



Horticulture Value Chain Roundtable Benchmarking Study for Canadian Apples

Executive Summary

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Horticulture and Cross Sectoral Division

Prepared by: Martin Gooch, Kate Stiefelmeyer, Nicole Marenick and
Greg Borovilos
Value Chain Management Centre
George Morris Centre
Guelph, ON
Contact email: martin@georgemorris.org

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Executive Summary

The purpose of this project was to benchmark the performance of the Canadian fresh market apple industry in both the domestic market and the export markets in which it competes, and make recommendations on how to increase the Canadian apple industry's competitiveness.

The specific objectives were to:

1. Describe the current apple market share situation: Canada's domestic market share and the primary exporters of apples to Canada, and Canada's exports to the US and other countries;
2. Measure the relative performance of the Canadian apple industry in the domestic market;
3. Measure the relative performance of the Canadian apple industry in its export markets;
4. Identify the primary causes of differences in the comparative performance; and
5. Provide recommendations to both the industry and government that will improve Canada's competitive position in both markets.

To complete the objectives, existing data and studies of industry market trends were reviewed, as well as extensive consultations with Canadian apple industry customers both in the domestic market and export markets were undertaken. This was achieved by conducting a literature review that examined the most recent Canadian, US and UK import, export and consumption data. This was supplemented by interviews held between April and June 2012 with key retailers, packers and wholesalers operating in Canada, the US and the UK.

The primary purpose of the interviews conducted with 43 respondents was to compare the performance of the Canadian apple industry in the domestic and export markets and measure it objectively against that of competing nations, specifically Chile, China, New Zealand, South Africa, the US (West), and the US (East). It also sought to identify the primary causes of distinct differences in the nations/regions competitiveness.

The headline findings included:

Apple Industry Market Share

By volume, Canada's share of the domestic market declined sharply at the beginning of the last decade and again in the last few years to reach approximately 65%. Since 2000, the US has nearly doubled their share of the Canadian market to just over 28% in 2011. Chile has also grown its market share, at the expense of South Africa and New Zealand. Canada does not compete directly with Chile due to the time of year Chilean imports come into Canada, but the industry does compete directly with the US, and more specifically Washington State.

Canada's apple export markets have declined significantly over the last decade and represent <1% of the US and UK market share.

Performance

To better understand the perceptions of Canadian, UK and US retailers towards the competitiveness of Canada's apple industry versus that of the US (East and West), Chilean, NZ, South African and Chinese apple industries, and the factors determining their view of the Canadian industry, a 'Voice of the Customer Matrix' was developed. Voice of the Customer matrixes are widely used in process improvement work. It enables practitioners to compare competing suppliers' performance in relation to customer expectations.

The information used to build the Voice of the Customer Matrix, shown below is taken from retailers' responses to Questions 13 of the survey (see Appendix A). Retailers ranked those countries from whom they currently source (or have sourced) apples. The 'Importance' column in the Matrix presents the average importance that retailers apportioned to specific capabilities or services. The next column presents retailers' average satisfaction with suppliers' performance in relation to each of the capabilities or services provided, across all six countries (and the two regions of the US). The Country columns present retailers' weighted satisfaction with specific countries' or regions' performance in relation to the same capabilities or services. This was calculated by multiplying the importance of each capability or service by the average score awarded by retailers to each individual nation's performance, divided by the overall average score.

