November 2007

Agri-food Sector Profile[1] - Minneapolis, USA

1. Sector Overview

The Upper Midwest is home to some of the best ag and food-related companies in the nation, including national leaders in food production, distribution and retail. Many, if not all of these companies currently purchase agricultural commodities, food ingredients or finished products from Canada and are open to new opportunities in food ideas and concepts, trade, investment and/or S&T partnerships.

Two good illustrations of strong US/Canada connections in agri-food would be General Mills and Hormel. General Mills, headquartered in Minneapolis, produces the #1 cereal in the U.S. - Cheerios (among many other products). Nearly all of the oats used to produce Cheerios come from Canada and General Mills maintains a substantial manufacturing and sales presence in Canada. There is also a long history of cooperation in meat production. In Table 1, there are notable ties between live animal production in Canada imported into this region, and exports of meat cuts to Canada. It is common practice in the pork industry for piglets to be raised in Canada, shipped into this region and processed into meat cuts and other products by companies such as southern Minnesota's Hormel.

Two-way trade in agricultural products between Canada and the Upper Midwest, 2006 (Millions of US$)

	MN	IA	ND	SD	NE
Imports	$449	$471	$284	$109	$339
Major import categories	Live pigs, cows, chickens, turkeys ($113); oats ($50); wheat ($12)	Oats, corn ($53); live pigs, chickens, cows, turkeys ($186)	Live animals ($139); meat cuts ($48)	Live pigs, bovine animals ($103); beef ($2)	Live cows, steers, pigs, horses ($143); pork and beef cuts ($48)

	MN	IA	ND	SD	NE
Exports	$474	$396	$194	$120	$138
Major export categories	Baked goods, pastas ($142); soybean residues ($76); corn ($42)	Pork, chicken, turkey meats ($51)	Canola and sunflower seed oils ($41); soybeans ($25); corn ($18)	Beef, pork, poultry meats ($75); soybean residues ($27); pet/animal feeds ($2)	Pork, beef ($42); soybean residues ($32); baked goods ($19)

Wholesale Grocery:

The Upper Midwest is a natural launching point for retail products. Minnesota is home to SUPERVALU, the number one wholesaler in the U.S. and a retailer as well, selling under approximately 20 retail names. In 2006, SUPERVALU completed their acquisition of Albertsons and extended their reach across the West. They have a strong focus now on adding to their private label brands to increase their margins and also providing more "Premium Fresh & Healthy" products.

Minnesota is also home to Nash Finch, the sixth largest U.S. food wholesaler. Nash Finch serves independent retailers and also military commissaries in 31 states and in Europe. Nash Finch, like SUPERVALU, also has several retail stores under different names, but they are actively downsizing their retail presence to focus on their wholesale market.

Retail Grocery:

Not to be outdone by the wholesalers, the Upper Midwest also has a well developed retail base, which has grown enormously over the last several years. For sheer speed of growth, Target wins the prize. Target grew out of Minneapolis' Dayton-Hudson Corporation with a few lower end stores in the '60s that never really caught on until the 80's when they changed strategy, polished up the stores and expanded quickly. In 1995, the first SuperTarget opened with half the store selling food products and the other half selling traditional Target goods. Target is now a major big-box competitor on the food side and ranks higher on the food chain (no pun intended) every year.

Also of note on the retail side is Cub Foods, one of the major retail subsidiaries of SUPERVALU and the largest grocery chain in Minnesota. Rainbow Foods, a subsidiary of Roundy's in Wisconsin, competes strongly in this market as well. There are also several smaller specialty chains and independent retailers. Large national contenders also compete here: WalMart, Sam's Club, Costco, Aldi, Whole Foods and 2 new Trader Joes in Minneapolis.

In Iowa and surrounding communities, Hy-Vee is the largest grocery chain by far. They own approximately 200 stores and have the distinction of being employee owned. Hy-Vee is vertically integrated and has several subsidiary companies that are their purchasing and distribution arms for meats and seafood, specialty foods, salads, floral supplies, etc.

Trends in the retail market here are fairly universal and predictable. For all of the retailers, but perhaps most notably, SUPERVALU and Target, private label brands are on the rise. SUPERVALU recently partnered with Daymon Worldwide to assist them in this effort.

Another common trend is ready-made foods and "on the go" or portable foods. The Upper Midwest is succumbing to the general U.S. trend of less cooking at home. The retailers were quick to respond with more deli selections, whole roasted chickens, 'take and bake' pizzas, sushi, salad buffets and the like. Along the same vein, there are more single serving sized foods that can be eaten in the car, at the office or put in a backpack. These trends grew to such a level that there is now a backlash trend - the slow food movement - which seeks to preserve traditional cooking at home as well as dining together as a family and a community.

