Taking the Bull by the Horns: Reinventing The Canadian Agri-food Sector for the 21st Century[1]

(Instalments I-V)

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The Centre's involvement in the Agri-Food Competitiveness Council and related work on competitiveness has exposed us to a multitude of issues and ideas about how to improve competitiveness. With the completion of GATT and NAFTA, a new policy environment is unfolding. To acknowledge it, we want to lay out some lessons we have learned that may help the sector become all it can in the future.

Our objective is to define things which farms, firms and government can do to achieve competitiveness. We will do it in instalments over the next few newsletters. We begin in this issue by describing the principles we believe are important for organizations to follow in being successful, and by describing our vision for the agri-food sector of the future.

In later issues we address the three factors which will be of particular importance in shaping the sector's future: international trade policy; domestic and international market segmentation; and process technology. We then complete our basic framework with a SWOT analysis of the sector; i.e. its strengths, weaknesses, opportunities, and threats. Finally, we identify the structural and policy changes needed to take advantage of our opportunities and strengths, while minimizing the effects of our weaknesses and threats in order to achieve the vision.

Principles and Vision

Five principles guide us in the work we do with organizations that want to be successful. The principles are aligned with the work of several authors: Stephen Covey, Charlie Smith and Peter Senge[1]. In our early work on competitiveness, we identified a "model" for achieving competitiveness in a sector. It identified four sets of factors: those controlled by firms; those controlled by government; those that are quasi-controllable; and those that are uncontrollable.

This framework has been useful, but separating the factors into independent spheres of control implies a lack of interdependence that we would like not to. Covey distinguishes circles of concern and circles of influence. The circle of concern simply includes the things in life about which one is concerned, from job security to government policy. The circle of influence includes the things one can change. For most people, the circle of concern is large and the circle of influence is small.

However, Covey contends that people have the power to increase their circles of influence relative to their circles of concern. So it is with the policy-making framework in Canada today: a

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[1] ***Taking the Bull by the Horns: Reinventing the Canadian Agri-Food Sector for the 21st Century*** is a series of five articles written by Larry Martin for the George Morris Centre Newsletter from August, 1994 to August 1995.

firm (ie, a company or an individual farmer) can increase its circle of influence by having an effect on policy (we'll say more in a later instalment). Conversely, policy can have very substantial effects on the strategic choices made by individuals and companies. Therefore, the factors in our original model are not separately controlled: they are intertwined.

The principles identified here transcend the earlier framework because they are in harmony with today's environment.

Principle One: Successful organizations develop visions of what they will be in the future.

Most people (and organizations) live in much the same way as do other species, ie. they react to the current environment. However, people have the ability to conceptualize, to focus their efforts on the things they believe to be important, to be proactive. Truly effective people and long lived organizations often do this through a process of strategic visioning.

Strategic visioning is determining and describing what you or your organization will be at some point in the future. The vision is then used as the basis for planning, for determining which activities are important (does what I am about to do contribute to achieving my/our vision?), and for time management. Charlie Smith talks about developing a vision of the future and then standing in that future, managing from it.

Strategic visioning encompasses Covey's first three habits: be proactive, not reactive; begin with the end in mind, ie. with a vision of the future; and put first things first. The latter means to do what is important against the criterion of the vision. The linkage among these three habits is powerful. They are the basis for all of Covey's time management training. Together they are the first of our five principles.

Strategic visioning has not worked for some organizations. Two reasons for failure are that it is done for form, not substance, and it is done in a top down manner. If the members of an organization are not imbued with the organization's vision, then the process has failed and the first principle is not at work. Our experience with strategic visioning is that when all members of an organization have its vision clearly in mind, then the organization is in the midst of fundamental transformation. If, when asked about the vision, people need to find a piece of paper with the vision written on it, then not much is happening.

At the same time, senior managers alone cannot drive the process. True strategic visioning results in a vision with which all members of the organization can align. Senge relates a successful vision to a hologram. If one could cut a hologram into two pieces, each would be a perfect replica of the other. Successful visions are achieved when everyone in an organization has the same vision and when that vision provides the foundation for every action taken by members of the organization.

The reader who is sceptical of visioning should think carefully about what we just wrote. This is not airy fairy, soft stuff. Try it. To do it rigorously is one of the most difficult things you will ever do, especially if you are responsible for managing an organization. Strategic visioning requires

empowerment of employees during the enrolment process. It means letting go of some control. It requires a depth of commitment, character and discipline that few achieve.

But the power of visioning is illustrated by Margaret Wheatley's analogy[2] to force fields in quantum physics. Force fields such as gravity and electro-magnetism are invisible but powerful forces that give structure to everything from the atom to the universe. Organizational vision is an equivalent force that gives structure to organizations.

Our vision for the agri-food sector of the future is:

> ***We are the world's premiere agri-food sector because we are the supplier of choice for domestic and foreign customers based on the quality, service and value of our products.***

This vision needs clarification. First, premiere means first. We measure being number one by the relative value of our exports of agri-food products. Canada's agri-food sector is now the sixth leading exporter of agriculture and food products. But Holland is third. Holland has fifteen million people on a piece of land roughly three quarters the size of Nova Scotia. With all our resources, Canada should be able to surpass Holland, and we can be number one.

A second clarification is that the vision does not use the words cost or price. Its focus is on value, service and quality. We think of the German automobile industry, the Italian fabric industry or the French fashion industry as parallels. We intend for the Canadian agri-food sector to come to people's minds in the same way.

