Green Giant is a division of General Mills

regional corporations (see Appendix for a List of Retailers). Sobeys owns two private label brand names; “Smart Choice” and “Our Compliments”.

Lucerne Foods in Vancouver, B.C. packs vegetables exclusively for Canada Safeway.

No name and private label brands have a significant share of the frozen food market. In total, in all categories, no name and private label brands combined hold a 36% share of the frozen food market.

It is also interesting to note that no name frozen food products are growing faster than no name non-frozen food products.

Regional Differences

Although politically the country is made up of ten provinces and two territories, for purposes of marketing products and services, Canada is divided by geographic and cultural boundaries into five regions.

Maritimes – This region includes the Atlantic Provinces: Newfoundland (and Labrador), Nova Scotia, New Brunswick and Prince Edward Island. Located on the east coast, all four provinces are on the Atlantic Ocean. The primary sources of revenue in the region come from the fishing industry and potato farming. The population is 2.4 million. The average annual household income is Cdn.\$44,108. This region has the highest unemployment rate in the country, averaging about 8%.

Québec – Although Quebec is officially bilingual, English and French; 65% of the population speaks only French. The population is 7.4 million. The largest city in Québec is Montréal located less than 60 miles from the New York and Vermont State borders. Its population is about 3 million people. The Province exports an abundance of raw materials, and is most noted for its export of hydroelectric power. The average annual household income in Québec is Cdn.\$45,595.

Ontario – is the largest and most prosperous region. There are nearly 12 million people living in the province; one third in Toronto, the country’s largest city. The average annual household income for this region is Cdn.\$58,325.

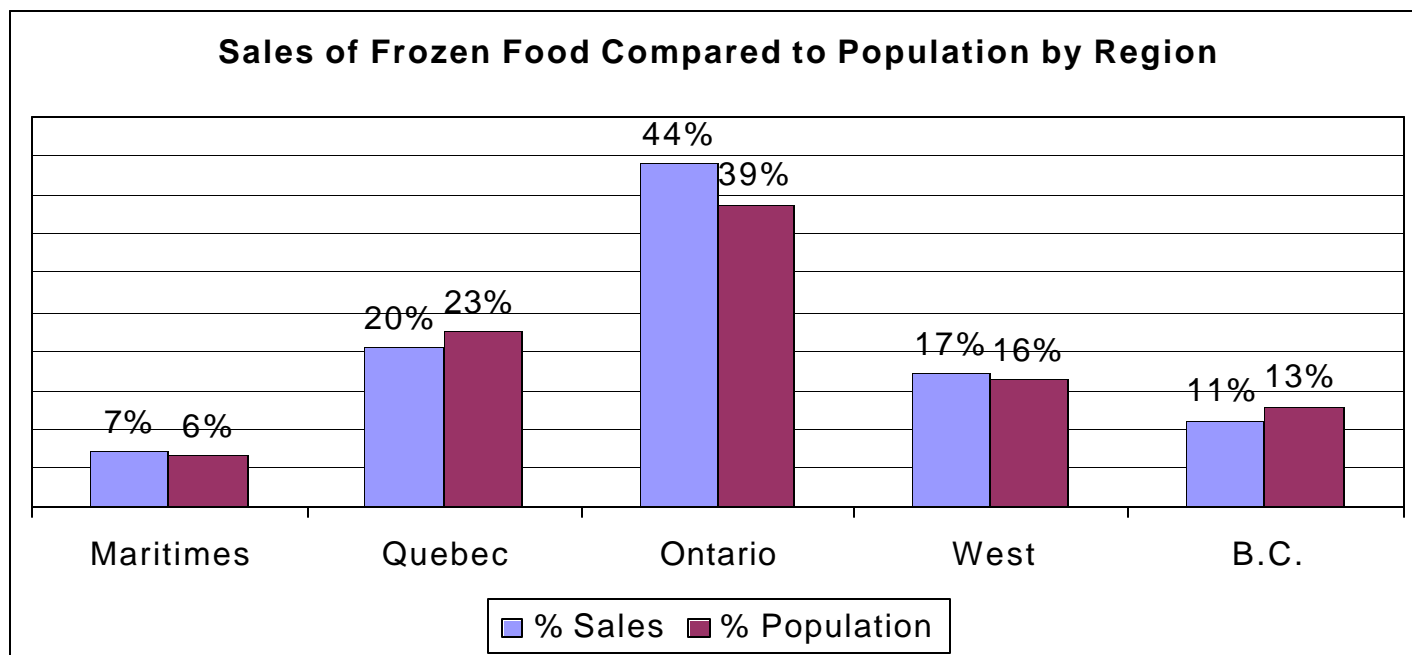
Western Provinces – include Manitoba, Saskatchewan and Alberta. Sparsely populated, these Prairie Provinces have fertile farm land and are best known for producing and exporting wheat. An abundance of oil and natural gas in western Saskatchewan and Alberta has created an economic boom for the region. The population is just over 5 million and the average annual household income is Cdn.\$46,871.

