

Canada's Turkey Industry  
Leveraging Supply Management to  
Adjust, Recapture, and Grow

# White Paper

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## Context

The Canadian Turkey Marketing Agency – known hereafter as the Turkey Farmers of Canada – is a producer-led, national organization devoted to the creation and continuation of a prosperous and thriving turkey industry in Canada. Established by proclamation under the *Farm Products Agencies Act*, the Act defines the core responsibilities of TFC:

- to promote a strong, efficient and competitive production and marketing industry; and
- to have due regard to the interests of producers and consumers of turkey

The larger governance structure for turkey in Canada involves four key signatories: TFC, the national Farm Products Council, the provincial turkey boards, and the provincial supervisory boards of all of the provinces within the turkey supply management system. Together these organizations create a comprehensive federal-provincial framework for the production and marketing of turkey.

Within this framework, TFC plays a singular role at the national level, being solely responsible for decisions with respect to allocation, volume, and production in Canada. It plays an equally important role as the convener of all stakeholders on matters of common interest. In this role the TFC has been able to create national programs and approaches – delivered through provincial authority – for on-farm food safety, housing and animal welfare, reduced use of antibiotics, and, presently, work across the industry to reduce the carbon footprint of turkey production. This national convening role makes TFC uniquely positioned to consider and drive strategic issues of interest not only to itself, and the immediate concern of producers, but for all of the key industry players (as is the case for each of the national organizations within the supply managed systems). This is a forum where disruptive factors can be examined and worked through, and is essential to the wellbeing of the system as a whole.

In this role, TFC identified in 2018 a problem that was clear to everyone in the industry: long-term declining consumption of turkey, and a host of associated challenges. In response, the TFC board and primary turkey processors developed a strategy to invest in a turkey marketing campaign, to help drive greater interest in turkey, in partnership with the provinces and the processing sector. A strong, multi-year commitment to marketing resulted, however the industry – and indeed the entire economy – has since turned into even stronger headwinds, that require a refocusing of effort, and greater scope of action to assure long-term industry success. Simply put, existing market trends and oversupply, the Covid-19 pandemic, and forthcoming access to Canadian markets by foreign competitors, demand more comprehensive action than was originally planned for. Therefore, in the summer of 2020, TFC elected to recalibrate its planning exercise to take into full account the critical market forces driving the industry, and develop comprehensive strategies that respond to these challenges.

# Process-to-Date

This paper is the second phase in three phased approach to developing a strategy for turkey in Canada.

**First**, we undertook widespread consultation and validation with all stakeholders to fully identify and understand the issues facing the sector, and the various perspectives within. We talked to national directors, provincial directors, provincial managers, and representatives from the processing and further processing industries. This process revealed a strong consensus around an urgent need for change. We subsequently shared our results (the Summer 2020 What We Heard Report) to validate with stakeholders: was our understanding correct? Did we miss anything important? We heard clearly that our understanding was accurate and complete, and reflected an agreement on the general direction required. Most importantly we heard: 1) support for change on an urgent basis and 2) a need to clearly resolve certain fundamental system tensions. These tensions are:

- maintaining the principles of supply management while balancing efficiency and inclusion within the system, specifically ensure that the interests of all provincial signatories are maintained
- that future projections and policy must fully take into account the growth of market demand for further processing, particularly as it relates to the relative and absolute decline of demand for whole birds
- meeting the need for a reduction of allocation without prejudicing longer term aspirational goals for growth

The **second** phase is this White Paper: an attempt to further refine the major issues, and present bold ideas for further discussion and consideration. This paper is designed to present new ideas, fresh thinking, and even some concepts that may be outside of our current comfort zone. The industry today is in crisis, and industry leaders all agree that the status quo is not sustainable. Therefore, we have tried to introduce here ideas that represent a significant break with that status quo, even if they aren't perfect solutions. Our goal is to present viable paths and promote critical discussion, but not to solve every problem in one fell swoop.

The **third** and final phase will be the Turkey Strategic Plan, that brings together all of the issues and analysis, and sets direction for the major paths to be pursued over the planning period. This will include important activity around stewardship and environmental performance that we have not included in this paper, because those activities are already more clearly defined and do not require the same degree of strategic re-orientation as the key elements of this paper.

# Challenges

## Turkey by the Numbers

Challenges in the turkey industry must be understood first and foremost in light of some key statistics.

