

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

Date: 7/5/2019

GAIN Report Number: CA19022

Canada

Retail Foods

Retail Sector Overview - 2019

Approved By:

Charles Bertsch, Agricultural Counselor

Prepared By:

Neveen Zeit, Agricultural Marketing Specialist

Report Highlights:

Canada is, by far, the largest overseas market for U.S. high-value, consumer-oriented products, with exports reaching \$16 billion in 2018. Canada offers great advantages that, in most cases, make it the first international venture for many new-to-export and new-to-market U.S. companies.

Canada's retail market is mature and largely consolidated with five major stores that represent 62 percent of the market and nearly 7,000 independents and convenience stores that represent the remaining 38 percent of the market.

Keywords: Canada, CA19022, Retail, Grocery

Post:

Ottawa

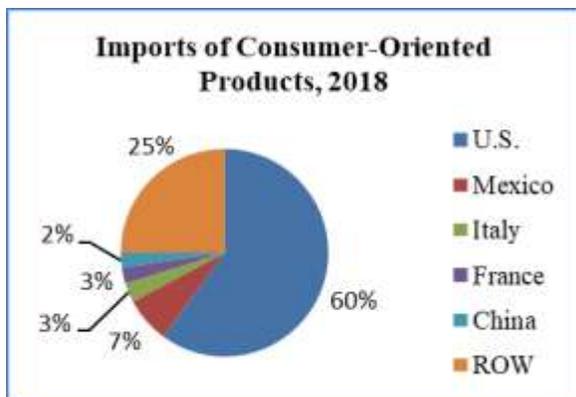
Market Fact Sheet: Canada

Executive Summary

The population of Canada is approximately 37 million and 90 percent of Canadians live within 100 miles of the U.S. border. In 2018, Canada was the leading export destination for U.S. agricultural exports. For new-to-market and new-to-export firms, Canada offers stable financial markets and a sophisticated logistics network that supports \$120 million worth of daily two-way trade in food and agricultural products. Canada's food and alcoholic beverage retail sales in 2018 reached \$96 billion, representing an increase of three percent from 2017. Opportunities exist to expand U.S. food and beverage sales but as a mature market, it is imperative for U. S. companies to study the market well due to existing competition.

Imports of Consumer-Oriented Products

U.S. exports of consumer-oriented products to Canada reached \$16 billion in 2018, nearly double the value of the next largest market. The top U.S. export categories of value added include fresh fruit and vegetables, prepared foods, snack foods and alcoholic beverages.



Canada's Retail Food Market

Canada's retail market is mature and consolidated with five major stores that include three traditional grocers and two general merchandisers that command 62% of the market. Ontario, Quebec and British Columbia represent 74% of Canada's retail market and are the provinces in which most of the convenience, drug, grocery and mass merchandise stores are located.

The Canadian food market displays a dichotomy of demand, one for low priced quality foods and the other for premium and specialty food items. Some premium consumer-packaged food products are sold in Canada at three times the comparable U.S. retail ticketed price. Customarily, U.S. companies selling natural, organic, or specialty foods will create demand and sales among the independents before tackling the larger accounts. Proven sales in Canada is important to help persuade category

Canada Quick Facts 2018

Global Imports of Consumer-Oriented Products

\$26 billion

U.S. Imports of Consumer-Oriented Products

\$16 billion

List of Top 10 Growth Packaged Food Products in Canada

- 1) Biscuits/Snack bars/Fruit Snacks
- 2) Savory Snacks
- 3) Spreads
- 4) Edible Oils
- 5) Rice/Pasta/Noodles
- 6) Confectionary
- 7) Baked Goods
- 8) Processed Fruits/Veg.
- 9) Sauces/Dressings/Condiments
- 10) Packaged Foods

Grocery & Combination Store Sales Share by Province

- 1) Ontario – 33.3%
- 2) Quebec – 25%
- 3) British Columbia - 15.6%
- 4) Alberta – 12.6%
- 5) Manitoba – 3.8%
- 6) Saskatchewan – 2.9%
- 7) Nova Scotia – 2.7%
- 8) New Brunswick – 1.9%
- 9) Newfoundland & Labrador – 1.8%
- 10) Prince Edward Island – 0.4%

