

## Food industry in flux, but still 'powerful,' according to study

March 20 2014, by Paul Mayne

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One Western professor contends Canada's food manufacturing industry remains a "viable and a powerful economic force," despite a string of recent high-profile closures, including the Kellogg's plant in London and Heinz plant in Leamington.

According to a recently released Ivey Business School report, *The Changing Face of Food Manufacturing in Canada: An Analysis of Plant Closings, Openings and Investments*, the closures are not a sign of an industry in trouble, rather one that is reorganizing production to maintain global competitiveness.

"Closing a plant has impacts on many levels. No one likes to read about another manufacturing site being closed," said David Sparling, chair of Agri-Food Innovation and Regulation at the Ivey Business School. "However, what we found in our research was an industry in transition, rather than one in decline."

In his report, Sparling, along with research assistant Sydney LeGrow, show Canada's industry has come through a very challenging time.

"Almost 90 per cent of closures occurred in multi-plant companies, largely the result of companies reorganizing and consolidating production in fewer large plants to achieve greater scale and efficiency," Sparling continued. "The results are leaner operations, higher productivity and stronger companies better equipped to compete."

Between 2006-14, 143 Canadian [food plants](#) closed resulting in projected losses of almost 24,000 jobs. Despite that, the overall industry did not experience a long-term net decline in employment.

The industry went through a challenging period in 2007-08 when 48 closures outnumbered 27 openings and plant investments. From 2008-14, however, 105 closures were balanced by 105 openings and plant investments. Ontario was the hardest hit; Quebec's picture was more positive.

The most commonly cited reasons for closures were the plant was no longer competitive or, in many cases, production was being consolidated at another plant. Everything from corporate tax rates and electricity costs to environmental regulation and the rising Canadian dollar played a role in these decisions.

Openings, on the other hand, were often large scale and incorporated new technology to drive down costs.

"(Food manufacturing) is a major [economic force](#), and when we looked at it compared to other manufacturing sectors – where you saw a big crash among most of them in the recession – revenue didn't decline at all in food. That surprised me," Sparling said.

Among manufacturing industries, food remains the second biggest in terms of revenue in Canada and tops in number of people employed.

"The picture is definitely more positive than we expected because we saw openings starting to catch up to closings and balancing out," Sparling said. "The reality is, if you don't stay competitive, someone else will take your spot. Honestly, you can say we had some closures, but we have had openings and expansions. Some communities really are starting to recognize this is now an opportunity, and I think London is one of those,

and will probably continue to put emphasis on trying to attract food companies."

Sparling admitted plant closures do garner the most media attention, while investments and upgrades to existing facilities get lost in the shuffle. But continued investments, from foreign and domestic companies, are keeping the food industry resilient.

While not out of the woods yet, Sparling said plant closures and consolidations will continue, but new openings and investments will balance the scales and grow, albeit slowly, a stronger Canadian food industry.

"It's a very tough and competitive business," he said. "Input costs have been going up – be it energy or farm products – and you have a retail sector that is amazingly competitive with very low margins, so they are not interested in higher prices. The [food industry](#) is caught in the middle.

"That's why they figured out they had to focus on cost and efficiency. That means they had to be a lot more competitive. That's why we're seeing this. The industry, going forward, is going to look different. The Ontario [industry](#) is going to keep changing."

**More information:** The study is available online: [sites.ivey.ca/agri-food/files/...\\_turing-in-Canada.pdf](https://sites.ivey.ca/agri-food/files/..._turing-in-Canada.pdf)

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