SMALL SCALE
FOOD PROCESSOR
Association (SSFPA)

Market Scoping Project (MSP)

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Executive Summary

The SSFPA is a new organization aimed at supporting small-scale food processors to increase their economic and social viability. The opportunity to carry out a scan of market forces and issues arose through the Conservation Finance Initiative for Technical Assistance Program (COFiTAP) funding provided by EcoTrust Canada and VanCity Credit Union. To meet the objectives of the scan, a literature review was done to sketch out the global and regional forces influencing the marketplace for small-scale food processors. As well, interviews were held with 47 small-scale food processors from all corners of the province of BC and with 17 organizations involved in marketing processed products. An investigation of models and options for strengthening the small-scale food-processing sector was carried out to provide guideposts for the SSFPA to consider as they build their development strategy.

The following results were consistent from all sources:

- There are many global and regional factors that have influenced major shifts in the Agri-Food industry worldwide.
- Adding value through processing is being seen as an important strategy to mitigate downward pressure on commodity prices and upward pressure on land and labour costs. There is a marked increase in consumer demand for locally grown and processed products with interest in organic production acting as a major driver. Since most specialty foods are imported to BC, the opportunity for import replacement is attractive. New and exotic products are eagerly awaited by affluent consumers. To summarize, the market conditions for people involved in producing and processing Agri-Food products for specialty markets in BC are very attractive.
- To analyze the issues that small-scale processors face in moving into this vibrant market, it became obvious that processors may be classed into at least three categories based upon their Full-Time-Equivalent (FTE) employee complement. **Micro-processors** have 1-2 FTEs and represent farm-based ventures. **Small-scale food processors** with between 3 and 25 FTEs are mainly marketing at commercial volumes from a regulated commercial kitchen, which may be on the farm or owned by processors who are not producers themselves. This study did not consider the issues faced by **large-scale food processors** (over 25 FTE's) although in recent conversations it appears that they face many similar issues in BC.
- Micro-processors face many issues related to the smallness of scale. Marketing strategies are generally informal with the processor acting as their own marketing agent. There is a great deal of this type of activity in BC, with a growing participation rate by producers, but there are no statistical studies. In some ways, this activity functions as part of the informal economy. Small-scale processors who can produce reliably and with the quantity/quality required by independent retailers, face barriers directly related to their size as well. The underlying issue is the high cost of small-scale manufacturing. Once a processor is able to produce product that can be represented by a broker and sold in large retail chains, another level of challenge is reached.
- The potential for micro and small-scale processors to become economically viable can be reached either through a quantum increase in financing available to individual processors, or by finding ways for processors to work together to overcome the issues of scale that plague them. Our study revealed that there is a great deal of activity in many countries where, with government support, producers and processors are organizing themselves into vertically coordinated relationships using one of several different

approaches. These approaches allow individual producers/processors to remain at the micro or small-scale but by working together, through two or more of the steps in the value-chain, they can gain more control of the costs of scale and the costs and skill of entering the market.

This report recommends action for processors, for the Small Scale Food Processor Association (SSFPA), for organizations that are concerned with regional community economic development in the Agri-Food sector, for Community Development Finance organizations and for government.

The vision is put forward of inviting the members of the SSFPA, their supporters and government to work together to create coordinated regional systems linked together at the provincial level in a planned way in order to facilitate 'economies of scale' without losing the benefits of small, local and rooted ventures that are committed to community sustainability.

Introduction

Major changes are happening in the structure of the economy of British Columbia. Many communities are facing radical shifts as traditional resource-based activities are in decline. In a climate of change it is axiomatic that new ideas begin to flourish as people struggle to find new ways to sustain their personal and community life. The emergence of the Small Scale Food Processor Association (SSFPA) parallels the launch of several other Agri-Food and community based organizations that have dedicated themselves to rebuilding their local economies on a more sustainable foundation. This rise of interest is calling on communities and organizations to discover and invent new and innovative strategies that will enshrine small-scale local efforts but do this in such a fashion to ensure living wages and sustainable, flexible capacity to respond to the market. The question in the past has been 'how can we grow big enough to survive and flourish?' The question now is, 'how can we grow smart enough to be able to be able to stay small, economically viable and remain local? This report is underpinned by questions of scale—what is the 'right scale' that will allow local entrepreneurs to meet their economic and social goals? The small-scale food processor must decide if they want to produce commercial volumes of their product to achieve a living wage, or if they want to have a hobby that produces spare change.

> *"Food processing multiplies the value of agricultural products and their impact on the economy. Each dollar invested in farm supplies like seeds, machinery and fertilizer, can result in farm products valued at about twice the investment. After processing, those farm products again double their value when they are translated into food and beverage products. Expanding value-added food processing activities creates jobs and economic opportunity in every region of the country. At the same time, it strengthens Canada's competitive position in world markets."* 1999, Shalanski, Kerren. *Shared-Use Commercial Kitchen Study* . Campbell River Employment Foundations Society. HRDC, Community Futures Development Corp. of Strathcona p9.