Principle Two: Successful organizations listen to their customers and respond to what they hear.

This means finding out what is of value to customers and then producing it for them. The alternative approach is to try to convince customers to buy what the organization has to sell. Many organizations in the agri-food sector take the second approach: "I grow wheat, you should buy it because I grow it". Recently one of the organizations I am associated with got administered an "agricultural awareness" program in Ontario called Agri-Food Week. We promptly inherited thousands of banners, bumper-stickers and other materials with the motto emblazoned on them in huge letters, "Buy the Food Ontario Grows".

This now is my symbol of what needs to be changed. All the trends, market research and common sense observations tell us that markets are becoming more and more segmented. The motto should be "Grow the food Ontarions (and others) want to buy". Major restructuring of the food markets has already occurred because of the relative ability of industries to respond. For example, part of the substitution of poultry meat for beef that has occurred during the past 25 years happened because the poultry industry responded to consumers who want consistent, convenient products available in a wide range of forms, especially in the food service component of the market.

Principle Three: The two most important sources of competitive advantage are outstanding, continuously improving people and technology.

One of Canada's chief weaknesses has been what most people believe to be its chief strength: it is resource rich. As a result, Canada has focussed on exploiting natural resources and fails to notice that many successful countries have few to exploit. Their success has come from their human skills and adopting or inventing technology. Writers such as Tom Peters[3] and Peter Senge point to case after case of successful companies who become so through the ways they employ technology, the ways they train people and the ways they manage people. Peters says that by the beginning of the 21st century, any half-way successful company will be a loosely disguised university, because of its training and research programs. Michael Porter[4] cites numerous industries who became successful because they focussed on developing the technology required to make it so. Many writers, beginning with W. Edwards Demming, the father of total quality management, point to the need to change management styles so that people are empowered through such things as self directed work teams.

A number of companies have heard these messages in the Canadian agri-food sector. However, it is clear that for many, training, research and development and technology transfer are not priority issues. The same can be said for government. What is more, there remains a tendency for management to treat people as depreciable, depreciated assets to be replaced when possible by machinery and equipment, not as appreciable assets that can find new ways to add profits for their employers.

Principle Four: Successful organizations have excellent supply chain management that practices interdependence.

"Interdependence" requires some definition. Covey talks about three stages of human development. Most of us are in the first stage most of the time. It is the stage of dependence. It is at work when we say we are not in control: the government is doing it to us, the U.S. is doing it to us, it's fate or it's our astrological sign, or "I guess I'm just that way, and I can't do much about it", or ... well, maybe I've made the point. The second stage is independence. In this stage, one is proactive, takes responsibility for his or her own actions and circumstances, and doesn't run to the government when things go bad.

The third stage is interdependence. In this stage, people have a win-win attitude in dealing with others, and they search for ways to synergize with others. Synergizing and interdependence are based on the abundance principle: I can be better off by collaborating with others than by working alone because, together, we can make the pie bigger.

If an organization or an industry is to excel in creating customer value in segmented markets, then it is extremely important that each part of the market chain be carefully coordinated with the parts before and after it. This may mean careful and efficient coordination of delivery, the production or selection of farm products with the appropriate characteristics to suit customer needs, preservation of identity throughout the supply chain, or delivery of services associated with the product that are valued by the customer. It also means that each stage of the supply chain receives economic rewards

for the value it adds. Failure to do so provides no incentive to create value.

Does the foregoing describe what we see and have seen in the Canadian agri-food sector? Conflicts between input suppliers and farmers, farmers and processors, processors and retailers are more frequent than collaborations in my experience. Most relationships are based on the scarcity principle: the pie is only so big and you are not going to get my share, and anything you suggest to me that we might do together is probably only going to benefit you.

Principle Five: Successful organizations pursue continuous improvement.

Each of the first four principles can provide organizations with breakthroughs. Breakthroughs are discontinuities: they are quantum leaps in improvement. However, once a breakthrough has been made, its new processes can be continuously improved. Continuous improvement means an organization focuses on the processes it performs, on measuring the way it performs them, and on measuring performance against a target. In practice, this means using statistical control, benchmarking and other techniques for establishing performance targets.

1. The Seven Habits of Highly Effective People; The Merlin Factor; The Fifth Discipline.
2. Leadership and The New Science
3. Prometheus Barely Unbound.
4. The Competitive Advantage of Nations

(Instalment II)

In the first instalment, I talked about the Centre's principles for successful organizations, the need for a vision and our vision for Canada's agri-food sector. Now we take another step toward reinventing the sector to make it (as the vision requires) "the supplier of choice for domestic and foreign customers based on the quality, service and value of our products".

To make this goal operational, we begin by identifying three forces that will shape the sector's future.

Three Forces That Shape the Future

These forces are working together to affect demand for products of the agri-food industry, and the industry's ability to respond to it: market segmentation, technology, and altered international trade policy.

Market Segmentation

Consumers are becoming more sophisticated and less predictable making markets more segmented. This means that people in different segments will buy products with different characteristics. One obvious example is aging, which means that older and smaller households want smaller package sizes and, in many cases, more traditional products. With increased ethnic diversity in our population (and increasing popularity of ethnic dishes) Italian, Chinese, Thai, Southwestern, ... products are becoming more popular in some segments. Similarly, busy two career families want products with much of the preparation done (but often with "home made" characteristics).

