Canadian Food and Beverage Industry

2022 Outlook

Report highlights

- Following a record year in 2021, the food and beverage (F&B) industry should continue to grow despite rising challenges.
- Labour scarcity and inflationary pressures will be major issues for most entrepreneurs.
- Commodity prices will remain high as a result of global supply chain disruptions and sustained demand.
- Strong consumer spending supported by high savings from 2021 are expected to support food spending growth amid inflation.

39%

rise in **input prices** in the last two years is putting pressure on margins.

78%

of manufacturers **struggle to hire**, a trend that will last for another decade.

Only 1 in 4

F&B manufacturers have a **high level of automation**, highlighting the huge potential to increase efficiency.

41%

of consumers are making changes to live healthier. **Premium pricing for healthy food** represents a huge market opportunity.

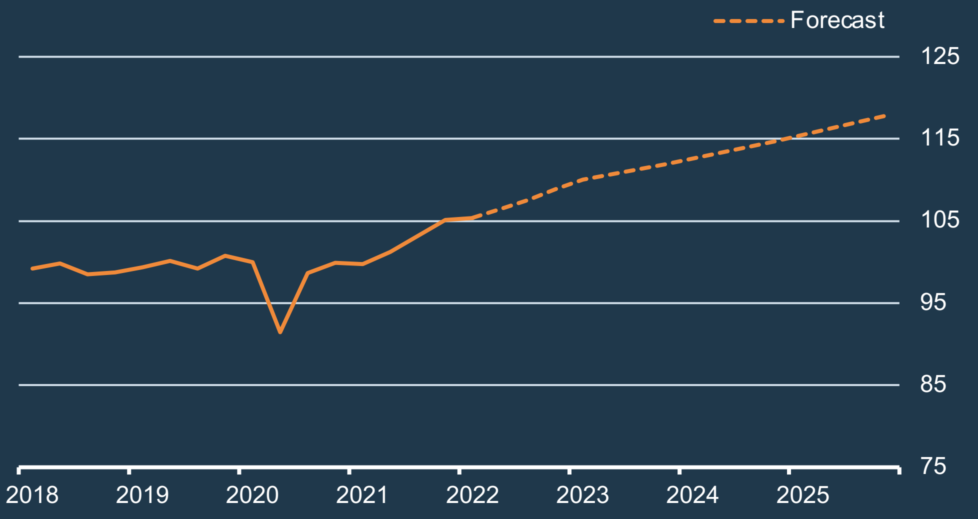
What is the outlook for the F&B industry?

The F&B industry is expected to grow by 11.6% by the end of 2025

Stimulated by the reopening of restaurants, the F&B industry saw a strong 5% growth in 2021. We forecast strong growth for F&B manufacturers over the coming year, with premium pricing and health consciousness continuing to drive the market, while rising inflation will erode consumer purchasing power. The industry is expected to experience an overall growth of 4.1% in 2022. Over the medium-term, growth will stabilize at around 2.5% a year.

Figure 1

F&B manufacturing output, Quarterly, Canada, Index January 2020 =100



Source: BDC Economic Research

The food and beverage industry

Food and beverage manufacturers transform inputs into value-added food and beverage products, which are then distributed to food retailers, restaurants and consumers.

Why it matters

Agri-food processing is the second largest manufacturing industry in Canada, accounting for 17% of total manufacturing sales.[1] An essential part of the Canadian food supply chain, manufacturers purchase about 40% of Canadian agricultural production and sell over 70% of their output to Canadian retailers and restaurants. The industry still has strong growth potential. With the world's population projected to rise to 10 billion by 2050, there are huge opportunities for our manufacturers to supply the growing global demand for food.

Industry at a glance

2021 was a period of intense growth for the F&B industry; sales increased by 14.8%, compared to 2020, outperforming the manufacturing sector as a whole.[2]

The pandemic has proven that manufacturers can adapt to abrupt shifts in demand from food services to food retail. After peaking at the height of the pandemic, grocery store sales volumes are now normalizing. These lower volumes should be counterbalanced by increased sales to restaurants, as well as higher prices.