There are also the contradictory trends such as the rise in appetite for and knowledge of exotic and ethnic foods as well as the parallel trend of 'local' foods. The local food trend can encompass several ideals - the desire for fresh food, support of local farmers and community, a closer personal tie to one's food, ethical treatment of animals, desire for organic products, etc. A related ideal is the concept of "food miles". Many consumers believe they are lowering their carbon footprint by buying local foods which travel a shorter distance. Farmer's markets, community supported agriculture (CSA's) and co-ops are all very popular in the Upper Midwest and are an integral part of our agricultural heritage.

Canadian companies finding a retail market in the Upper Midwest would include fish and seafood (with fish far outselling seafood), especially walleye and salmon. Branded and private label sauces, spreads and jams, oils, vegetables, fruits and berries, syrups and honey, vegetables and confections also find a market here.

On the beverage side, wines, beer and spirits are sold in Minnesota only in liquor stores. Grocery stores have lobbied the legislature to allow the sale of alcoholic beverages in supermarkets, but have been unsuccessful. Per capita wine consumption in this region is not nearly as high as in other regions of the U.S. Canadian beers and whiskies, however, are very well known and popular in the Upper Midwest and widely available.

Food Processors / Food Ingredients:

According to Food Processing magazine, the 2007 Top 100 Food and Beverage Companies include 12 companies from this region, including such giants as General Mills, Cargill, Hormel, Land O'Lakes, Schwans, Michael Foods, American Crystal Sugar and more. Many of these companies have subsidiaries or other strong ties to Canada. The general perception of Canadian food products and ingredients is for the most part very positive. There are some natural synergies such as Minnesota's strength in the baked goods market and Canadian products such as wheat, oats, flax and specialty grains, not to mention fruits, berries, oils and confections. Along with the local, many national food processing companies have manufacturing facilities here to be close to the product source as well as to take advantage of the educated work force, the infrastructure and distribution available here.

The Institute of Food Technologists (IFT) is very strong in Minnesota and is home to an annual event which showcases the latest in food ingredients. There is a strong group of ingredients distributors who sell specifically to the food processors, so this would be a good starting point for many Canadian ingredients companies. The Consulate can provide specific contacts for ingredients distributors. (See contact list at end of report)

Foodservice:

The Upper Midwest has a dynamic and growing foodservice sector. As mentioned above, one of the great food trends nationwide is that people are cooking less and eating out more. As the charts below highlight, the foodservice industry is a very important component of the Upper Midwest economy. With the exception of Iowa, per capita spending in restaurants is higher than the national average. In fact, according to the National Restaurant Association, Minneapolis/St. Paul ranks #2 in the country for highest per capita spending on restaurants, just below Seattle, and ahead of such 'foodie' cities as New York and San Francisco.

Foodservice Statistics (Restaurants, Employment)

	Population (thousands) 2006	Number Restaurants 2006	Foodservice Employment	as % total state employment
Minnesota	5,167	10,183	261,200	9.3
North Dakota	636	1,565	35,400	9.9
South Dakota	782	1,779	46,100	11.3
Iowa	2,982	6,023	145,600	9.5
Nebraska	1,768	3,647	88,200	9.1

Foodservice Statistics (Sales, Per Capita Spending) National Average per capita spending = $1,054

	Restaurant Sales ($US bn)	Per Capita Spending
Minnesota	7.4	**$1,432**
North Dakota	.7	$1,100
South Dakota	.9	$1,150
Iowa	3.1	$1,039
Nebraska	2.1	$1,187

Minnesota would be a natural entry point for companies interested in this market, particularly given their higher population base and strong economy, as well as the fact that Minnesota is a regional hub for foodservice distributors. While there are distribution centers here for the national distributors such as Sysco, US Foodservice, Reinhart, etc. there are also many good local and regional foodservice distributors as well as distributors who focus on seafood, specialty goods, meats, baked goods, etc. The Consulate can provide specific contacts for this sector. (See contact list at end of report)

2. Market and Sector Challenges (Strengths and Weaknesses)

The strength of this region in the food and ag sectors is directly related to its strong history in the food and ag markets. There is a whole support system built around that, including education, research facilities, distribution, logistics, strong government agencies, and so on.

On the other hand, there are several challenges. The biggest challenge by far should be no surprise - the high Canadian dollar. It is getting more challenging with each small increase in the exchange rate to get the interest of a distributor or retailer. Canadian companies must keep a vigilant eye on price. This gets very complicated when presented with the second large challenge - the rise in oil prices and the ever increasing cost of transportation. This is of particular concern to coastal Canadian companies trying to sell into the Midwest. On the other hand, this is an issue that the prairie provinces might be able to use to their benefit. In many cases, Manitoba, Saskatchewan and Northern Ontario are more 'local' than some parts of the U.S. in terms of potential shipping costs.