British Columbia – (BC) has 4 million people. The province borders the Pacific Ocean making it Canada’s gateway to Asia. It is the base for importing and exporting to the Far East. The Province is rich in natural resources. Pulp and paper are of particular economic importance in B.C. The average annual household income is Cdn.\$52,388.

Annual Sales by Region and in Total for
Frozen Food Categories under Discussion
in Millions of Cdn \$

Region	1997	1998	1999	2000	2001
Maritimes	\$75	\$103	\$131	\$147	\$161
Québec	\$217	\$296	\$378	\$423	\$462
Ontario	\$467	\$637	\$812	\$908	\$994
West	\$180	\$246	\$314	\$351	\$384
B.C.	\$122	\$167	\$212	\$236	\$258
Canada	\$1,061	\$1,449	\$1,847	\$2,065	\$2,259

Regionally, consumption of frozen food varies pretty much according to population. Clearly, the most populated region, Ontario, leads in the sales of frozen food. The proportion of sales in Québec and B.C. are below the proportion of population. Note the comparison, by region illustrated in the following bar chart:



Back in the 1970s, experts in the industry predicted that the smaller independent groceries would disappear by the turn of the century, and that corporate chain supermarkets and discount club stores would control grocery sales in Canada.

It appears that this may be the case in four of the five regions, but not so in Québec. In a 2000 survey done for the Canadian Grocer Magazine, market share by chain store versus independent grocer was ascertained. Care must be placed in interpreting this data as the category of "independents" includes franchisees as well as independent grocery stores. That means that in Québec, included as independents, are most of the Metro, IGA⁹ and Provigo stores. Nevertheless, the dominance of the independent grocery store has an impact on how wholesale grocer food business is done in Québec. Note the resulting proportions of market share by region in the following table.

Chains' Market Share of Grocer Store Sales

Regions	Independent Grocery & Franchisees Share	Chain Stores Share
Atlantic	33%	67%
Québec	67%	33%
Ontario	38%	62%
West	30%	70%
B.C.	34%	66%

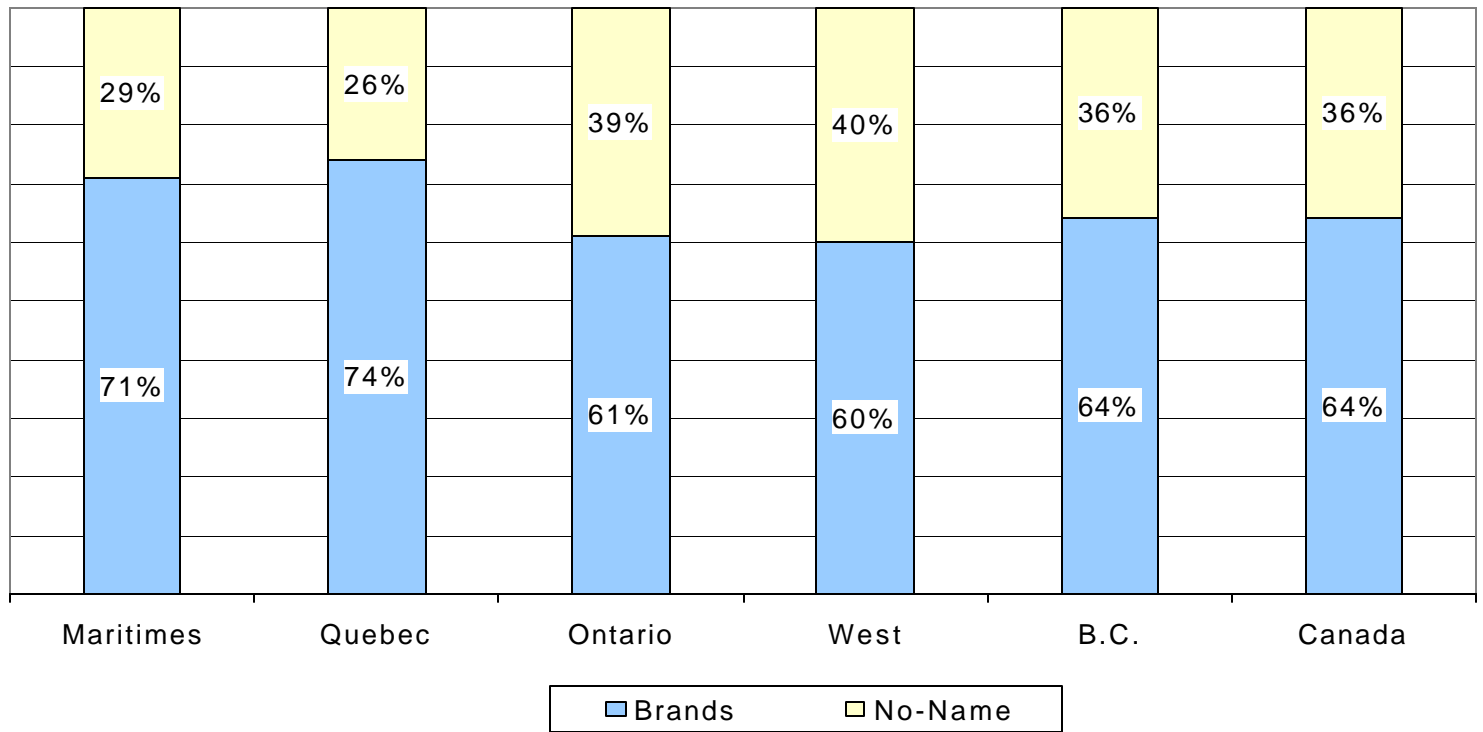
Why do some people buy private label or no name brands, while others choose to buy branded products? It may be a function of culture, or perception of quality and price. Whatever the answer, no name/private label products hold 36% market share of the frozen food segments presented in this Report.