$144 billion

in sales for F&B manufacturers in 2021, a 14.8% increase from 2020.

8,132

F&B manufacturers in 2021, an increase of 288 since 2019, mainly in the other food and alcoholic beverages segments.

Meat and dairy are the two largest segments of the market, jointly representing 26% of the F&B industry. This is followed by bakeries and tortilla manufacturing, representing 11% of the sector.

19%

increase in exports in 2021, compared to 2019.

Exports of processed F&B products represent a third of the industry's output, while the rest is bought by Canadian businesses and consumers. The segments having the biggest increase in exportation are fruits and vegetables (53%), meat (26%) and seafood (29%).

Source: Statistics Canada

4 economic trends to watch

- Rising costs
- Labour shortages
- Automation and new technologies
- Evolving consumer preferences

Rising costs

No relief from rising input costs

Higher commodity prices, supply-chain challenges and the invasion of Ukraine all continue to feed into the inflationary pressures that have taken hold since the start of 2021. These pressures affect raw material, production, energy, labour, and distribution costs throughout the entire supply chain.

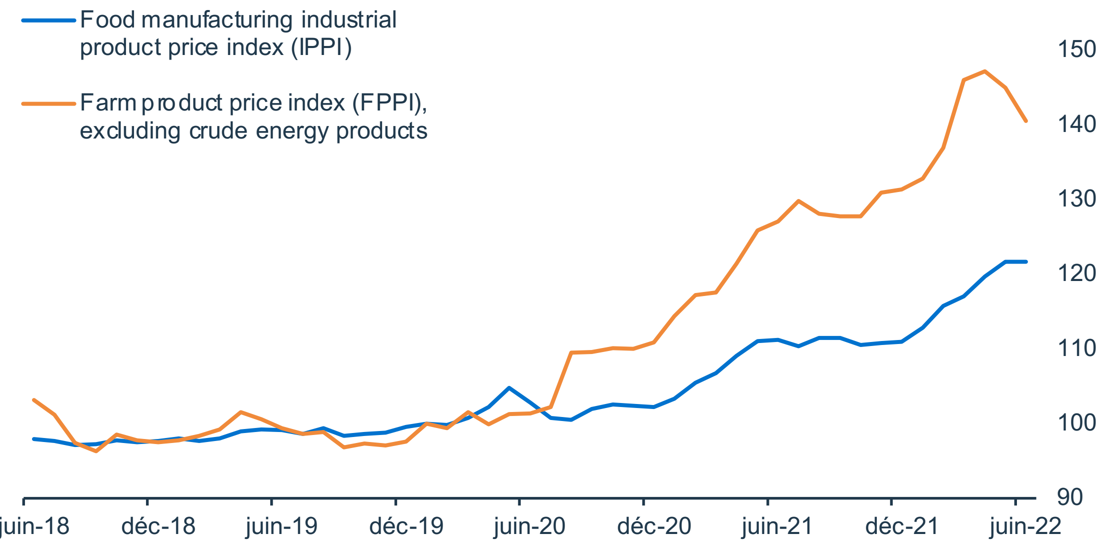
The F&B industry's main input costs are for raw materials, such as ingredients, and cardboard and plastic used for packaging. Shipping bottlenecks and rising gas prices have also raised prices for producers. 57% of manufacturing SMEs reported difficulties coping with inflation.[3]

F&B input costs have increased 38.6% since 2019, compared to an 18.3% rise in selling price

Figure 2

Rise in Canadian food manufacturing and farm product prices, June 2018 – June 2022