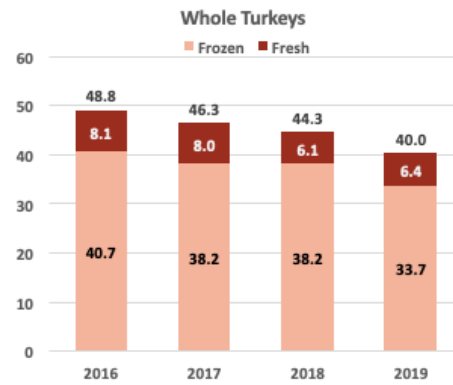
First, we can observe significant changes in turkey consumption, starting with the whole bird market that once defined the industry. Looking at the period of 2014/15 to 2019/20 we can see that whole bird disappearance declined by 18%, from 76.3M kg to 61.8M kg five years later.

Turkey produced for further processing, however, tells a different story. FP production grew by 17.7% during the same period. We note, though, that FP disappearance is projected to suffer a steep decline in 2020/21 due to the coronavirus. Only time will tell exactly how steep the actual decline is, and how long recovery will take.

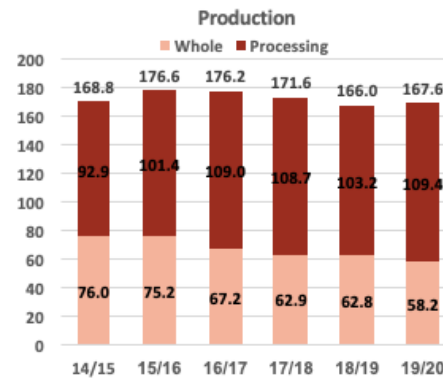
During that same period domestic disappearance saw growth of 5.1% from 2014/15 to 2017/18, followed by 4.5% decline from 17/18 to 19/20 that netted out to flat performance over five years.

The overall story is clear: whole bird sales have declined consistently, and the total market has stayed flat on the growth of the processed turkey market. These trends are important for turkey in Canada because production and infrastructure vary across the country, and not every province can participate in the growth of processed turkey in the same ways. At the same time, some provinces have been harder hit by the decline of the whole bird market than others. TFC has endeavoured to share the burden of decline as equitably as possible, which can work as a stopgap. A jurisdiction might produce more for the whole bird market and fill demand further away, while another jurisdiction shifts its production to meet a greater proportion of processed demand. However, on a sustained basis this creates significant tension, as areas locked into producing whole birds for structural reasons have less and less access to growth opportunities, and must ship birds further distances, adding cost to the system.

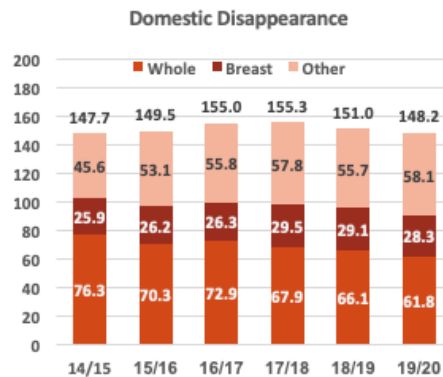
## Retail Sales: Whole Turkeys



## Production: Whole vs. Processing



## Domestic Disappearance



See the Annex for more turkey data

This regional production dynamic is not anyone's fault, and is most certainly not an indictment of those provinces who produce a larger number of whole birds. The question at hand is how the system will adapt to a market evolution beyond anyone's control, in a way that respects its principles as a supply managed industry committed to equity and profitability.

# Challenges

## *System*

Allocation policy has lagged behind the market for some time, though progress has been made recently (before being accelerated by the pandemic). Nonetheless, there remains an unresolved debate at the national table about the proper strategic focus of allocation. Allocation is a fresh debate at each control period, devolving into the same battle each time, the net result of which is a general bias toward the status quo.

## *Changing Consumers*

The millennial generation is the dominant consumer generation already, and Canada is demographically more diverse than ever before. Some customers don't have a strong familiarity with turkey, and many others are primarily conditioned to a declining holiday market, without regular weekday consumption. In addition, consumers are re-evaluating protein choices, selecting products that meet sustainability and animal welfare demands, and increasingly plant-based or other sources of protein.