All of this means that product differentiation will be a way of life. Commodities will be manufactured with different marinades or recipes, packaged with different spices, marketed with different labels, made with different nutritional qualities, cross-promoted with different complements, and so on. No food manufacturer will have one line of products nor even one mode of distribution.

Some of the differentiation will begin at the farm: we will continue to move from "one size fits all" commodities to "designer" commodities. Designer commodities are tailored to the needs of a market segment by producing and "identity preserving" specific characteristics. Our grading systems, which are based on one or a few characteristics, will break down from irrelevance as designer commodities proliferate. Quality assurance will be performed in ever more sophisticated ways. Efficiency will be measured in value per dollar of cost instead of tonnage per dollar of cost.

Perhaps most importantly, **pricing systems will change to reward producers for the product characteristics they provide to their customers.**

Simple examples will illustrate. We know that the absence of PSE (pale, soft, exudative) in pork creates value, especially in the eyes of Japanese customers, and that large loin eyes create value

everywhere. Both can be controlled or at least affected by management practices and genetics. However, neither is rewarded in the Canadian hog grading and settlement system and farmers are not even aware of their performance on these factors.

While this discussion about segmentation has been about product characteristics and, implicitly, about the domestic market, two other aspects are fundamental. First, consumer demand is taking on ethical aspects. Some are about the product (eg. animal care and the use of additives), but some are broader (eg. the company's environmental performance, the way it deals with the Third World or the way it treats its employees). Farmers and food manufacturers will need to deal with these issues up front or expect to pay the consequences in the market place.

The second aspect is that segmentation is also occurring in other countries. Developments are affected by culture, religion and local conditions. The bottom line is that different products will be required in different countries: lots of opportunities will exist and everyone from suppliers of genetics through farmers and food processors have a role and can benefit.

Technology Development

Recent technological developments are making differentiation more feasible. The technology falls into at least three categories: biotechnology, process control and information technology.

Biotech, for the most part, speeds up the rate at which traditional selection research is done. It makes it possible to rapidly develop a plant or animal or to provide an input to its production that can give it the characteristics desired by a certain market segment. It is even becoming possible to introduce genes from one species that give another specific characteristics. An early example is the "Harvard mouse" which has a human oncological gene in it, thereby making it perfect for cancer research. Obviously, this is an area fraught with ethical issues that need careful attention. However, the technology is upon us and, used properly, it is a tool that can help respond to customer needs.

Process control makes control and separation of processes or batches within processes feasible, and information technology allows for feedback through the vertical marketing chain. Process control is widespread. Food manufacturers continue to find new applications of colour imaging in everything from tomato canning to bean separation. Extraordinary control over ingredients is now possible in baking, pasta manufacturing and precooked entrees with computerized mixing processes.

But process control is expanding all the time. The emerging multi-site technology in hog production is an example of process control at the farm level. It allows much greater control over disease, allows pigs with specific characteristics to be commingled at an early age, allows separate sex feeding with weight-optimized rations and it allows considerable control over scheduling of deliveries to packing plants. All of these factors contribute to the production of value.

The relationship between process control and information technology is illustrated by carrying the multi-site example into the packing plant where new scanning technology can measure many of

the value generating (eg. loin eye size) characteristics of the carcass at an early stage, capture and store the information and transmit it back to the producer for management review. The next logical step is to tie economic incentives to the information fed back. Farmers have proven in spades their ability to respond to the economic incentives built into existing grading and pricing systems. If new systems provide better and more precise incentives, farmers will respond.

I'm sure there are other and better examples of the kinds of technologies that will assist the partners in the agri-food system respond to diverse consumer demands. If you can dream them, you'll be far along toward realizing the possibilities.

Trade Policy

CUSTA, NAFTA and the recent GATT are evidence that the world trading regime is responding to the first of the two factors. We've written about these fairly extensively over the past couple of years, so no details. Some say they have gone too far, others say they haven't gone far enough. Whatever your preference, they have removed some of the blocks people in our sector have faced in attempting to respond to consumer demand around the world. Tariffs are coming down, non-tariff barriers are being removed, we may even see further improvement in the process for settlement of trade disputes, and there is movement toward harmonizing standards. While the threat of foreign products in our market is increased, so are our opportunities in foreign markets.

Conclusion

Our vision for the Canadian agri-food sector includes being "the supplier of choice for domestic and export customers based on quality, service and value". In this article, I've tried to flesh out the diversity of demand that will occur, show some of the opportunities created for Canada, and begin to hint at the changes in production structure these suggest. Segmenting demand can be done with appropriate technology, and liberalizing trade policy will remove some of the political barriers for those who do it first and best.

These opportunities demand that we explore new pricing mechanisms, new ways of providing quality assurance, both public and private, new ways of assessing operational performance and new ways of measuring efficiency. Perhaps most compellingly, they mean we will need to rethink the nature of the relationships between customers and suppliers in the agri-food sector.

With this general look at the nature of our markets, the next instalment will take a look at the strengths, weaknesses, opportunities and threats that characterize the sector. This will be the last segment of background preparation for the re-invention process that will follow.

(Instalment lll)

In the first article of this series, we talked about the five principles of successful organizations. The second focussed on the nature of food markets in the future. It noted that there will be opportunities for differentiating, and therefore adding value to, agricultural products in the domestic market because of demographic and psychographic trends. International markets will be much more open to Canada because of GATT and NAFTA, and they will provide further opportunities for adding value. We also noted that there is an explosion in the information and process control technology that will assist in accomplishing the differentiation of products to respond to future market needs.