Canada, Index January 2020 =100



Source: Statistics Canada

Rising costs

Margins are being squeezed

78%

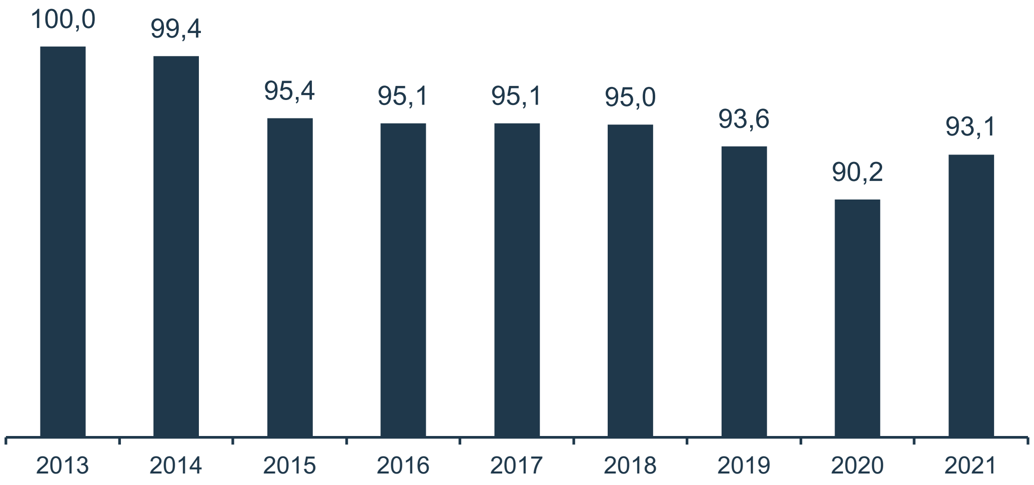
of manufacturers who struggle with inflation reported reduced profits or revenues[4]

In the long run, there is some risk that the selling price will not be high enough to outpace farmgate and grocers' fees, which could have a negative impact on manufacturers' margins. Producers have been successful in passing part of their higher costs on to grocery stores in 2021, slightly improving margins. Yet, margins remain below historical levels.

Figure 3

Canadian F&B manufacturers' gross margin index, 2013-2021

Gross margin, Canada, Index 2013=100



Sources: Statistics Canada; FCC Economics

Grocers' fees

Food manufacturers are dealing with a concentrated retail market in Canada, where five major retailers control approximatively 60% of the market. Manufacturers are regularly asked to pay charges and fees to do business with the biggest grocery chains. Last year, Walmart, Metro and Loblaws introduced new fees to help cover investments in infrastructure and online grocery shopping. An escalation of these fees could threaten the margins and profits of food manufacturers.

How to navigate rising costs

Inflation is nothing new, and farm product prices will continue to rise in Canada over the next decade.

Businesses can adopt one or more of the following strategies to help deal with these challenges.

Control costs

Monitor your costs for ingredients, packaging, shipping and labour in detail and in real-time. This can help determine whether a price adjustment is required to maintain profitability.

Adjust prices

Be upfront with customers about the reasons you are increasing prices. Also consider downsizing or reducing the weight of products to avoid changing your prices.

Be selective

Discontinue products that are barely, or not, profitable. Invest in high value-added products.

Use substitutes

Seek out substitutes (without sacrificing quality) and new suppliers with whom you can negotiate fairly.

Focus on marketing

Assess marketing and promotion expenses and only keep the most effective ones. Build loyalty with existing customers to sell more to them.

Look for efficiencies

Review your processes to reduce waste and improve output. Then, consider productivity-enhancing automation or upgrades to your technology and equipment.