Top 10 Canadian Food Retailers (by retail sales)

- 1) [Loblaws/Shoppers Drug Mart](#) (23.6%)
- 2) [Sobeys/Safeway](#) (16.9%)
- 3) [Metro/Jean Coutu](#) (9%)
- 4) [Costco](#) (6.6%)
- 5) [Walmart](#) (6.2%)
- 6) [Co-ops](#) (2.7%)
- 7) [Overwaitea Food Group](#) (2.5%)
- 8) [Couch-Tard](#) (1.2%)
- 9) [North West Company Inc.](#) (0.7%)
- 10) [Dollarama](#) (0.5%)

Note: The \$1 USD : \$1.29 CAD exchange rate has been applied for 2018.

Source: Global Trade Atlas, GATS, Statistics Canada and Euromonitor International

Strengths / Weaknesses / Opportunities / Threats

Strengths	Weaknesses
High economic growth rate and disposable income	Stronger U.S. dollar and high levels of household debt
Opportunities	Threats
Duty-free tariff treatment for most products under NAFTA and USMCA, once approved and implemented	Canada negotiating / entering trade deals with agricultural export competitors

Contact:

Office of Agricultural Affairs – Ottawa

Telephone: (613) 688-5267

Email: agottawa@fas.usda.gov

Office of Agricultural Affairs – Toronto

Telephone: (416) 640-8683

Email: agtoronto@fas.usda.gov

Section I: Market Summary

I.A. Overview of the Canadian Retail Landscape

In 2018, food and beverage sales in Canada exceeded \$96¹ billion representing a three-percent increase compared to \$94 billion in 2017. Grocery stores represented 75 percent of sales followed by alcoholic beverages at 19 percent and specialty food stores at six percent². Canada retailers rely on imported foods to fill their shelves for consumers with relatively high disposable income. Through access to established global food supply chains, fresh produce and many iconic U.S. brands are readily available throughout the year.

I.B. Key Marketing Drivers and Trends

- **Price-Conscious Consumers:** Canadian consumers, especially those in the lower-income and middle-class households, tend to be price conscious regarding food and drink purchases which creates a strong demand for private label and promotionally-priced products. Basic grocery items, such as canned soups, peanut butter, hamburger meat and cooking oils compete on price.
- **Increasing demand for healthy, nutritious and ‘clean’ products:** Natural, specialty and organic products have become standard ‘center aisle’ products in larger grocery outlets. The increasing demand for organic and fresh products, especially by higher-income consumers, is driving the expansion of specialty food retail. Independent retailers specifically targeting those market segments are currently outperforming standard food retailers.
- **Private Labels:** This line is growing in all categories with an increased focus on better ingredients to attract more consumers. Some retailers have expanded their private label lines to include a line focused on the higher-end of the market and another focusing on value.
- **Ethnic Supermarkets:** The increasing diversity within the Canadian population is supporting the expansion of the ethnic stores. Established ethnic supermarkets that once catered to immigrant communities are reaching out to non-immigrant consumers seeking new products.
- **Convenience Stores:** To maintain their market share in the retail sector, convenience stores keep introducing different product ranges, reducing prices and changing their layouts to attract new consumers. In the past few years, the convenience segment has been characterized by consolidation, with chain stores expanding at the expense of small, independent operators.

¹ All values are expressed in U.S. dollars unless otherwise specified. The \$1 USD : \$1.2957 CAD exchange rate has been applied for 2018.

² Statistics Canada: Retail trade sales by province and territory

- **Online Shopping:** Online shopping continues to be a key focus of Canadian retailers. Facing challenges from large online players such as Amazon, as well as online competitors overseas, retailers in Canada have been building omnichannel retail strategies and are aiming to offer customers a fully integrated shopping experience such as offering in-store pick-up to increase on-line food orders. Even though at an early stage, internet retailing is expected to grow steadily in the future and capture more share within overall retailing market.