The work of the SSFPA is taking place in a climate of increasing market demand for specialty and organic food. This vibrant market is currently being filled mainly by growers and processors from outside British Columbia. The major question that this study seeks to answer is 'How can this market be opened to BC producers and processors?' And 'what do small-scale producers and processors have to do to prepare themselves to meet this market in a strategic way?'

BC has geographical attributes that lend itself well to a comprehensive small-scale approach to Agri-Food-focused community economic development. This challenge is an opportunity as "less that 5% of BC land is arable…interspersed with pockets of exceptionally productive land benefiting from favourable growing conditions for many commodities…[these factors have protected the preponderance of family farms and--] 95% are still family-owned."[1] However, the pressure of land-use competition has raised land prices to the point that family farms are under threat for intensive development. Prices of produce and competitive factors from products grown in other countries have further eroded the economic viability of the small farm holding. There is a critical need for new strategies that can save the family farm and encourage urban agriculture and other Agri-Food strategies. This challenge is being approached by farmers who are experimenting with new crops and products. As well, a huge interest in adding value to farm produce is in evidence. A recent study showed that 67% of the producers contacted were

[1] 2002. Barbolet, Herb. Bringing Food Back Home. August. Shared Vision. P19.

considering a value-added activity to increase their economic viability.[2] However, since small-scale processors face formidable barriers, this may not be an easy answer. Can the value-add strategy become an effective one for ensuring the sustainability of our agricultural heritage? How can adding value through processing be accomplished in the most effective manner?

> *"with our large number of very small farms, we have huge diversity and an opportunity to develop the way Northern Italy or Southern France has…we don't have an infrastructure that supports this movement. We don't have a supportive government, but we do have opportunities to create a localized food system."* Barbolet, Herb. Bringing Food Back Home Shared Vision, August 2002 p 19.

In this atmosphere, intelligence from the market-place can point to opportunities for local producers and processors to 'right scale' their business plans and to enter into new and powerful collaborative arrangements that can collectivize efforts to overcome barriers related to smallness of scale. This report attempts to point to some of these opportunities and to bring forward concepts and models to stimulate discussion for all stakeholders concerned with the health of the Agri-Food sector in BC.

Background to the Market Scoping Project

The Small Scale Food Processor Association is a new organization in the process of organizing to meet a mission of:

- Establishing an industry identity
- Supporting regionally based small-scale food processor systems
- Providing relevant and timely information
- Advocacy for supportive policies
- Creating programs to support development and growth of small-scale food processors.

The organization is basing its action upon a values framework that seeks to enhance community economic development and local sustainability. This values frame has informed the thrust of this study.

- Food safety
- The right to a living wage
- Food security for all
- Regional capacity
- Collaboration and co-operation
- Sector support
- Best nutritional quality possible
- Local community sustainability
- Celebration to mark milestones

Part of the founding strategic plan for the SSFPA is to work towards creating a profile of this emerging industry. This could help define the sector and bring credibility to its proponents. Such knowledge will also point to opportunities for sector-wide development approaches. A critical component of such a profile is to understand the market forces that affect small-scale processors. This report provides a first effort to scope out issues and factors relevant to this market of importance to planners and processors alike.

[2] Shepherd, Colleen. Johanna Stiver, Melanie Banas. Community Promise: A Local Labour Market Study Volume 5: Report on the Agri Food Sector CEDCO Victoria, Government of Canada, HRDC p 31.

Small-scale food processors operate within the Canadian Agri-Food sector. Whereas defining the economic potential for small-scale processors is not possible at this time, the size of the Agri-Food sector is important to the Canadian economy. The assumption underlying this study is that with knowledge and planning, bigger opportunities are possible for the small-scale sector.

The Importance of the Agriculture and Agri-Food Sector to the Canadian Economy

- The Canadian agriculture and Agri-Food system accounted for $100 billion in annual retail and food service sales and 8.3 per cent of the total Canadian Gross Domestic Product in 2000.
- In 2000, Canadian Agri-Food exports accounted for 3.8 percent of world Agri-Food exports, making Canada the world's 3rd largest Agri-Food exporter behind the United States and the European Union.
- Food processing is the largest manufacturing sector in seven provinces (it represents the second largest manufacturing sector in Ontario and the third largest in British Columbia and New Brunswick) and accounts for 10 per cent of the share of total manufacturing shipments in Canada.
- In 2001, the industry contributed $7.4 billion to Canada's trade balance, accounting for 10 per cent of the total Canadian trade surplus. There has been a steady climb in the value of Canada's agricultural exports, from $11 billion a decade ago to a record $26.5 billion in 2001. [3]

A search of BC Stats reveals that very little is known about the small-scale food-processing sector.