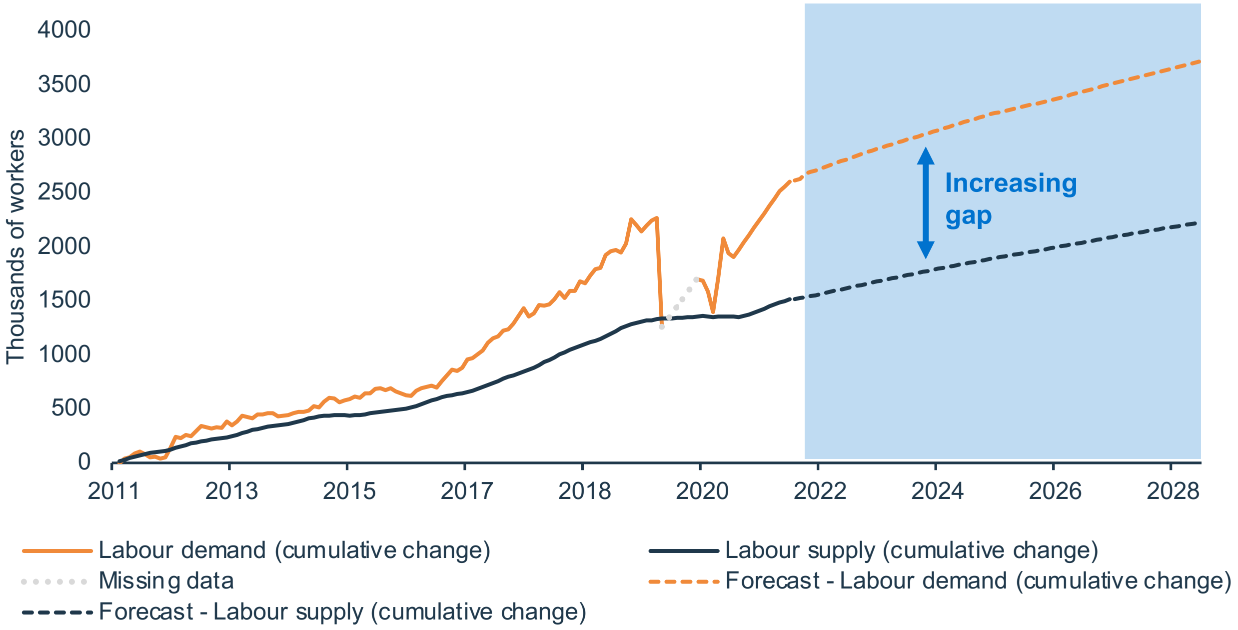
No workers to be found

Labour shortage issues are not a new phenomenon in Canada. Yet, over the last two years, the issue has amplified thanks to a limited pool of available workers and a highly competitive recruitment environment.

The aging population and the accompanying decrease in labour force participation–these are issues that are central to the problem. As such, labour shortages will last well into the next decade.

Figure 4

Cumulative increase in labour demand and supply since 2011, Canada, in thousands of workers



Note: Labour demand includes employed workers and open vacancies. Labour supply is the total working population aged 15 to 65 years old.
Sources: Statistics Canada's Labour Force Survey and Job Vacancy and Wage Survey; Employment and Social Development Canada's Canadian Occupational Projection System (COPS) projections (2019 to 2028); BDC calculations

Labour shortages

78% of manufacturers struggle to hire[5]

More workers were employed in food manufacturing at the start of 2022 than at the outset of the COVID pandemic. Yet, businesses are still looking to hire more to meet demand. As a result, unfilled orders are trending up 41% in 2021, compared to 2020.[6]

There were 15,110 vacant positions in F&B manufacturing at the beginning of 2022.[7] This means that 6% of all jobs in the industry were unfilled, a 3.4% increase, compared to before the pandemic.

Figure 5

Percentage of manufacturers reporting hiring difficulties

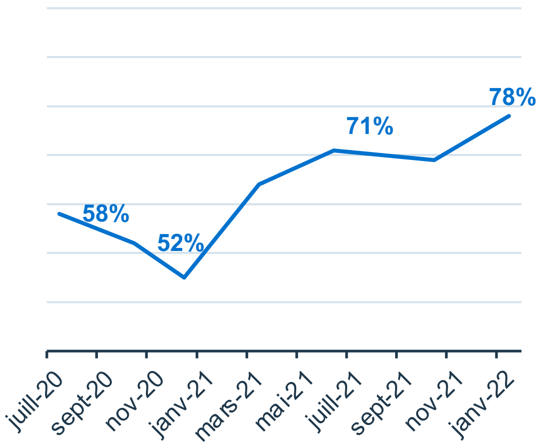
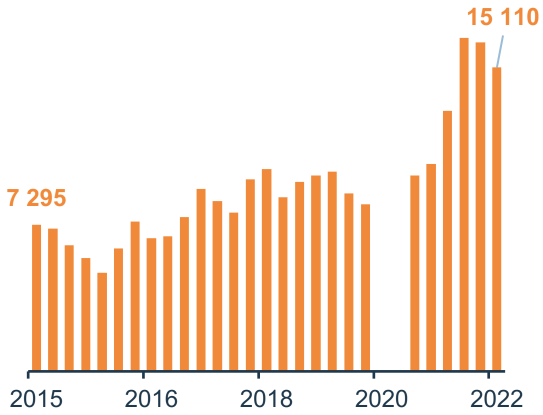