There is a high penetration of no name/private label brands - 39% - in the most populated region in Canada, Ontario. By contrast, there is an unusually low percentage of no name/private label frozen food sales (26%) in Québec, the second most populous region.

The proportions of sales for the products under discussion in this Report by private label/no name products versus branded products by region and for all of Canada are illustrated in the graph below:

⁹ The IGA stores in other regions of Canada are part of the Sobey chain.

No Name vs Branded Sales Frozen Food



SECTION 2

Manufacturing of Frozen Food

The Canadian Frozen Food Industry has responded to the increase in consumer demand. The number of plants that produce frozen food in Canada has increased from 45 in 1991 to 68 in 2000.

Total shipments of product for domestic use has remained constant at approximately 70%, over the same time period. In the following Table the Total Canadian Frozen Food Industry data is presented.

Canadian Frozen Food Products Industry¹⁰ Statistics
in Millions of Cdn.\$

Basic	1997	1998	1999	2000	2001
Establishments	48	66	68	68	N/A
Companies	40	58	58	58	N/A
Total Shipments	\$ 1,516	\$ 2,256	\$ 2,185	\$ 2,655	N/A
Value-added	\$ 651	\$ 762	\$ 751	\$ 821	N/A
Domestic Market	\$ 1,364	\$ 1,506	\$ 1,569	\$ 1,684	N/A
Domestic Penetration	69.9%	68.8%	69%	71.8%	N/A
Trade					
Exports	\$ 522.7	\$ 659.2	\$ 804.9	\$ 895.9	\$ 969.5
Imports	\$ 410.1	\$ 470.2	\$ 486.2	\$ 475.2	\$ 521.5
Imports,% of Domestic	30.1%	31.2%	31%	28.2%	N/A
With U.S.					
Exports to U.S.	\$ 389.2	\$ 518.8	\$ 615.1	\$ 726.3	\$ 810.0
Imports to U.S.	\$ 264.7	\$ 316.6	\$ 307.8	\$ 311.8	\$ 352.5
Balance of Trade	\$ 124.5	\$ 202.2	\$ 307.3	\$ 414.5	\$ 457.5

Compared to the frozen food manufacturing facilities in the United States, Canadian companies have smaller plants with shorter production runs.

Although Canada's cold climate limits vegetable production, the climate is well-suited for growing potatoes. Frozen prepared potatoes represent the single largest export sub-category. In 1992, 46% of the frozen food Canada exported was French Fries.

The latest information (2001) established frozen prepared potato exports, which are primarily French Fries, to be 73% of all frozen food exports. Care must be placed in interpreting this information, as the lion's share of frozen French Fries go to the American institutional food market.

¹⁰ Statistics Canada (CANSIM) Annual Survey of Manufacturers

Imports of Frozen Food represent 30% of domestic consumption during the last decade. Essentially all of these imports were from the United States. The most significant sub-category is frozen pizza. 40% of all frozen food imports into Canada between 1992 and 2001 was pizza!

Distribution, Wholesale, Retail

There are 18,700 supermarkets, independent and voluntary¹¹ group grocery stores in Canada. The following table presents the number of grocer store in Canada by region by classification.

Grocery Stores Classification by Region

Regions	Supermarkets	Independent/ Voluntary Group	Unaffiliated	Total
Maritimes	234	861	1,135	2,230
Québec	255	2,208	4,453	6,916
Ontario	499	1,073	3,475	5,047
West	314	911	1,856	3,081
B.C.	279	216	931	1,426
Canada	1581	5,269	11,850	18,700

Most of these grocery stores are members of the Canadian Council of Grocery Distributors (CCGD). This association is a forum for retailers and distributors in the grocery business in Canada. A list of all CCGD members is presented in the Appendix of this Report. The web site for the association is: www.ccgd.ca

The sales and distribution of product to food/grocery/club stores in Canada is carried out the same way as in the United States. Sales staff or food brokers must first arrange to meet the buyers. Then, the sales person presents the product and, if accepted, the manufacturer must pay slotting fees for shelf space, advertising and promotions on a per product basis - all in advance. Purchase orders are placed. Then, the manufacturer must arrange for "just in time" transportation (in appropriate vehicles, i.e. freezer or refrigerated) to designated central warehousing facilities.