As we consider how Canada can become the premier agri-food sector in this emerging market environment, a logical next step is to undertake a "SWOT" analysis of the agri-food sector. "SWOT" is business school talk for strengths, weaknesses, opportunities and threats. It's the subject of this Instalment.

The table that follows contains my candidate list for each of the four SWOT elements. We covered the opportunities fairly well in the last Instalment. So, I'll begin by talking about strengths.

S.W.O.T.
FOR THE CANADIAN AGRI-FOOD INDUSTRY

STRENGTHS	**WEAKNESSES**
- 5 Years of Adjustment	- Customer Orientation
- Quality Farm Products	- Supply Chain Management
- Small Operations	- Small Operations
- High Health Standards	- Regulation Attitude
- Social Programs	- Location
- Location	
- Human Resources	
- We are not Americans	

OPPORTUNITIES	**THREATS**
Domestic	- Our Own Fear
- Segments	- Mistrust
- Aging	- U.S. Competition
- Ethnic	- U.S. Trade Policy
International	
- Access to U.S.	
- Access to Mexico	
- Access to Asia	

Five Years of Adjustment

With the Canada-U.S. Trade Agreement in 1989, much of the protection afforded the Canadian food industry was dismantled. Tariffs and non-tariff barriers affecting horticultural, grain, oilseed and meat products were phased out. At the food processing level, we saw some companies leave Canada, others invested more heavily and became more focussed in their operations in Canada and, a number of companies have started up. Most prominent is Hillsdown Holdings' major investment in what was Canada Packers. But many smaller companies, such as Elmira Poultry, MCM/Nor County Frozen Foods, have entered the business and become significant players, and are thinking about their next investments.

At the farming level, we have seen a significant shift in the level and location of production of a number of commodities, especially oilseeds and beef. As a result of these adjustments, the past two years have been the most profitable of the past decade or ever for a number of food companies and a number of farms... and many are considering their next investments. Most importantly, we went through this adjustment in Canada, but much of the U.S. industry did not because the Canada-U.S. Trade Agreement was more important to Canada in this respect than to the U.S. Hence we are accustomed to change and to thinking about how to respond to it. This will stand us in good stead for the coming larger set of changes.

Quality Farm Products

One advantage Canada's northern climate offers is that we are free of many diseases that exist farther south. So, we have inherent high quality in many of our grains and livestock products. In addition, several decades of hard work have developed grading systems that encouraged as many aspects of quality. These two factors put us in a preferred position on which to build for the future.

High Health Standards

From plant and animal health, through meat and dairy inspection, Canada has a reputation around the world for products that have low human health risks. Like quality, food safety perceptions are something on which we can build the future.

Taking the last two points together, think about some of our major success stories, like dairy, poultry and pork genetics, canola, flowers and bedding plants. In all cases, we've been successful because of the quality and/or health standards associated with the commodities. Today, a number of successful organizations, from the Canadian Beef Export Federation to the Clearly Canadian are using the image of Canada as a country with pristine environment and high quality products to gain additional success in foreign markets.

Small Operations

Small operations can be an advantage because they are usually not dedicated to one product: they are often quite flexible. In a market place that is requiring more and more differentiation,

flexibility is a major virtue. There is a wide-spread perception that in the Canadian food-processing industry, companies and managers have had the opportunity to learn far more skills and to be more flexible than their competitors in the U.S. Similarly, at the farm level, hardly any farm is dedicated to one or two products. We have considerable experience at being flexible and responding to market signals. Our major competitor, the U.S., has focussed on large scale plants and farms that are specialized and low in cost. In a differentiated and demanding market, being a large scale, low cost operation leaves many niches that can be exploited by the small, responsive, flexible operator.

Social Programs

In a study Vincent Amanor-Boadu and I did in 1993 for the Agri-Food Competitiveness Council, we found that four of five companies who do business in both Canada and the United States were three to six times lower per worker in Canada for health care, workers' compensation, unemployment insurance and similar benefits, when both private and public costs are taken into account. In most cases, their property taxes were as low or lower in Canada. And their income taxes were generally not enough higher in Canada to offset the savings from social benefits.

Few Canadians seem to understand what a major advantage we have in this area because of our social programs. This does not imply that our social programs are without their faults. It simply means that our costs are lower than in the United States for those companies who want to give their workers benefits. Alternately, there are many companies in the United States who do not provide benefits. Our reaction would be that the quality of their workforce is probably consistent with the quality of the benefits they receive.

Location

The most intensive production areas of Eastern Canada are closer to the U.S. east coast markets than are competing areas in the United States. Similarly, the most concentrated production areas in Western Canada are closer to U.S. northwest markets than their competitors in the U.S. Hence, we have a cost advantage on location for these markets.

Human Resources

Canada has a quality work force throughout the system from farm through plant floor through management. Our schooling and our immigration policy have put us in good stead in this regard. Similarly, the experience of Canadian managers at the farm and company level, tends to more varied because of the flexible nature of their operations.

We Are Not Americans

Considerable evidence says that people around the world are uncomfortable doing business only with Americans. Most importers would like to diversify their sources of supply. Canadians are perceived as being much easier to deal with. It is an advantage that should not be minimized.

Space limitations do not allow me to finish this in this issue. So we will concentrate on the weaknesses and threats in the next issue. When I think about the length of this list and the length of the one on opportunities, it amazes me how strong we are. There is no doubt that by building on our already impressive set of strengths, we can become the premier agri-food sector in the world as described in our first Newsletter.