I.C. Canadian Government Regulations:

In December 2016, the Canadian government announced its plan to revise the country’s healthy-eating guidelines to help consumers make “healthy food choices.” It introduced several new labelling measures and is considering [front-of-package labeling](#) requirements for foods high in sodium, sugars, and saturated fats. Companies will have until December 14, 2022 to comply with these new regulations. Some of the [key changes](#) are the daily value, serving sizes, list of nutrients on the nutrition facts table and the format in which ingredients are listed, particularly on sugars. [Health claims](#) used on packaged products in the United States may not be permissible in Canada.

In January 2019, [Canada’s new food guide](#) was released. It focuses more on how Canadians should eat by recommending eating plenty of vegetables and fruits (half the plate), protein foods (a quarter of the plate), whole-grain foods (a quarter of the plate) with water being the drink of choice.

I.D. Advantages and Challenges Facing the U.S. Products in Canada

Advantages	Challenges
Relatively affluent consumers concentrated in major metropolitan areas	Sophisticated selection of products already available on Canadian store shelves
Geographic proximity reducing transportation costs	Geographic scale of Canada and difficulty shipping from West to East coasts
Similar culinary tastes and preferences	Bilingual (English and French) labeling required
High U.S. brand awareness	A stronger U.S. dollar makes competitive pricing challenging, especially for specialty food products
Strong demand for natural, organic, gourmet, specialty food products	Smaller volume shipments (smaller distribution and consumer base) drive up landed costs

Advantages	Challenges
Duty-free access for most products	Import restrictions on dairy and poultry products
Consumer confidence in U.S. food safety and food quality	Particular ingredients or food additives may not be approved for use in Canada
High fruit / vegetable consumption and limited Canadian production	Strong ‘buy local’ movements across Canada
Well-established financial institutions and trading relationships	Differences in standard package sizes and units of measurement (metric vs. imperial system)
AIRS , Industry Labelling Tool , and National Import Service Centre provide regulatory guidance to facilitate trade	Retailers and distributors often prefer working through a Canadian broker

Section II: Road Map for Market Entry

II.A. Market Entry Strategy

To facilitate initial export success, FAS/Canada recommends the following steps when entering the Canadian market:

1. Contact an international trade specialist through your state department of agriculture.
2. Thoroughly research the competitive marketplace.
3. Locate a Canadian partner to help identify key Canadian accounts.
4. Learn Canadian government standards and regulations that pertain to your product.

It is important for U.S. companies to determine the “State of Readiness” of their business before entering the Canadian market. This includes determining the current stage of development of the business to achieve “proof of concept” and assessing its readiness/ability to develop a new country launch based on their focus and required resources and time.

For more information on these steps, please consult the FAS/Canada [Exporter Guide](#) and contact FAS/Canada offices in Ottawa and Toronto to obtain a detailed guide for targeting the retail sector in Canada.

Once the product is on the store shelf, all companies should ultimately focus on achieving appropriate levels of sales through their specific categories. This will allow their products to achieve the levels of sales momentum and help to broaden distribution and maintain long-term success in the market.

When targeting the Canadian market, it is important to keep the following facts in mind:

- Canada has a much smaller consumer base, one that represents roughly the same population as California.
- Accessing the smaller Canadian consumer base can be expensive as major population groups are concentrated in cities that are spread out along the vast U.S.-Canada border.
- There are typically three major geographic regions to consider, Western Canada (British Columbia, Alberta, Saskatchewan and Manitoba), Central (Ontario) and Eastern Canada (Quebec, Nova Scotia, and the Eastern provinces).
- For companies that are looking to launch on a smaller scale, a more manageable approach is to focus on one region versus a national launch.

Attending Canadian trade and consumer shows can help U.S. exporters better understand the market. A partial list of Canadian trade shows can be found [here](#). USDA endorses [SIAL Canada](#), the largest food trade show in Canada. Companies interested in exhibiting at SIAL Canada in Montreal in 2020 (April 15 - 17) should contact Ms. Jeanne Martin of IMEX Management at 704-705-9861. FAS/Canada works with State Regional Trade Groups (SRTG) and U.S. state departments of agriculture to support small- and medium-sized firms entering the Canadian market and provides funding support for U.S. companies to participate in various Canadian trade shows including SIAL Canada.