If the product does not sell well, following an established trial period (set by the retailer), it will be de-listed. No product is returned but it is expected that invoices will be credited accordingly. Slotting fees will not be refunded.

Wholesale distribution centres handle product for independent grocers. This link in the channel of distribution is increasing in popularity, as electronic communications and e-commerce prove to be both inexpensive and effective.

A key element that manufacturers must understand is that retailers have a defined amount of space available for frozen food. Of that space, a proportion is reserved for established national brands and a

¹¹ Voluntary Group stores are also known as franchised independent supermarket (e.g. Foodland, Fortinos, Freshmart, IGA, Metro, No Frills, Your Independent Grocer)

proportion for no name and private label products. The remaining space, which is usually minimal, is used when a new product is introduced.

"Canadian retailers still trail the U.S. in the number of linear feet they commit to frozen meals." says Leslie Chester¹², VP Stouffer's Meal Solutions.

"The new products challenge retailers in how to use space and there is pressure on them to rethink the frozen food section¹³."

Note the changes over time in the average amount of freezer space in the two most populated regions in Canada, as presented in the following Table:

Average Linear Feet of Freezer Section
per Grocery Store for Ontario and Québec

	1997	1998	1999	2000	2001
Québec	175	183	238	293	350
Ontario	575	587	596	605	615

Trends

1. Of all the categories under investigation, frozen dinners and entrees have increased the most over time. Thirty-nine of the top 100 new items launched nationally (2001) were frozen dinners. Increases in sales of frozen pizzas, frozen sausages and frozen seafood were seen nationally. Sectors that are continuing to lose share are the breakfast entrees, pancakes/waffles/French toast, fish sticks and fish & chips. Experts feel that frozen meat pies will be the next category to fall.

In summary; there is a demand for a greater variety of dinners/entrees, healthier foods, and innovations that will enhance flavor and still save time. Sales of frozen breakfasts and less healthy value added foods, like fish & chips or fish sticks, are on the decline.

2. Consumers are looking for convenience. In a recent survey, a sample of Canadians was asked if they enjoy cooking. The responses were:

Enjoy cooking	50%
Sort of dislike it but do it	6%
Don't enjoy it but do it	42%
Hate it	2%

¹² Grocer Today, January/February 2002

¹³ Mr. Salisbury, VP (Swanson) Pinnacle Foods; Grocer Today, January/February 2002

3. Households with one or two members only – prime candidates for frozen food - are represented by 57% of the total households in the country.

Senior citizens (10% of Canadians are over 65 years of age) want products that are nutritious and of high quality. They want portions that are easy to control, packages which are easy to open, labels which are easy to read, and most of all, meals which are quick to prepare. Of critical importance is that a senior be able to determine individual portion sizes, while being able to retain unused portions for future use with confidence that the food will not spoil.

4. Cultural diversity has opened the door to new and innovative frozen food products. New ethnic foods combined with traditional North American foods and cooking styles have given rise to new, desirable dishes. Frozen complete meals that are stir fried, or packages of fajitas are commonplace in the grocery freezers.
5. Quick does not necessarily mean fast food! The population is looking for convenient, nutritious and tasty. Traditional fast food may be convenient and quick, but it is far from nutritious.

"This segment is getting bigger and bigger as demand grows from people who have less time (or do not want to take the time) to cook" says Battista Di Gennaro, President of Cambridge Fine Foods, a company that manufactures private label frozen entrees. "Consumers are looking for meals that are low in fat and balanced with all the nutrients they need."

"Frozen Foods are the original complete meal replacement, but quality has gone up tremendously. Manufacturers must respond to the fact that consumers are very busy and that they want quality" says Joe Makowecki, President of Heritage Foods, makers of Cheemo perogies.

The preparation time for an evening meal in Canada ranges anywhere from 15 to 45 minutes. 14% of Canadians only know what to prepare for dinner when they are ready to prepare it¹⁴.

6. There is, and has been for at least a decade, an overall preference in Canada for chicken¹⁵ as compared to red meat. Presently, fowl is less expensive. Generally speaking, it is perceived as healthier. And, a greater volume of poultry is consumer per capita than any other meat, making a vital input to frozen dinners¹⁶.
7. There is less confidence in the world economy, at least short term, since the events of September 11, 2001. As a result, Canadians are keeping better control of their expenses and spending less of their disposable income dining in restaurants. There is no indication how long this situation will continue.

¹⁴ An article in the Frozen Food Age Magazine quotes consumer research data from a random sample of Canadians.