(Instalment lV)

You might say this is the negative article in my series. It focuses on the weaknesses of and threats to Canada's agri-food sector that need to be overcome if we are to achieve the vision that has been articulated.

> *We are the world's premier agri-food sector because we are the supplier of choice for domestic and foreign customers based on the quality, service and value of our products.*

For more context, readers who saved our earlier newsletters might review the previous one where we wrote about a SWOT analysis of the Canadian agri-food industry. That article has a table with the weaknesses and threats, as well as the strengths and opportunities for the sector.

Weaknesses

Three of the five weaknesses listed are interrelated -- ie, customer orientation, supply chain management and regulation attitude. They are the most limiting.

Customer Orientation

In the first article of this series, we discussed the Centre's five principles. One is to listen to customers and respond to what you hear. So, we need to evaluate how well the agri-food sector does this. Our conclusion is that it is a weakness. Most everyone in the sector measures performance on some kind of production basis. What I mean by this is that we think of the rate of gain per day, yield per acre, the cost per ton or hundred pounds of meat produced, the efficiency of elevator throughput, the throughput of processing plants, or the cost per unit of producing product in the plant, etc. We measure our ability on how well we get things dead and chop them up. We seldom ever measure our performance on the basis of how much satisfaction we produce in our customers per dollar of our cost. Examples abound. Ontario was apparently the last jurisdiction in the world to allow consumers to have one percent milk, despite a clear preference by some to have a low fat product. Milk is sold primarily for kids in packages that kids can't handle. Most of our grains are graded on a basis that has little relevance to most end-users, yet producers are paid premiums for top quality grades. Only in the past year have we heard senior managers in the beef industry seriously talk about attempting to provide a more consistent product for consumers. But for years they have talked about producing a low-cost product. The result is cuts that are too big and too inconsistent from cattle that are too big, but efficient. Pig farmers worry about cost per ckg and so do meat packers. Neither do anything to try to standardize or maximize the size of loin eyes. The entire food service industry wants chicken products that are highly standardized on size, yet only the bluntest instruments are used by marketing boards and processors to produce, select and segregate product on size categories. It took a major shock from an international trade dispute to show the wine industry that only government storage

programs wanted grapes that produced sticky, soupy, foxy wines. In part, as a result of the shock, and a great deal of dedication on behalf of a large number of wine makers and grape growers, the Canadian wine industry is now producing award-winning wines that sell at premium prices all over the world. The latter is the most important aspect of the message. We are not very good at producing with a customer orientation. Earlier articles in the series argue that the world increasingly demands specialized value-added products. Therefore, if we get good at what we are bad at, we can become the premier agri-food sector in the world.

Supply Chain Management

We have also argued in previous articles that excellent supply chain management is extremely important in an increasingly differentiated marketplace to achieve our vision. While many steps are being taken to improve the situation, experience indicates that excellence is still pretty far away. We see sub-par supply chain management throughout the food system. While much of the retail industry professes to worry about ECR, reality says that retail buyers still see the main function as beating the price down from manufacturers and/or to maximize revenue from listing fees. There is no evidence that major retail chains in this country have given any serious thought to attempting to find ways to reduce short term commodity price valuations for themselves or their suppliers. Similarly, they have exhibited little interest in working together to build product lines or service aspects with manufacturers and farmers that will appeal to their customers. The major exception is their own branded products. Similarly, conflict exists on assurance of supply and other issues between primary and secondary processors in a number of products. Everywhere, there is little inclination for real interaction between farmers and primary processors to provide more stable supplies or to develop differentiated products for various end uses. The words "partner" and "alliance" are bandied around by everyone and seldom practiced by anyone in any great depth.

These first two issues are clearly interrelated. If one's attitude is cost-oriented, "let's get these things dead and cut up as cheaply as possible", then there is little inclination to think about how one can provide better value for customers and, certainly little interest in figuring out how to work with the supplier whose price you are trying to beat down on to find a way to work together to provide more customer value.

Regulation Attitude

The foregoing lead to and stem from what we regard as a regulation attitude. When your customer or supplier is getting a better deal and/or has a little more power in the market place than you do, then there are two alternatives. You can figure out a way to work with them to make both of you better off. The other is get a regulation passed that gives you more power over them. If it isn't the customer, then you can also try to do it for a competitor. Regulation is a substitute for trust. If I don't trust you to provide me with wholesome products, then I will make sure the government puts in a regulation that forces you. If I don't trust you to pay me a fair price for my product, then I'll put in a regulation that says you have to. If I don't trust the system to treat me fairly, then I will put in a regulation that forces me to be treated the same as everyone else, whether or not I provide the same value. If I can't figure out how to provide differentiated products to a diverse end-use

market, then I'll get the government to put in a regulation that forces everybody's product to be the same so nobody can get a better deal than I can. Sound familiar? Look around. This is one of the things that really gets in our way.

The last two of the weaknesses on the list are not necessarily related to the others.

Small Operations

In the last column, we said that Canada has relatively small operations in both food processing and farming relative to other countries. We also said these small operations can be an advantage because they mean we have more flexibility. The flip side of more flexibility is that we have higher costs. Small operations usually mean a higher cost per unit. Thus, the positive and the negative sides of the small operations means that many in the Canadian agri-food sector face a dilemma that needs to be resolved. It is do we want to be in the low-cost, high-volume business, or the low-volume, high-cost, high-value business? The answer to that question dictates a number of clear decisions that need to be made in terms of developing and implementing strategy.