Figure 6

Job vacancies in F&B manufacturing, Canada



Sources: BDC, Investment and Financing Outlook Survey; Statistics Canada
Note: Data is missing for 2020 Q2 and 2020 Q3

Why is it difficult for F&B manufacturers to hire workers?

54%

reported a **lack of qualified applicants**.

49%

reported **wage expectations** that are **too high**.

48%

reported that applicants **lack proper training or certification**.

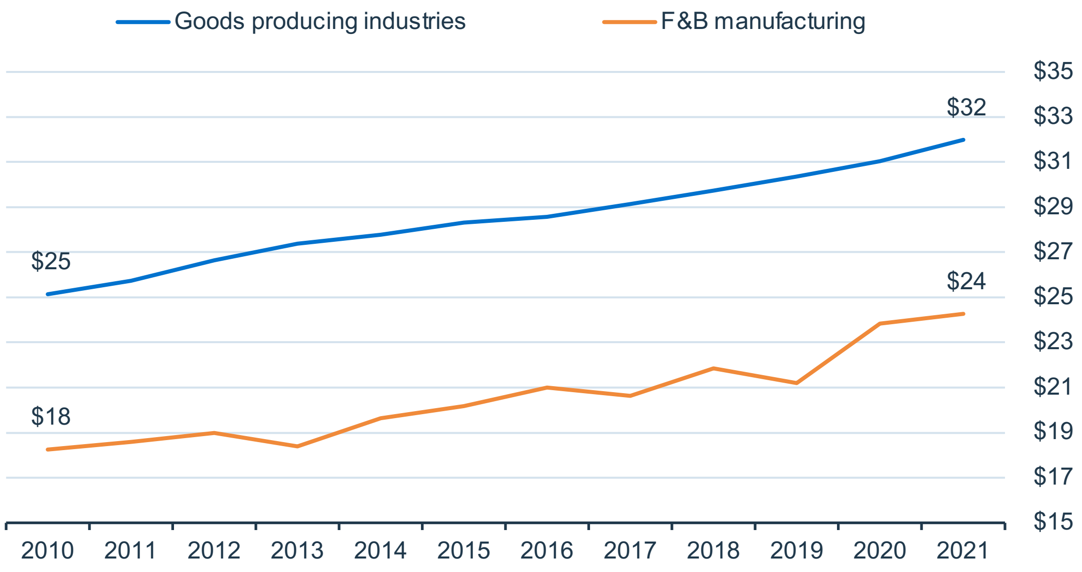
Source: FPSC, 2020 Labour Market Information Survey

Wages will continue to rise due to tight labour market

Wages in F&B manufacturing have increased 14% since the beginning of the pandemic.[8] With the sustained demand for workers, wages are expected to continue increasing.

Figure 7

Average hourly earnings for employees paid by the hour, Canada



Source: Statistics Canada

How to attract workers

Wages and bonuses are a good place to start. But they aren't enough to attract and retain workers.

→ Download our free guide to help hire and retain workers

Be conscious of your company's public image

Recruiting employees is like running a marketing campaign. Just like efforts to attract customers, personalization and catchy communications can reel in the right talent.

Put your mission and values to work

Purpose is also crucial for companies wanting to attract and maintain staff. Make sure you have a purposeful mission that can attract diverse candidates.

Attract a more diverse workforce

Consider reaching out to people from underemployed groups, such as Indigenous, differently abled, and retired people. Local business associations and networks can often help you target diverse communities.

Offer flexibility

Flexible schedules reduce employee stress by promoting work-life balance, allowing them to meet family and personal obligations.

Invest in automation

Automate repetitive tasks and use your workers for value-added tasks.