Other challenges for some product categories include APHIS regulations, COOL labelling rules and the increasing concern (in some cases "alarm") over food safety issues on imported foods. Food safety, in particular, is getting an enormous amount of attention and will surely continue to be of concern in the future as we depend increasingly on imported food and ingredients.

3. Sub-Sector Identification

Functional Foods, Functional Food Ingredients and "Better for you" products

There are many strong and growing trends in food in this market, but the trend most likely to be of long-term significance is the remarkable growth in functional foods and functional food ingredients. Consumers are beginning to take more control of their health through better nutrition and are learning about probiotics, prebiotics, Omega 3, trans fats, antioxidants and other terms formerly understood only by food technologists. There are many reasons why this trend is really taking hold now:

- Skyrocketing healthcare costs - Consumers are increasingly interested in using nutrition as a form of preventative medicine.

- Obesity epidemic - The media has done a good job in focussing attention on the serious nature of the obesity problem, particularly in children. People are looking for long term, healthy solutions for themselves and their children other than fad diets.

- Aging population - The baby boomers are aging and are looking for more natural ways to target specific health issues such as the rising incidences of cancer and diabetes, as well as other health issues like heart disease, arthritis, stress, intestinal problems, memory problems, menopause symptoms, etc.

Some specific opportunities within this sector would be:

- "Better for You" food, particularly for children: This would not necessarily encompass 'functional foods', but rather would be products that have less sugar, less fat, more fiber, fewer calories, etc. and might include products such as portion-controlled snacks, lower sugar juices, whole grain cereals and breads. Many area school lunch programs are revamping and taking out refined sugars, white flours, fat and over-processed foods. Even fast food companies are jumping on the bandwagon and offering healthier options.

- Organic and Natural products: This category continues to rise. Organics and Natural products are still most widely purchased in supermarkets, although there is a strong farmer's market network in this region.

- Functional foods: Included in this category would be any food that contains nutritional additives that are beneficial to health and able to prevent or reduce diseases. There are new products popping up on the shelves every day with nutritional additives including yogurts and other dairy products, enhanced waters, juices, flax in cereals, omega 3 in your meats, etc.

The Upper Midwest is in a unique position to take advantage of this trend given the number of agricultural and food processing companies located here, a well-educated population and a strong research tradition. For example, General Mills was the first large cereal manufacturer to re-formulate their cereal lines with whole grains. General Mills also started a program called WIN (Worldwide Innovation Network) seeking new and innovative technologies or products that, among other goals, would make their existing line of products more nutritious without sacrificing taste. They are keenly interested in the latest functional food research and commercialization efforts. Leadership such as this tends to push similar companies into the ring and this will provide more opportunities for innovative Canadian companies in the coming years.

Canadian Government Contacts

Consulate General of Canada in Minneapolis
E-mail: pam.olson-lally@international.gc.ca
Internet: http://www.minneapolis.gc.ca

Foreign Affairs and International Trade Canada
Internet: http://www.infoexport.gc.ca

Agriculture and Agri-Food Canada
Internet: http://www.agr.gc.ca/

Useful Contacts and Internet Sites

There are many great companies in this region who are involved in some aspect of food production or distribution. Please connect with the Consulate (see coordinates above) for detailed contact lists for grocery retailers, wholesalers and distributors, foodservice distributors, food ingredients distributors, food processors and others in this region.

National

- National Grocers Association: www.nationalgrocers.org
- National Restaurant Association: www.restaurant.org
- Food Industry Association: www.fiae.net
- Food Marketing Institute: www.fmi.org

There are innumerable specialty associations for specific product or industry sectors. Please contact the Consulate for additional appropriate organizations that might be helpful to your company.

Minnesota
Trade Associations

- Institute of Food Technologists, MN Chapter - www.ift.org
- Grocers Assn - www.mngrocers.com
- Hospitality MN - www.hospitalitymn.com (Minnesota Restaurant, Lodging and Resort Assn)

Iowa
Trade Associations

- Institute of Food Technologists, Iowa Chapter - www.ift.org/sections/iowa/
- Grocers Assn: www.iowagrocers.com
- Iowa Restaurant Assn: www.restaurantiowa.com

North Dakota
Trade Associations

- North Dakota Restaurant Assn: www.ndhospitality.com

South Dakota
Trade Associations

- South Dakota Retailers Assn, Hospitality Division - www.sdra.org

Nebraska
Trade Associations

- Nebraska Restaurant Assn - www.nebraska-dining.org

[1] *The Government of Canada has prepared this report based on primary and secondary sources of information. Readers should take note that the Government of Canada does not guarantee the accuracy of any of the information contained in this report, nor does it necessarily endorse the organizations listed herein. Readers should independently verify the accuracy and reliability of the information.*