## *Consolidation*

The processing industry has consolidated as the market has moved toward greater emphasis on processed products. Taken together, these two factors have left some producers, simply by virtue of their physical location at a relative disadvantage, with more costly and precarious access to the processing capacity that is the future of the industry.

## *Covid-19*

The global pandemic has had two important effects relative to turkey. First, the large scale shutdown of offices and businesses has caused a stark decline in lunch sandwich and deli sales. People working from home are not heading out to Tim's or elsewhere like they would have when working on site. The long-term effect of this decline is unknown, but a quick rebound is unlikely. Second, household incomes have been stressed, as businesses contract, and families have to do more with less. This means that price is an ever more important consideration at the grocery store.

## *Trade*

Market contraction due to the pandemic and longer-term stagnation will be compounded in the future by increased competition from outside of Canada. Increased access to the Canadian market in recent trade deals will be much more of a factor than in the past, and will make net gains that much more difficult to realize as the industry experiences growth.

## *Value Chain*

The turkey industry is driven by an entire value chain, but coordination amongst those players is low in key areas. This is particularly true with respect to coordination between producers and processors. This is not to say that there is no alignment – there is – but there is considerable room for growth under a unified industry strategy.

## *Processor Profitability*

Processors have expressed real concerns about profitability, after a series of years of some incurring significant losses, demonstrated in the 2020 Price Waterhouse Cooper report on the subject, that showed an important processor perspective. This represents a threat of even more significant disruption should the industry lose key processing capacity, especially in regions where there is little backup capacity

## *Adaptation to Change*

There is unanimous consensus across the industry that the status quo is simply not a viable option, and that without significant change the industry is in grave danger of major disruption. However, there is no similar consensus to move on from the status quo: adopt new practices, take risks, and embrace change. If the industry doesn't actively embrace a change-oriented culture it will – by default – perpetuate the status quo that it knows is not a workable future. More than just having the right ideas, building an environment that supports and enables real change is critical for success.

## *Producer Engagement*

Producers across Canada need to be on the same page in order for the national system as a whole to adequately respond to the challenges it faces. This requires a fundamentally higher degree of strategic alignment amongst provinces and the national organization than is typical, and furthermore may require some provinces to take proportionally greater short term allocations than others, in the service of long term growth. Pro rata solutions are easy, and they will continue the current dynamic.

# Strategies



# Right-sizing Production

Turkey has been chronically oversupplied, which adds cost and drags on productivity. The industry needs to consider short-term emergency action to permanently remove oversupply from the system, even while it increases allocation to make up for pandemic contraction.

Allocation policy has been slow to catch-up to this reality, not least because allocation is locked into a cycle of battles for market share, and is not guided by a specific strategy to adapt to the marketplace. Instead, allocation has generally been run on a model of: wait and see how the current year turns out, make some adjustments, don't change anything fundamental, and repeat. This is, of course, an oversimplification, but there is truth to the idea that allocation decisions have not been made in the service of a long-term objective or plan, and have been generally reactive.

Looking ahead we can see that consumption is likely to decline in the short-term, largely because of the pandemic, and that domestic market share will be further eroded if and when Chile begins taking advantage of access to the Canadian market under TPP. The industry needs to clearly see and understand a range of probable planning scenarios, right away, and prepare for them now, to make tough decisions later easier to take, quickly. All of this must be understood in the context of a supply managed system that must include all producing provinces; right-sizing production cannot mean radically destabilizing winners and losers.

**First**, toward right-sizing production, the industry needs to planning scenarios that define: a target per capita consumption rate reflective of a modest growth scenario. These scenarios must be differentiated by whole bird and further processed products, in a realistic way. The planning scenarios must be future-oriented: accounting for changes in consumer behaviour, market realities, and reasonable projections for pandemic recovery – i.e. not a quick return to pre-pandemic patterns. Based on these data and planning assumptions, the industry should develop an agreed-upon plan to bring supply in line with reasonable estimates of domestic demand over a five year period. This plan would be akin to short-term measures taken to deal with disruption due to animal disease, and based on a simple principle: all the reduction necessary to address the problem, and no unnecessary reduction.