Build strong HR policies

Create effective job postings, put in place an employee manual and implement an anti-harassment policy.

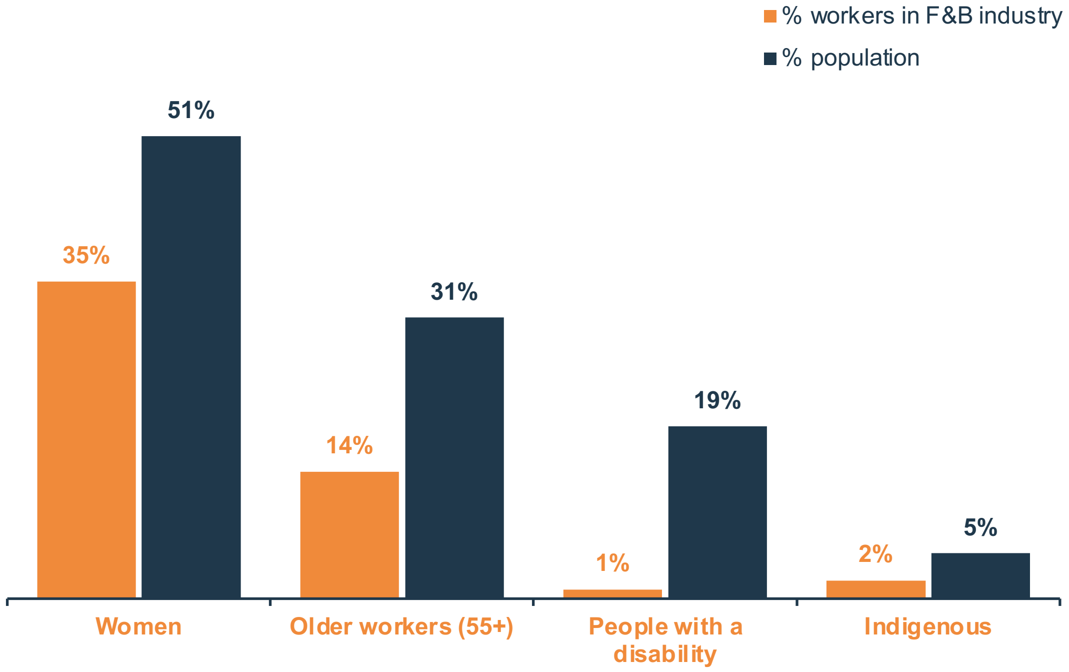
The future depends on better integration of diverse workers

Older workers and immigrants could be better integrated and offered more opportunities in the workforce. Offering workplace flexibility and phased retirement would incentivize the participation of older workers, for example.

Businesses that understand the value of diversity will widen their potential talent pool.