Location

As with small operations, location is an advantage for us in much of Canada for the Canadian and U.S. market because much of our best producing areas are closer to the major coastal centres of population than are many U.S. producing-areas. Again, the corollary is that we are farther away from population centres in Mexico, Latin America and other places than some of our major competitors. Hence, in thinking about penetrating those export markets, we are at a disadvantage and the disadvantage needs to be corrected through focusing on how to improve shelf life.

Threats

In our view, there are four major threats to Canada achieving its potential and its vision. Two are external and two are internal.

U.S. Competition

As the world market becomes easier to access, we increasingly find that Canada has to compete with companies who are extraordinarily focused, efficient and coordinated. The major competitors are in the United States. They have names like Tyson, Murphy Farms, Larson, Hunt and so forth. In many cases, these companies are highly integrated from production through further processing. However, there are also many good competitors in the U.S. who are working together through some sort of vertical alliance to compete with the integrated operations. All of them will be Canada's competitors in the U.S. market, overseas and even in our domestic market. Strategically, Canada needs to decide whether to challenge U.S. competitors at the game they play well or to invent a new game.

U.S. Trade Policy

This is distinguished by the tactics we have seen recently by the U.S. in bringing countervail action against Canadian Pork, other products and actions that result in export restraints on wheat. As Vincent's article on dispute settlement in this issue indicates, all three of the recent trade agreements have taken serious steps to reduce the unilateral power that the U.S. has used on behalf of U.S. interests. While the agreements are far from perfect, they are a substantial start. However, we have certainly not seen the end of the U.S. attempting to use their size, might and power to steamroll Canada and other competitor countries. U.S. trade policy is a threat that we need to be vigilant about.

Our Own Fear

We observe, although we observe it less frequently than we did five years ago, that many in Canada fear that they can't compete. They fear that the weaknesses discussed above can't possibly be overcome. We hear many people begin discussions with all of the reasons that Canada **cannot** compete, rather than them beginning with why we can. It is our fear of not being as good as, particularly the United States, that is a limiting factor that stops us from being able to correct the weaknesses discussed above.

Mistrust

A related part of our own fear is our mistrust of each other. Our experience is that farmers don't trust their suppliers or customers. Processors don't trust their suppliers or customers. Retailers don't trust their suppliers. And in most cases, no-one trusts the others within their own industry segment. With this lack of trust, it is very difficult to have good supply chain management. With this distrust it is obvious why so many have a regulation attitude. With this distrust, it is very difficult to develop a customer orientation. Part of the lack of trust stems from the fear that others in the Canadian supply chain want to vertically integrate. In turn, this fear and mistrust causes people to avoid discussions of concepts like vertical strategic alliances because they perceive the term as shorthand for vertical integration.

As we indicated above, our major competitors are often vertically integrated U.S. companies. In the long term, we perceive that Canadians must learn to compete with these companies or get out of the business. The irony of our mistrust is that by avoiding discussions of factors like vertical alliances, we avoid finding solutions that will allow us to compete with U.S. vertically integrated operations. If we can't find a new way to compete with them, then the only way we can avoid getting out of the business is to become just like them. Hence, the mistrust has the opposite effect of the one most people want. We at the George Morris Centre, fervently believe that there are better ways to compete with the U.S. than with the U.S. model. Hence, we continue to encourage an end to mistrust and fear and to encourage the beginning of discussions of possibility about alternative structures.

(Instalment V)

Introduction

The first four articles in this series addressed: the Centre's vision for the Canadian agri-food sector and our principles for successful organizations; the three major forces that are affecting the future of the sector; and its strengths, weaknesses, opportunities and threats. Now it is time to address what needs to change if the vision is to be achieved.

> *We are the world's premier agri-food sector because we are the supplier of choice for domestic and foreign customers based on the quality, service and value of our products.*

Space doesn't allow us to do real justice to the changes that are needed - and that are being led by an extraordinary group of women and men in this sector in this country! But we will try to point out some of the outstanding examples.

1. Companies and Organizations Need to Learn to Anticipate Customers' Needs.

The underline has a point; responding to customers' needs is not going to be enough. Value adding, sustainably competitive agri-food organizations must anticipate customers' needs. The fundamental question is, **What can we do that will make our customers, and ourselves, better off?** One good example of this is a company called Nor-County. It did not exist five years ago, but started when an entrepreneurial carrot farmer saw an opportunity for adding value in the market chain where U.S. behemoths left niches as they pursued low cost commodity strategies. A central technique in Nor-County's counter-strategy was to put quality control people in the kitchens of their food-service customers. While the QC people watch, they begin to understand what it is like to be in the customer's shoes - and how to make the shoes more comfortable! Not surprisingly, developing a product that adds value for one customer means others want to buy it. After only four years, Nor-County is the largest carrot processor east of the Mississippi River -- and its major problem is how to manage its growth.

Another example might be the Winnipeg Commodity Exchange, where enlightened management understand the potential opportunities a deregulated transportation and, perhaps, deregulated grain marketing environment provide for the future. As a result, the Exchange is getting ready for the future by cleaning up their trading practices to improve its public image, revising existing contracts to better provide price discovery and risk management, and introducing a series of new and novel products. All of this despite reluctance by some members to change, and before most people have figured out how much value can be added by a well-functioning futures market. (Watch

for a presentation at our Outlook Conference with the Bank of Montreal on this subject by the president of the Exchange.)