II.B. Import Procedures

Start by reviewing the latest FAS/Canada Food and Agricultural Import Regulations and Standards Report ([FAIRS Report](#)) to better understand relevant Canadian import requirements. The Canadian Food Inspection Agency (CFIA) provides extensive [programs and services](#), including a [Guide to Importing Food Products Commercially](#). The CFIA [Automated Import Reference System](#) (AIRS) helps businesses identify the appropriate Harmonized System (HS) codes as well as the import requirements for their products. The Canadian [National Import Service Centre](#) can guide U.S. exporters through compliance questions and help facilitate cross border shipments. FAS/Canada recommends that first-time exporters engage a [Canadian customs broker](#), as 80 percent of all shipments into Canada are handled and cleared by an appointed custom broker.³

II.C. Market Structure & Company Profiles

Close to 90 percent of the Canadian population of 37 million reside within 100 miles of the U.S. border and are spread out across thousands of miles along the U.S.-Canada border. Canada's largest cities are Toronto, Montreal, Vancouver, Calgary, and Edmonton.

The Canadian retail market is highly consolidated, with five grocery “majors” commanding nearly 62 percent of the retail share of market (SOM): Loblaws, Sobeys, Metro Costco, and Walmart.

³ A “customs broker,” works with Canada Border Services Agency to clear goods at the border. A “food broker” serves as an in-country sales representative for a U.S. company exporting to Canada.

The three major grocery chains market their products to consumers across the country under the following main banners:

- **Loblaws:** Provigo, The Real Canadian Superstore, nofrills, Maxi, Fortinos, Zehrs markets and Shopper’s Drug Mart
- **Sobeys:** IGA, Thrifty Foods, Safeway, FreshCo. and Foodland
- **Metro:** Food Basics, Marché Adonis, Super C and Jean Coutu

The bulk of Canadian food imports are predominantly imported directly by a large importer, broker, distributor or wholesaler; perishable items and multinational food companies may ship directly to a national retail chain’s distribution center.

Retail category buyers from the larger chains may rely on food brokers, distributors, and importers to manage and assist U.S. companies in navigating the retail and regulatory landscape. Category buyers are limited on time and rely on food brokers and distributors to introduce new, innovative products.

While distributors provide a great service distributing products and are able to sell some select brands, they typically oversee several hundred SKUs and target those products that are in demand. Brokers are focused on developing new retail accounts and on average manage 10 to 25 brands at a time. Oftentimes, brokers are in a better position to give companies the required sales attention needed to develop their brands in the marketplace.

Section III: Competition

As a mature market with a highly integrated supply chain, much of the competition for Canadian market share is with other U.S. and Canadian food products already established in the market.

Table 1: Canada Retail Sales and Imports of Consumer-oriented (CO) products from the World and the United States (in Million U.S. Dollars)

Year	Canadian CO Imports/World	Canadian CO Import/U.S.	U.S. Share/ CO Imports	Retail Food Sales in Canada
2016	25,214	15,600	62%	89,319
2017	25,937	15,731	61%	93,780
2018	26,439	15,584	59%	96,582

Source: Global Trade Atlas and Statistics Canada

Table 2: 2018 Canada's Imports of Consumer-oriented Products from the World and U.S. Suppliers (in Million U.S. Dollars)

Description	Canada's Imports	Major Imports/ U.S. (Value/ Percentage)		Leading Competitors
		Value	Percentage	
Wine (less than 2 liters)	1,707.71	388.51	23%	Italy, France, Australia
Food Preparations *	1,424.35	1,176.38	83%	China, Sweden, Singapore
Bread, Pastry, Cakes, Etc Nesoi & Puddings	1,170.94	993.13	85%	Germany, China, Mexico
Dog And Cat Food, Put Up For Retail Sale	688.30	636.16	92%	Thailand, China, Mexico
Cocoa Preparations, Not In Bulk Form, Nesoi	563.53	308.20	55%	Germany, Mexico, Switzerland
Beer Made From Malt	556.40	112.29	20%	Netherlands, Mexico, Belgium
Coffee, Roasted, Not Decaffeinated	531.48	27.82	74%	Switzerland, Italy, Germany
Sauces Etc. Mixed Condiments And Seasonings Nesoi	524.70	419.77	80%	United Kingdom, China, Thailand
Nonalcoholic Beverages, Nesoi	516.46	470.42	91%	South Korea, Thailand, Brazil
Meat Of Bovine Animals, Boneless, Fresh Or Chilled	458.28	420.43	92%	Australia, Mexico and New Zealand
Sugar Confection (Incl Wh Choc), No Cocoa, Nesoi	442.89	275.27	62%	China, Mexico, Germany