¹⁵ Presentation by Earl New, councilor Food Bureau of Canada, Ottawa, December 2001

¹⁶ Sub Sector Profile - The Canadian Frozen Food Manufacturing Industry Report (1999)

8. Trends in innovation in packaging such as resealable bags, resealable plastic tubs for frozen vegetables and microwaveable bowls and plates, all add to the convenience and freshness of the products.
9. Andrew Salisbury, General Manager of Pinnacle General Foods (Swanson) described the frozen food industry as "a great business to be in". Although growth is slowing, he reported that frozen food remains the third largest category of products on grocery store shelves - and the hottest sellers in the category now are bowls. "Bowls are where it's at, at the moment in Canada. That should be no surprise considering that bowls now make up 10% of the USA market. We're just starting to catch up here in Canada."¹⁷

Opportunities

1. The supermarket chain stores want "one brand" and "one focused marketing program". Going nationally will require a significant investment in advertising as a new entrant will be up against the major players. As well, freezer space is at a premium. It is expected that slotting fees for space will increase. Opportunities exist by establishing a strategic alliance with a regional manufacturer of a brand with a solid reputation. This would be especially effective if one could complement this company's existing branded line of frozen food.
2. The accepted channel of distribution ends at the grocery store. Perhaps an opportunity exists to establish a new link in the channel of distribution. Why not introduce frozen dinners/entrees at drug stores and/or convenience stores? All drug and convenience retailers have refrigeration equipment, so the appropriate electrical power exists. All that is needed is a program that provides freezers.
3. Canadian consumers are on the look out for healthier things to eat and healthier ways to prepare food. One of the latest trends in "eating healthier" is eating fruit and vegetables that have been grown organically. Perhaps a presentation of frozen, organically-grown vegetables might generate some market share.
4. New products and innovations in marketing, conceived in the United States, are traditionally test marketed in the U.S. and then launched nationally. The new product(s) are typically then available only in the U.S. for a period of time before they are marketed in a foreign country. This is done to ensure that all the details are worked out and the product sells reasonable well, or that the innovation will work without a problem.

As a result, it takes three to five years before new products and/or innovations make it to the Canadian marketplace. It is suggested that perhaps, there is no need to wait. Innovations in preparation and packaging that are being test-marketed in the United States can be presented

¹⁷ Article by M.Love; Frozen Foods International, April 2002

to the Canadian market simultaneously. An example is the meals-in-a-plastic-bowl, which has been available in the United States for three years, but just now (2002) available¹⁸ in Canada.

5. The no name/private label frozen food market is huge. To the major chains, private label is purely a price issue. An opportunity exists for a company that can beat the price charged by present contact manufacturers.
6. Thirty-nine of the top 100 new products introduced to the Canadian food market during 2001 were frozen dinners/entrees. A survey of the variety of tastes and flavors that are in the freezers will reveal that many ethnic dishes are not presented. An opportunity might be to market an ethnic taste not presently available.
7. Frozen breakfasts appear to be in the decline stage of their product life cycle. Perhaps frozen breakfasts are on their way out because waffles, pancakes and French toast are all high in calories and fat. There may be an opportunity for a healthy, low calorie, frozen breakfast.
8. Chicken! Canadians prefer chicken. Increase the variety of ways to present chicken.
9. Set up a domain on the Internet. Have a user-friendly web site designed and programmed. With the increase in popularity of wholesale grocery distributors¹⁹ in Canada, it will not be long before grocery items and frozen food will be sold in more significant quantities over the Internet. Focus on quality, price and presentation.

¹⁸ Article by Louise Leger, Cold Comfort in Grocer Today, January/February 2002

¹⁹ Montréal Gazette, October 4,2002, section B, Colabor Plays Hardball with Grocery Giants, by Sheila McGovern

Market Entry Strategy

GENERAL INFORMATION

First time exporters are advised to first consult one of the four non-profit organizations in the United States that exist to help promote the export of food products from specific geographical regions of the United States. Visit the appropriate web site as indicated in the following Table:

Region	Web Site
Northeast	www.foodexportusa.org
Mid-America	www.miatco.org
South	www.susta.org
West	www.wusata.org

Secondly, an exporters should secure the services a broker/distributor.

The Foreign Agricultural Service at the United States Embassy in Canada can also provide assistance in the form of “Canada Connect”, a program designed to match U.S. exporters with Canadian brokers/ distributors/ agents/buyers. Information about this program and other relevant facts can be reviewed on the Internet at: www.usembassycanada.gov (Embassy Ottawa> Embassy Offices> Foreign Agricultural Service> Exporting to Canada> Canada Connect Program).

In addition, the formerly named Canadian Food Brokers Association, now the International division for the Association of Sales and Marketing Companies (ASMC), will provide listings of broker members, as well as assistance distributing your broker needs to its members within Canada. www.asmc.org or telephone 905-477-4644.

Another good source is the Canadian Importers Database, which is available on-line at http://www.strategis.gc.ca/sc_mrkti/cid/engdoc/index.html. This database, which is searchable by HS Code to the ten-digit level, provides the coordinates of the leading Canadian importers by product category.