Another example, of course, is President's Choice. President's Choice is probably the most successful introducer of new products in the Canadian food industry. In many cases, the new products did not result from simply asking consumers what they wanted (who could have known they wanted all those sauces?!). Rather, this is a company that has a knack for anticipating what consumers want from their behaviour and their demographics.

The point is that an extremely difficult, but most important thing that needs to change is that organizations in the agri-food sector really need to develop a much more intimate relationship with their customers. As part of that relationship, they need to ask the question referred to above. Don't you wonder why I keep using the word "organization" instead of company or firm or farm? It is because there is no one type of organization that will benefit from this. This question can be asked in different ways through different processes by an organization whether it be an individual farm, a food company or input supplier, a marketing board or some subset of an industry. In addition, it is not sufficient to ask the question about just the domestic market. Organizations need to ask it about every segment of the market they are in.

2. Companies and Organizations Need to Focus on What Makes Them Different than Their Competitors.

This change follows from the foregoing one. While it is important to develop differentiated products and services in a value-adding economy, it is very easy for competitors to imitate. Once your competitors have imitated what you have done, they bid away the premiums that you were able to charge because your product is no longer different. *Clearly Canadian* is a good example; after defining a whole new beverage category, the company lost market share to those who first copied the product, and then had ideas like putting iced tea in it.

Therefore, what really differentiates an organization is the organization itself, not its products. For example, a successful organization may be differentiated by its ability to bring new products to market. In the consumer products market, Johnson and Johnson, 3-M, and Hewlett Packard are examples of companies that perennially introduce a large number of new products with a much higher success rate than their competitors. What differentiates them is not the new products per se, but rather the organizational characteristics that allow them to continuously and successfully introduce new products. Similarly, Apple, the computer company, has sales per employee of over $500,000, while most of their competitors are in the $100,000 to $150,000 range. This sounds like another organizational characteristic that distinguishes Apple.

Again, this notion is not limited to large organizations like the ones quoted above. One of the most successful farmers in Canada has been known often to say that as long as farmers insist on producing commodities, they will get what they deserve. He does not want to receive the same kind of reward. Therefore, he focuses his farm on producing things that are not commodities. Much of his managerial skill and energy is taken up with thinking about the next specialty product that he can produce to add to his business. Again it is not the differentiated products that make the difference

here. It is the organizational skills that allow this farm to continuously find new non-commodities that fit with the rest of his operation.

3. The Domestic Regulatory and Policy Environment Needs to Change in Order for Companies and Firms to be Allowed to be Different.

We have argued, because it is self-evident, that markets, both domestic and foreign, are becoming more segmented; everyone does not want the same products, or the same services associated with a product. It is the ability to segment markets that give suppliers the opportunity to add value.

A commodity is, therefore, no longer a commodity. Yet, think about all of the things in our institutional and public policy that treat people the same, encourage them to be the same, or encourage them to produce the same products. Prices in supply management and support levels in stabilization programs are based on a single cost of production. We have a few grades of wheat, corn, soybeans, etc. We try to force all of the hogs through a couple of points in the grading grid. We almost do the same things for cattle (although that one is getting better). And, in the name of equity, most marketing boards force everyone to sell products the same way at the same price. Something seems wrong with this picture. The world invites people to add value through differentiation and encourages organizations to differentiate their organizational resources. But farm policy, farm organizations, grading schemes and almost everything else one can think of, treat them and expect them to be the same.

We need to change this policy mentality. We need to begin by changing the definition of equity. Perhaps a better definition of equity is that everyone should have the same opportunity to be different. Starting from this definition, nearly everything we do in the policy environment and the regulatory environment gets turned upside-down.

4. The Regulatory Environment Needs to Change.

The first thing to turn upside-down is the technical regulatory environment under which the agri-food sector operates. Some of it has been changing for the better, but most of the change has been driven by cost considerations. Not much has been done strategically. What we're most concerned about here is the area of product approval for a host of inputs to the food system. The most obvious example of the problem is the non-decision to allow rBST in Canada, but there are many more.

The results of the existing situation are: input supply companies are dis-investing in Canada; Canadians are missing the opportunity to participate in what will be a burgeoning bio-technology market; Canadian farmers are being denied lower cost inputs and, in some cases, denied more environmentally friendly inputs.

Vincent builds on this in the series he starts in this issue. But, as an overview, this problem of the regulatory system seems to have two elements. First, bureaucrats and/or bureaucratic

committees often make decisions about product availability. The pressures they face are quite different than those faced if more of the decision-making power - and decision-making responsibility - were in the hands of the suppliers. With supplier responsibility, suppliers would be regulated in a manner that carries complete legal responsibility for introducing ineffective or inappropriate products, or products that have unintended harmful effects. Under these circumstances, the supplier's pressures are to respond to market needs, to be at least as good as competitors, and to minimize the threat of civil liability. (This is not meant to imply that companies only do the right things because of fear of litigation - most also do them because they are the right things!)

When bureaucrats make the decisions, they are under pressure to approve products that respond to the most vocal (often the largest) vested interests, that respond to the most vocal pressure groups, and that protect them and their Ministers from embarrassment. The two sets of pressures are bound to yield different outcomes.