**Includes food preparations, food concentrates, fruit syrups, extracts, flavoring powders, cocktail mixes, etc.*

Source: Global Trade Atlas

Section IV: Best Product Prospects Categories

IV.A. Products in the Market with good sales potentials

Among the consumer-oriented products exported to Canada in 2018, fresh fruits and vegetables remained the top value products with a combined value of \$3.4 billion, followed by prepared foods at around \$1.9 billion, snack foods at \$1.4 billion and non-alcoholic beverages at \$1 billion.

The market share of the following product categories is expected to grow in the coming five years which presents good sales potential for U.S. companies:

Table 3: Product Categories with Forecasted Period Growth Rate (2018 – 2023)

Product Category	Growth	Subcategory	Growth
Packaged Food			
Cooking Ingredients and Meals	19%	Edible Oils	25%
		Ready Meals	21%
		Sauces, Dressing and Condiments	20%
		Sweet Spreads	23%
Snacks	18%	Confectionery	19%
		Savory Snacks	25%
		Sweet Biscuits, Snack Bars and Fruit Snacks	17%
Staple Foods			
Baked Goods	15%	Bread	16%
		Cakes	16%
		Dessert Mixes	8%
		Frozen Baked Goods	21%
		Pastries	13%
Processed Fruits & Vegetables	13%	Frozen Processed Fruit & Vegetables	22%
Pasta, Rice & Noodles	20%	Rice	31%
		Noodles	25%
		Pasta	13%
Breakfast Cereal	4%	Hot Cereals	26%
Processed Meat & Seafood	11%	Processed Seafood	20%
		Meat Substitutes	85%

Product Category	Growth	Subcategory	Growth
Beverages/Soft Drinks			
Beverages/ Soft Drinks	18%	Ready-to-drink Coffee	113%
		Ready-to-drink Tea	53%
		Energy Drinks	34%
		Concentrates	18%
		Sports Drinks	14%

Source: Euromonitor International

IV. B. Products not present in significant quantities but which have good sales potential

Alcoholic Drinks:

Canada’s alcoholic drinks market is well developed. Its wealthy consumer base provides strong growth opportunities in the higher-priced premium drinks segments, which include wine and craft spirits. However, the Importation of Intoxicating Liquors Act gives power of the sale and distribution of alcoholic products to the provincial liquor boards or commissions. In addition, each provincial liquor control board has its own policies and regulations. U.S. companies are recommended to work with agents licensed by the provincial liquor control board to confirm rules and to access the market in each province.

Organic, Healthy and Natural Products:

The demand for organic, healthy, and natural products market in Canada is growing. There are excellent prospects for products with organic or natural ingredients, consumer-ready processed foods and beverages, and organic fresh fruits and vegetables. Canadian health-conscious consumer are continuously looking for products that are: all natural; no artificial colors; low sugar/sugar free; no artificial flavors; and low fat/fat free.

IV. C. Products not present because they face significant barriers

Canadian poultry and egg markets operate under the umbrella of “supply management,” which restricts imports to control supply and maintain artificially high prices. The Canadian dairy industry also operates under the supply management system. The European Union has an advantage in the cheese trade because of Uruguay Round provisions and the Comprehensive and Economic Trade Agreement (CETA) that entered into force in September 2017. New Zealand’s low production cost as well as being a member of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) that entered into force in December 2018, support its dominant position (>60 percent) in Canada’s butter market.

Section VI: Key Contacts and Further Information

Foreign Agricultural Service (FAS) - Ottawa:

Telephone: (613) 688-5267

Email: agottawa@fas.usda.gov

Foreign Agricultural Service (FAS) Toronto:

Telephone: (416) 640-8683

Email: agtoronto@fas.usda.gov

Please refer to the FAS/Canada [Exporter Guide](#) for links to additional sources of information, including Canadian government agencies, Canadian databases and industry organizations.