It is recommended that further research be carried out building on this scoping report to gain better knowledge about the economic impact of the small-scale food-processing sector, its distribution, its labour force and to document innovations in all aspects of production, manufacturing and marketing.

Purpose of this Scoping Exercise

This document serves to scope out the market from several points of view providing processors with the information they need to improve their capacity and to enhance their strategic approach to reach lively market opportunities.

The new products that processors will have the best success with are those that replace gourmet imported food, and with specialty foods that the large processors do not find economically viable to market in large quantities. The report also provides guidance to the founding board of the SSFPA in the approach they should take in creating an organization that will provide critical assistance to its members as they pursue their business and social goals. Providers of technical assistance and financing to community economic development initiatives will be able to learn how best to offer their services in order to facilitate expansion of this emerging sector.

[3] www.agr.gc.ca/cb/news/2002/n20620be.html backgrounder for news release for the Canadian Agricultural Policy Framework

We should note here that although the SSFPA began as an initiative of small-scale processors in BC, Alberta small-scale food processors have indicated an interest in our association. In conversation with the Alberta Food Processor Association, their feeling was that they could not serve the strategic needs of small-scale processors and wish to work with our association to address this. As a result, some portions of this study have been enlarged to encompass some information and points of view from small-scale food processors beyond BC's borders.

Inquiry Method

The time frame to complete this project was very short due to constraints related to funding, the work needed to be completed in a 3-month period over the summer of 2002, which is a high demand season for growers, processors and markets. These two factors influenced the approach that was taken. These constraints also mean that this project can be understood as pointing out trends rather than providing definitive answers. A reading of the findings, observations and recommendations will need to be done with the caution that this project did not attempt to meet standards for statistical reliability.

Inquiry Activities:

1. A literature review and web search was carried out. An annotated bibliography of all sources is included in *Appendix A Annotated bibliography*. Whereas this review is extensive, it is not exhaustive—time frame considerations and summer holiday season in government offices precluded further effort.
2. Phone interviews were carried out with small -scale food processors. (See processor interview schedule *Appendix B Processor Questions*) It became very clear very quickly that any attempt to carry out any random sampling would fail, as the response rate would be very low due to the time of year issue as mentioned above. In the recent study completed by CEDCO Victoria in the winter season,[4] almost 100% participation was achieved. Because most growers and processors are working 70-hour weeks during the summer, our participation rate was low (9%), although interest in the project was high. As a result of this, it was decided that we would scroll through the various databases at our disposal interviewing everyone willing until a target number of interviews was reached.
3. The databases used included that collected by the SSFPA as part of its development campaign as follows.
    a. A SSFPA database contains 86 contacts.
    b. The Ministry of Agriculture Food and Fisheries combined processor/broker/distributor database with 948 contacts was used.
    c. The contact list for the Growing Circle Food Co-operative on Saltspring Island was offered during the interview processes and was used.
    d. The membership list from the Peace Value-Added Food and Agriculture Association was included.
    e. The Small Potatoes Urban Delivery Program shared contact information of their existing processor clients.
    f. The UBC website http://www.agsci.ubc.ca/bc_food_network/ was used information for contacting additional processors and retail/brokers.

    It should be noted that there is a sense that there are many more small-scale processors operating in the province, in particular those, which we have classed as micro-processors. Because of their small size and the informality of their operation, they do not as yet appear on any database. In total, 559 processors were contacted,

[4] Shepherd, Colleen. Johanna Stiver, Melanie Banas. Community Promise: A Local Labour Market Study Volume 5: Report on the Agri Food Sector CEDCO Victoria, Government of Canada, HRDC.

430 were provided e-mailed information, 43 were provided faxed information, and 473 were unable to take the time to respond to the interview within the few days we were able to book time for them. Thirty-nine were not interested in participating. A total of 47 interviews were carried out. Since the data collected would not meet statistical standards for reliability, the data will be interpreted broadly with key trends noted.

4. Phone interviews were carried out with retailers, distributors and brokers. (See market interview schedule Appendix D.) Some site visits were carried out.
5. Research results carried out for a recent study by CEDCO Victoria were summarized for inclusion to provide more insight into the retailer's point of view in the agricultural areas of the Capital Regional District.
6. Innovations occurring in Western Canada and in other locales in Canada, the USA, Australia and Europe were scanned to give insight on models and options.
7. Efforts were made to ensure that processors and market connections were polled from all parts of BC in order to get a sense of what is going on.

Distribution of Interview Respondents

The red pins are processors and the blue pins are brokers/distributors/retailers that participated in this scoping exercise.