There is no national Canadian Association for Frozen Food; however, regional organizations exist. The search for a compatible food broker may include a review of these regional associations as well. For the Province of Ontario review the Ontario Frozen and Chilled Food Association (OFCFA) at: www.ofcfa.com. or call (905) 751-1549.

In Quebec, information with reference to regional food brokers can be found by reviewing the web site of the Quebec Frozen Food Association, www.surgele.ca. or call (450) 657 – 8251.

Legal and regulatory requirements

In order to enter the Canadian market U.S. exporters must be armed with information on Canadian standards and regulations. Agents, distributors, brokers, and importers are often the best first line of communication and can lead companies through the regulatory import process.

The best entry method depends on the food product and the sub-sector identified as appropriate for each food product. Each sub-sector is regulated by government and industry import policies and trade acts. Each U.S. export opportunity must be thoroughly investigated relative to the legislation that exists for the product requesting entry.

Since April 1997, all federally-mandated food inspection and quarantine services for domestic and imported foods were consolidated into a single agency called the Canadian Food Inspection Agency (CFIA) (<http://www.inspection.gc.ca>). As a result, food inspection and quarantine services previously provided by Agriculture and Agri-Food Canada, Health Canada, Industry Canada and the Department of Fisheries and Oceans Canada are integrated under the CFIA. The responsibility of food safety policy and risk assessment remain with Health Canada. The following are several acts that food/beverages exporters should be aware. Full texts of Canada's Laws are available at www.justice.gc.ca

- Consumer Packaging and Labeling Act (CPLA)

The CPLA provides for the uniform labeling of consumer packaged goods for sale at the retail level. The Regulations prescribe requirements for bilingual labeling, metric net quantity declarations and for the size and location of mandatory labeling information. Currently these Regulations also prescribe standardized sizes for some consumer products for the following foods: glucose syrup and refined sugar syrup, peanut butter, and wine, but there is an interest among Canadian regulators to bring these products under the CAP Act.

- Food and Drugs Act

The Food and Drugs Act is a consumer protection statute dealing with food, drugs, cosmetics and medical devices. It establishes minimum health and safety requirements, as well as provisions preventing fraud and deception for all food sold in Canada. The Regulations contain food labeling requirements and standards of identity, composition, strength, potency, purity, quality or other properties for several classes of foods. (Health Canada Food and Drugs Act, <http://www.hc-sc.gc.ca>)

- Meat Inspection Act

The Meat Inspection Act and Regulations regulate international and interprovincial trade in meat and meat products. They provide for the registration of establishments involved in the slaughter, processing or packaging of products traded internationally or inter-provincially. Regulations also set standards of construction, operation and maintenance for registered establishments.

Labeling Requirements

General Requirements

The basic packaging and labeling requirements necessary for U.S. agricultural exports to Canada are:

- labels in English and French,
- net quantities in metric,
- list of ingredients,
- durable life date (if shelf life 90 days or less),
- common name of product,
- company name and address,
- minimum type size specifications,
- conformity to standardized package sizes stipulated in the regulations, and
- country of origin labeling.

Although the Universal Product Code (U.P.C.) or bar code is not required or administered by government, virtually all retailers require products to be labelled with a U.P.C.

Guide to Food Labeling and Advertising

The Canadian Food Inspection Agency has prepared a Guide to Food Labeling and Advertising which details the regulatory requirements for selling packaged foods in Canada. The CFIA Guide includes information on:

Basic Labeling Requirements

Advertising Requirements

Claims as to the Composition, Quality, Quantity and Origin of Foods

Nutrition Labeling

Nutrient Content Claims

Health-Related Claims

Other Product Specific Requirements

The full guide is available on the CFIA website at:

<http://www.inspection.gc.ca/english/bureau/labeti/guide/guidee.shtml>

Label Review

The Canadian Food Inspection Agency consolidates federal food label review under its "Single Access Food Labeling Service". The labeling service, designed particularly for new entrants in the marketplace who are not familiar with the Canadian regulatory system, is provided at specified regional locations across Canada (see page 18). These offices coordinate the requirements of the aforementioned federal departments to simplify product approval and label compliance. It is recommended that U.S. exporters submit their labels to the regional office closest to the targeted marketing area. A complete list of the labeling service offices is found in Appendix E.

The CFIA will provide advice on the labeling requirements of all the acts that the agency administers. If U.S. exporters provide sufficient information with their submissions, a complete label assessment can be accomplished in about two weeks.