Voice of Customer Matrix

Factor Researched	Importance*	Average Performance (Across All Countries)*	Chile	China	Canada	New Zealand	South Africa	US (West)	US (East)
Order replenishment	9.8	7.8							
Taste	9.7	7.7							
Overall quality	9.7	7.6							
Volume	9.4	7.5							
Dependability of supply	9.3	7.9							
Order fulfillment	9.1	7.7							
Size / consistency of	9.1	7.5							
Price / pricing policies	8.9	7.3							
Varieties	8.7	6.3							
Packaging format	8.5	7.1							
Internal support	8.4	5.9							
Innovativeness	8.3	5.6							
Colour / consistency of	8.0	7.4							
Marketing support (\$)	7.1	5.8							
Merchandizing support	7.0	5.3							
Category management	6.6	4.5							

Legend	
	Excellent
	Good
	Average
	Poor
	* out of 10

While there are distinct differences in the performance of the Canadian industry versus competing suppliers in relation to specific capabilities or services, the overall performance of the Canadian industry is deemed as being reasonably close to that of South Africa and ahead of every other competitor with the exception of the US West (Washington). It is primarily this difference in the comparative performance of Washington's versus Canada's apple industry (and the determining factors that result in these differences) that is impacting the international competitiveness of the Canadian apple industry.

As shown in the Matrix above, the business factors in which the Canadian industry falls short are those in which some of the future trends are most critical, for example, innovativeness and varieties. Respondents agreed that varietal development and production techniques are the key areas of innovation on which the future of a nation's apple industry depends. Canada is improving in this area but still lags behind New Zealand and Washington, because the Canadian apple industry relies too heavily on government to take the lead on breeding, production and marketing related initiatives. This difference in the extent to which commercial businesses strategically involve themselves in the innovation process reflects the cultural differences found to exist between the apple industries of Canada, New Zealand, Washington and South Africa,.

In terms of strictly varieties, Honeycrisp is perceived to have broken Canada out of its mold of producing commodities. New Zealand is consistently ahead of others in variety development and experimentation, whereas Washington is more proactive in varietal research because its sheer volume allows it room to accomplish that. If the Canadian industry is to move towards the production of more club varieties, as recommended by many respondents, the category management skills of Canadian suppliers will become more important to retailers. This is clearly an area of expertise in which Canada lags behind Washington.

Varieties demanded will be based on what consumers want in terms of size, colour and taste. One of Canada's strengths is its flavour profile, but the industry lacks consistency in delivering the size and colour that consumers and retailers are seeking.

Respondents were very open as to their opinions on why Canada differs from its competitors based on the business factors described above. Most responses can be captured in six primary categories:

1. Impact of economies of scale on management capabilities
2. More vertical integration and collaboration elsewhere
3. Canada lags in investment / innovation
4. No organization looks at the entire industry, or is responsible for the entire industry
5. The extent to which the business culture does not reflect an ardent commercial mindset
6. Canada's apple industry lacks a compelling value proposition

All of the differences above fit into one larger issue: the Canadian industry needs to focus more ardently on the commercial aspects of business.

The majority of respondents believe that the Canadian apple industry suffers from retaining a producer-oriented philosophy. The industry clearly has strengths, though these strengths are not being used to

their full advantage. Factors such as climate and land values impact its options and costs of production, though focusing on subjective social issues has lessened the industry's competitiveness. An example of why this limits the competitiveness of Canada's apple industry is contained in a comment made by a Canadian retailer. Canadian suppliers are *"less innovative in terms of varieties grown, packing methods and marketing approaches than Washington, NZ and Chile"*. This is common in numerous statements made about the primary differences between many Canadian apple operations versus the larger, vertically integrated operations against which they compete, and how it impacts the industry's ability to adapt to emerging trends.

In short, many of the challenges faced by the Canadian apple industry are self-imposed. Leaders clearly exist within the industry. However, the inertia that emanates from an industry whose culture reflects a less commercial and more producer-centric mindset than its primary competitors was stated by many respondents as being the key determinant that is preventing industry from fully utilizing the strengths and capabilities that it possesses.

Recommendations

Based on the research findings, the report presents five recommendations to industry and government, for how to increase the long-term competitiveness and profitability of the Canadian apple industry:

1. Focus on the domestic market ahead of exports
2. Establish a national market and industry development body
3. Invest in production and packing efficiencies/effectiveness
4. Ensure the adequate collection and sharing of market information
5. Learn from other jurisdictions