The second aspect of the problem is that Canadian regulatory processes require efficacy tests. This means that product suppliers must prove to the regulators' satisfaction that their products do what the supplier claims. This is a rather patronizing aspect of Canada's regulatory system that assumes both buyers and sellers are incompetent. We would expect that buyers would not long buy products that do not live up to their claims.

We would also expect that sellers would not long make claims that cannot be delivered after poor publicity and the cost of litigation of the first few.

The current system yields bizarre outcomes. For example, a variety of potatoes has been developed that is resistant to the Colorado potato beetle. It has been approved in the U.S. - and it can be exported to Canada. It has been declared safe for human consumption in Canada by Health Canada. It has not been approved for production by Agriculture and Agri-Food Canada. If it is efficacious, the consequences are that Canadian farmers have the cost disadvantage of applying pesticides, the pesticides get put in Canada's natural environment, and the company that developed the variety has just cut a large number of jobs out of its Canadian operation.

If the product is not efficacious, the consequences are exactly the same for Canada and the U.S., where farmers would not likely buy much of the stuff.

5. We Need to Develop Better Ways to Vertically Coordinate Our Industries.

If Canada truly wants to respond to the myriad of different demands offered by an increasingly complex world, we have to be able to coordinate decisions and rewards through the vertical market. We understand that First Line Seeds is developing specialized seeds for the edible soy industry in Asia. The enabling factor for this type of development to occur is that signals have to move through the system to indicate that there is a demand for these products, that the demand has to be sufficient to pay prices that give a profit for developing the products, and the system has to preserve identity from producer to end user. In general, this means that we need to work hard at discovering ways to measure performance on the product characteristics that provide value, ways to preserve identity of

units of product that have the appropriate characteristics, and to develop pricing systems that send signals to everyone in the chain.

Given the propensity of many Canadians to automatically hear the word "integration" after the word "vertical" is uttered, let us make it clear yet again that this is not what we are talking about here. Vertical integration, which is ownership by one firm at one stage of production of another at a different stage, is not the most viable alternative for good vertical coordination. By having managers and owner-managers at each level of the market chain, vertical alliances or some other of vertical arrangement simply has to give a better result than vertical integration, over time.

One reason Canada doesn't have better vertical coordination and that we have systems requiring things like anonymous selling and pooled prices, is the inherent mistrust by some farmers of any term that includes the word vertical. If one is fights anything that has to do with vertical, it is really hard to find a solution to a problem that is inherent in the vertical system. So the first thing that has to be changed is the attitude of those who want to maximize differences instead of minimizing them. The second is that we need to search for new pricing mechanisms and technologies that measure performance and that assist with efficiently preserving identity.

6. We Need to Take a Different Attitude toward Human Beings.

Above, we said the source of long-lasting differentiation lies in one's organizational resources. Organizational resources can be embodied in relationships either within the organization or between the organization and its allies. The most important aspects of these resources are the skills, relationships, and attitudes of people in the organization.

To state the obvious, human beings are quite different resources than machines, fertilizer and seed. Fertilizer gets used up right away. Machines wear out and have to be replaced. Human beings, on the other hand, can have their value enhanced over time, if they are given the opportunity and incentive. This comes from experience, new formal learning and serendipity.

The argument here about organization resources simply underlines the Centre's third principle -- that people are the most important source of an organization's competitive advantage. Yet, many organizations in our sector treat people as being disposable. When companies don't make enough profit, the first thing they do is downsize by laying off people. Many organizations retain hierarchical structures and cultures reminiscent of the early industrial revolution, thereby putting most of the decision-making focus in one or a few hands. Hardly anyone has a pay-for-performance system for economic rewards. Only a few companies in our sector have gone to team-based operations. Judging from most organizational charts, almost no one has listened to Tom Peters and others talk about the inherent weaknesses of hierarchical management, nor the proposition that future success will result from learning how to manage human creativity.

So one of the things that needs to change is the way we deal with people. This affects everything from hiring practices, through training, the way we account for the cost of labour, the way we reward people, through our organizational structures, to the ways people are held accountable

for their actions.

7. We Need to Focus our Public/Private Sector Research and Development Effort.

When one thinks about the rising opportunities for the Canadian agri-food industry in this increasingly complex world, a number of fairly specific areas of technical research seem to be required. One of my frustrations is that this same list has been put in front of people for at least five years (since the beginning of the Agri-Food Competitiveness Council) and it does not seem to have gotten anyone's attention yet. Either we are wrong or the system is. I think it's the system.

If we want to be able to tap markets around the world, then we need to be able to focus on research that will enhance shelf life. If we want to add value, then we need to focus on research that will enhance manufacturing flexibility. If we want to enhance the ability of vertical market systems to respond to the opportunities that are available, then we need to focus on technology that will measure, capture and feed back performance. Read the semi-annual reports of Agriculture and Agri-Food Canada's Research Branch and figure out for yourself what they are focusing on.

It is in this area of infra-structure research that the public sector can make the most important contributions to private sector success. There needs to be a substantial and effective mechanism for providing leadership to public sector research from the private sector. Moreover the mechanism has to work in such a way that priorities can be established and accountability can be assigned.

This is, like the others above, an area that needs to change rapidly.

A Concluding Comment

As I said at the outset, this does not do justice to the subjects that have been brought up. However, this list of things that need to change flow directly from the first four articles in this series and seem to me to be quite consistent with the things that are happening in successful organizations. In coming issues of the newsletter, we will focus on some of these points and try to flesh them out further.