Nutrition Labeling

Nutrition labeling on packaged foods sold in Canada is voluntary but regulations to make nutrition labeling mandatory are expected to be promulgated in late 2002 or early 2003. Currently, U.S. and Canadian nutrition recommendations differ, and the nutrition information and format approved for food packages in the U.S. market is not permitted on food labels in Canada. Canada's Department of Health and Welfare Canada has issued guidelines for manufacturers who choose to display nutrition information on their labeled food products marketed in Canada. The minimum information necessary to constitute nutrition labeling is the heading "Nutrition Information", the serving size, and the "core list" of nutrients. The "core list" is comprised of energy value in calories and kilojoules, and the contents of protein, fat and carbohydrate in grams per serving. Inquiries and requests for copies of the guidelines for nutrition labeling should be directed to:

Nutrition Evaluation Division
Bureau of Nutritional Sciences, Food Directorate
Health Protection Branch, Health Canada
Banting Bldg., P.L. 2203A, Tunney's Pasture
Ottawa, Ontario, Canada K1A 0L2
Telephone: (613) 957-0352
Facsimile: (613) 952-7767

Web Site: <http://www.hc-sc.gc.ca/hppb/nutrition/labels/index.html>

Packaging and Container Regulations

Canadian regulations governing package sizes for fruits and vegetables, processed horticultural products and processed meats stipulate standardized package sizes which can differ from U.S. sizes. For detailed information see Section VI.

Although the Universal Product Code (U.P.C.) or bar code is not required or administered by government, virtually all retailers require products to be labelled with a U.P.C.

APPENDIX**Categories Included In A.C. Nielsen's Frozen Food Report**

Dinners & entrees	Meat patties & steakettes
Seafood	Meat pies
Fish & Chips	Coffee creamers
Pizza, French bread & subs	Fruit
Breakfast entrees	Bread dough
Waffles, pancakes, French toast	Pie shells
Fruit beverages including iced tea	Tart shells
Ice cream	Patty shells
Yogurt	Dough products remaining
Confections	Vegetables
Potatoes including French Fries	Meat substitutes
Baked desserts	Egg & spring rolls
Toppings	Meat not otherwise mentioned
Sausages	

Vegetables- Frozen/Canned/Fresh

Per Capita Consumption of Vegetables by Category
Canada and United States
Values Presented in Kilograms

	1997	1998	1999	2000	2001
Frozen					
Canada	8.23	7.82	7.74	7.64	7.51
United States	8.98	9.07	9.12	8.94	8.86
Canned					
Canada	28.68	28.68	29.09	28.79	28.73
United States	44.72	44.86	43.59	43.57	43.18
Fresh					
Canada	138.24	139.64	140.84	139.36	138.97
United States	122.24	121.34	125.19	124.72	125.50

Retail Food Stores in Canada

Canadian Council of Grocery Distributors and Foodservice Member Companies

1. A. de la Chevrotière Ltée operates in northwestern Québec and northeastern Ontario under the retail outlet names Grocery Depot, Dépanneur Gem and Delicana Nord-Ouest Inc.
2. Alexandre Gaudet Ltée
3. Billingsgate Fish Co. Ltd.
4. Bridge Brand Food Services Ltd.
5. Canada Safeway Limited operates all Safeway retail stores in Canada.
6. Colabor Inc. owns and operates Visez Juste, Point d'Aide, Ultra Dépanneur, Sermax and Marché Éclair.
7. Coleman Management Service services the province of Newfoundland. Coleman is an independently-operated, family run business consisting of 11 grocery stores, all operated as Colemans Food Centres.
8. Co-op Atlantic is a very diverse and innovative agri-food business serving 136 member co-ops throughout Atlantic Canada and the Magdalen Islands. It had consolidated sales in 2001 in excess of \$500 million.
9. Federated Co-Operatives Limited (FCL) provides central wholesaling, manufacturing and administrative services to approximately 300 locally owned retail co-operatives across Western Canada and North Western Ontario. The company has an association with The Grocery People Ltd.
10. Flanagan Foodservice Inc. is a broad line distributor supplying food and related products to the foodservice, bakery and retail markets within Ontario. The company operates from 3 branches located in Kitchener, Owen Sound and Sudbury.
11. GFS Canada
12. H.Y. Louie Co. Limited operates IGA (B.C.) and MarketPlace IGA (B.C.)
13. Jean-Paul Beaudry Ltée
14. Grossiste Inc. operates in Montréal and the regions of Hull, Gatineau, les Laurentides-Lanaudière and on the South Shore of The St.Lawrence River. The company owns and operates Beau-soir, Du Quartier and Bonus Lanzarotta Wholesale Grocers.

15. Metro inc. operates in Québec and Ontario. The chain employs 26,000 people in a total of 1,300 stores. The company operates under the grocery store names Metro, Loeb, Super C, Richelieu, Les 5 Saison, Marché Ami, Dépanneur, Extra Service, Brunet and Clini Plus Service. As well, Metro Inc. has an association with McMahon distributeur pharmaceutique Inc.