Figure 8

Share of workers in the F&B industry versus the general population



Sources: Statistics Canada, FPSC, 2020 Labour Market Information Survey

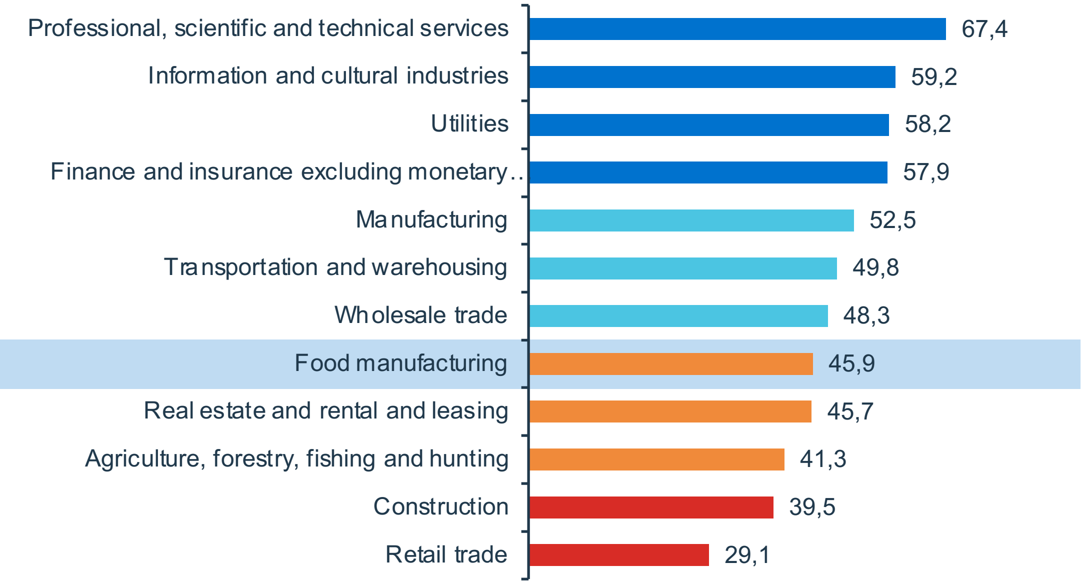
The F&B industry is under-digitized

Automation has become an impetus for firms seeking out efficiency gains amid labour scarcity and increased costs.

The food industry has lagged behind other sectors in terms of automating production and adopting new technologies. With just 46% of Canadian food processors investing in advanced or emerging technology in 2019,[9] the sector could be classified as being "under-digitized", compared to the professional services, ICT and finance sectors, for example.

Figure 9

Use of advanced and/or emerging technology, Canada, 2019



Source: Statistics Canada

Automation: It's all about performance

Automation has many advantages:
- → Increased production
- → Standardized quality control
- → Improved work safety
- → Reduced waste and energy use
- → Higher-value roles for staff
- → Enhanced traceability

Moreover, automation can attract workers. Indeed, across all age groups, nearly half (45%) of workers reported that working in a more modern and digital environment motivates them to change employers.[10]

What are the benefits of automation for manufacturers?

77% reported it is increasing **productivity**.

68% reported that they can use workers for **value-added tasks**.

48% reported it can help them **save costs**.

48% reported better **customer satisfaction**.

Why aren't manufacturers investing in automation?

77% said it is because of the **cost of automation**.

68% said it is because they **lack resources** (time, experience, skills, etc.).

Source: BDC, Automation Survey, February 2022

4 steps to get started with automation

1

Analyze your needs

Observe your process flow and look for waste, recurring problems or gaps. You're trying to identify problems, such as bottlenecks, extensive and repetitive efforts and day-to-day activities that take up a lot of time. Talk to your employees and map out your processes. Before shopping for technology solutions, make sure you stay focused by documenting your needs.

2

Eliminate waste

Excess inventory, poor workspace layout or insufficient information are all wastes that are often generated from non-optimized processes or poorly executed tasks. These wastes should be eliminated before you invest in technology. Technology needs optimized conditions to really boost productivity. A good starting point is to use technology to monitor waste itself.

3

Evaluate possible solutions

Make a list of different vendors and technology solutions and rate each one based on how well they meet your needs. Before you commit to a new technology investment, make sure you ask whether you're using all the functionalities of your existing tools. Maximize the use of your current systems before investing in new ones.

4

Use your internal resources

Armed with research, speak to your team members about your plans for change. Ask them for feedback, then identify any employees who are interested in technology and who can help you adopt it. The change will be smoother if you encourage your team to participate.

Premium pricing of health and ethics

While many consumers are looking for low-priced foods, a growing number of people are looking for premium and specialty food items. Health and wellness, as well as environmental concerns, are driving and will continue to drive much of the growth in the Canadian food market.

Consumers are increasingly interested in the origin of their food, the ingredients it contains and excludes, and how animals are fed and treated. For manufacturers, the opportunity lies in the fact that consumers are increasingly willing to pay premium prices for products that meet their needs.

2 in 3

consumers are more interested in how the food they consume affects their overall **health and immunity**.[11]

67%

of Canadians are **making changes** to live healthier.[12]

71%

of Canadians want to understand **where their food comes from**.[13]

What do consumers want to buy?