16. Loblaw Companies Ltd. operates across Canada under the following names:

Atlantic Wholesalers Ltd.	Freshmart	Loblaws
Atlantic Grocer	No Frills	Maxi, Maxi & Cie
Atlantic Save-Easy	Provigo Inc.	Extra Foods
Atlantic Superstore	Axep	Presto Westfair Foods
Atlantic Supervalu	Valu-Mart	L'Intermarché
Dominion (maritimes)	Supercentre	Groupe Distribution
Atlantic Wholesalers Lewisporte Division Ltd.	National Grocers Consolidated Ltd.	Real Canadian Wholesale Your Independent Grocer
Fortino's Supermarket	Real Canadian Superstore	National Grocers
Zehrs Markets		

17. Neate Roller Ltd.

18. Overwaita Food Group is a western Canada based, privately owned company, known for innovative retail offerings. The company owns and operates under the following store names Save-On-Foods, Overwaita Foods, Urban Fare, Cooper's Foods and PriceSmart Foods

19. Sobeys Inc., headquartered in Stellarton, Nova Scotia, is Canada's second largest retail grocer and distributor. The Company operates over 1,300 corporate and franchise stores in all 10 provinces under a range of retail banners. These banners are: Sobeys, IGA/IGA Garden Market, Price Chopper, Foodland, Foodtown, Les Marchés Tradition, Boni Choix, Ketchel, Lofood Stores, Lawton Drugs, Needs & Green Gables, Price Check Foods, Lumsden Brothers Limited, T.R.A. Maritimes Ltd., and T.R.A. Newfoundland

20. Sysco²⁰ Corporation has associations with I & S Foodservices, Inc., Pacific Allied, Pacific Nanaimo, SYSCO HRI Supply, North Douglas SYSCO Food Services, Pacific Produce, SYSCO/Konings Wholesale, SYSCO Food Services of Ontario, and SYSCO SERCA Foodservice Inc.

21. Summit Food Distributors

22. The Great Atlantic & Pacific Company of Canada, Limited is A & P, Dominion, Food Basics, Ultra Food & Drug and The Barn

23. The Kitchen Table

24. Thrifty Foods is only in B.C. Thrifty Foods has a warehouse and commissary in Saanichton (just outside Victoria), 17 stores throughout Vancouver Island, Salt Spring Island and Tsawwassen.

25. Tibbett & Britten Group N.A. Inc.

²⁰ US owned

26. Wallace & Carey Inc.

Web Sites and Primary Data Contacts

www.agr.gc.ca/food/index_e.html	www.affi.com
www.acnielsen.ca/sect_studentcor/	www.surgele.ca
www.foodnet.fic.ca	www.qffa.ca
www.foodincanada.net	www.aiasq.ca
www.preparedfoods.com	www.ccgd.ca
www.just-food.com	www.cdnagroceing.com
www.gdsourcing.com	207.236.161.226
www.cdngrocer.com	www.kellogs.com
Www.asmc.org	www.ofcfa.com
http://sympatico.yellowpages.ca	www.quickfrozenfoods.com

Company	Name	Title/Position	Telephone #
Agriculture & Agri-Food Canada; Market & Ind.Services Branch	1. Earl New 2. Warren Gould	Consultants - Food Bureau	1. 613-759-7511 2. 613-759-7515
McCain Foods	Francois Verreault	Sales manager - QC	514- 352-6506
Highliner Foods	Peggy Boutilier	Assistant to Director	902-634-8811
Pieral - Food Broker	Alain Hamel	President	450- 655-1211
Association of Sales & Marketing Companies	Keith Bray	President	905-477-4644
Frozen Food Assoc. of Québec	Martine Gauthier	Service aux. Membr	450- 657-8251
Ontario Frozen & Chilled Food Asso.	Mike Myers	Promotions Liaison	905-751-1549
A.C. Nielsen	Gord Killops	Rep - Ontario	905-475-3344
A.C. Nielsen	Phillip Laporta	Rep - Quebec	514-333-1416
General Mills Canada		Customer Service	800-767-5350
Canadian Grocer	Libby Masters	Online Content Manager	Emasters@rmpublishing.com
Frozen Food Age	Denise Singsime	Customer Service	800-547-7377

Find Us on the World Wide Web:

Visit FAS home page at <http://www.fas.usda.gov> for a complete listing of FAS' worldwide agricultural reporting. To access these reports, or the food industry reports listed below, click on "Commodities", then "Market Reports" and then "Attache Reports". If you have the report number search Option 3, by inserting the AGR # in the appropriate field..

Related FAS/Ottawa reports:

AGR#	Title of Report	Date
CA9142	Western Canada Retail Study	12/23/99
CA0001	Eastern Canada Retail Study	01/05/99
CA0135	Private Label Grocery Opportunities	09/11/00
CA1054	SIAL Montreal 2001 Evaluation	04/02/01
CA2001	Organic Food Industry Report	01/04/02
CA2002	Convenience & Non-Traditional Grocery Outlets Report	01/04/02
CA2048	Kosher Foods Market	09/20/02
CA2078	Canadian Seafood Industry	07/10/02
CA2099	Food and Beverage Shows	08/19/02
CA2114	Canadian Food Brokers	09/30/02

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