Healthier foods are top of mind for consumers, including natural, organic, vegetarian and vegan products, plant-based proteins and meat alternatives, and dairy-, lactose-, and gluten-free products. These are the products that are top of list for households:[14]

- ➜ **locally sourced (43%)**
- ➜ **natural or organic (31%)**
- ➜ **have recognizable ingredients (33%)**
- ➜ **offer sugar-reduced versions (35%)**

Evolving consumer preferences

Canadians are shifting their food spending

Spending on fresh vegetables is expected to become the second-largest spending category by 2025, overtaking dairy spending. In 2021, 85% of consumers spent more on fresh produce than they did the previous year.[15]

Growing demand for organic vegetables will be a key driver of growth. Currently, 78% of total organic food purchased is fruits and vegetables, with 66% of Canadians purchasing at least some organic food on a weekly basis.[16]

44%

of consumers reported trying to consume **less meat.**[17]

3 in 4

Canadians have increased their consumption of **alternative meats.**[18]

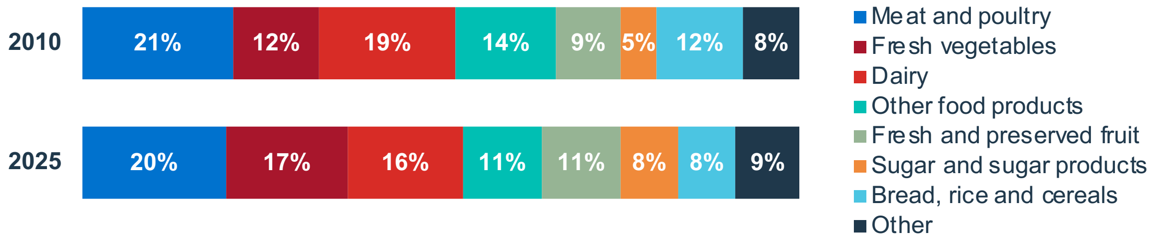
79%

of consumers reported increasing their spending on **plant-based milks.**[19]

Growth in meat products and dairy, two of the largest segments of the market, will be slower than growth in the wider food market. The consumption of red meat and processed meat products is expected to continue declining due to health concerns and households cutting back on expenses. Health-conscious Canadians are opting for alternative meat options, including plant-based protein products, organic meat, poultry and seafood. Slowing spending in dairy is due to a growing consumer interest in milk alternatives. Nonetheless, spending on cheese will continue to grow.

Figure 10

Food spending, breakdown by category, Canada, 2010 and 2025



Sources: Statistics Canada; Fitch Solutions

How to adapt to changing consumer tastes

Changing consumer preferences are expected to challenge many traditional food products, but also to boost demand for innovative new products. This offers great opportunities for industry players who can adapt. Here are some ideas on how to adapt to evolving customer demands.

Stay informed

Gather information about your customers and what they want. And remember: it is not enough to just understand changes in demand; you also need to be innovative enough to anticipate and even drive consumers' needs.

Reinvent the recipe

Invest in reformulating your products to appeal to changing preferences, and to capitalize on the fact that consumers are willing to pay a premium for organic, local and healthy foods.

Be traceable

Build trust by using QR codes to provide traceability to the consumers, with specific details about the origin of the ingredients.

Focus on the trends

Think local and organic; minimal or no packaging; simple and transparent formulations of product ingredients; and functional health benefits.

Sources

[1] Statistics Canada
[2] Statistics Canada
[3] BDC, Productivity survey, June 2022
[4] Ibid.
[5] BDC, Investment and Financing Outlook Survey, January 2022
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[7] Ibid.
[8] Ibid.
[9] Ibid.
[10] Parsable, The State of the Connected Frontline Manufacturing Worker, 2021
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[13] Deloitte, The future of food: a Canadian perspective, 2021. National online survey of adult Canadians conducted in March 2020 and March 2021, averaging approximately 1000 respondents per wave.
[14] Ibid.
[15] Ibid.
[16] Canada Organic Trade Association, Survey carried out in August 2020
[17] Deloitte, The future of food: a Canadian perspective, 2021. National online survey of adult Canadians conducted in March 2020 and March 2021, averaging approximately 1000 respondents per wave.
[18] Ibid
[19] Ibid

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