**Second**, the industry needs – over the medium-term – a formula-based allocation methodology that translates growth goals and real market data into allocation recommendations. Allocation needs to adjust to demand more readily, with a lesser emphasis on simply maintaining continuity of market share at a provincial level. This will, of course, be linked with strategies described below to increase efficiency and address issues of access to processing capacity, where possible. Formulaic allocation policy is necessary in order to lower the political temperature and enable quicker adjustment as circumstances evolve. At the same time, TFC needs to ensure that its governance and decision-making processes, especially around allocation, are ready to take timely decisions and act decisively.

**Third**, the industry should invest – over the longer term – in a digital strategy for more detailed data collection and forecasting that integrates production data with data throughout the value chain. This includes agreement on the benchmarks that will help us measure success. This will further enable the industry to make informed, closer to real-time decisions, and to adapt in order to fuel growth by seizing emerging opportunities quickly. Value chain data would also allow the industry to more fully consider questions of profitability throughout the chain.

**Maintain production in all 8 provinces as a fundamental principle and objective**

**Planning scenarios and a concrete plan to quickly match supply more closely to (disrupted) demand**

**Formula-based allocation policy, responsive to the market, and decision-making processes to make it work**

**Long-term investment in data collection and forecasting to increase future market responsiveness**

# System Performance

The turkey system today is defined by a significant tension: the unintentional have/have not dynamic of producers who have ready access to processing facilities and those who do not. This causes both growth and reduction to be apportioned either non-equitably, or in ways that contradict the demands of the market. In either scenario there is resultant inefficiency (production located far from processing capacity) or provincial inequity (production consolidated to those areas where processing demand exists). In addition, there are other factors creating drag on industry potential. For example, the lack of an official national cost of production, but the existence of a de facto cost of production based on Ontario, creates pressure throughout the country. Various provincial regulatory systems and non-regulatory practices also have different effects on cost and production throughout Canada. In short, there exist numerous best practices scattered about, and approaches that have proven to work, which producers should adopt en masse. This includes better integration with processors to understand and meet processor demand for particular traits and attributes.

System performance is driven by the entire value chain, and especially the interface between producers and processors. For this reason, this paper recommends that each party, and the two parties together should examine ways to improve system performance. It is critical to note, however, that efficiency in this context is bounded by the principles and goals of supply management, and by TFC's mandate of ensuring national production and fair livelihoods for producers. Therefore, efficiency is about an inclusive system that offers good returns to everyone, and not about simply maximum consolidation and the lowest possible prices. That said, we cannot pretend that price is unimportant. Protein is a highly competitive and price-sensitive sector, and Canadians will very likely find budgets stretched for some time as pandemic recovery proceeds. Delivering on the vision of everyday turkey consumption will require both everyday products and everyday prices that support this goal.

The likely level of short-term disruption from these measures and right-sizing allocation is high, and should be treated as the emergency that it is. Producers will need to develop emergency tools to get through the next two to three years in creative ways that keep all provinces in the system.

**First**, producers should convene a national forum with a mandate to 1) make recommendations on how to achieve short-term goals with the least negative impact on producers; and 2) review existing on-farm practices and national and provincial policies with a view to identifying and implementing best practices that will drive efficiency and lower costs from coast to coast. This could also include the identification of issues with respect to upstream members of the value chain, particularly feed and poult suppliers.

**Second**, producers and processors should sit together at a joint table designed to explore efficiencies. This would include optimizing the use of processing facilities, transportation, scheduling, costs, and more. This would also include developing a practical approach to ensuring that producers and processors are aligned in terms of growing the “right-sized” bird for various markets. This does not mean one-size fits all for all of Canada.

**Third**, the industry should consider the potential benefit of leveraging a differentiated pricing system for turkey for further processing, in order to stimulate growth.

Producer forum to build cohesion for a national approach and drive efficiency

Producer and processor joint roundtable to explore efficiencies

Identify means of leveraging a differentiated pricing system



# Market Development

System performance is about production efficiency, however, achieving 5kg annual per capita consumption will also require the capture of new markets and new customers. This is, in effect, a continuation of the pre-pandemic marketing for growth strategy already in place, but amplified to find and enable even more opportunities for growth. We know that demographic change presents a challenge for turkey. Younger customers and many new Canadians have low familiarity with turkey and customers across the board are cooking less, eating more fast meals, and choosing emerging protein alternatives (plant-based and new lab-grown products).

There is, therefore, an imperative to both reach new customers, and to ensure that the products available respond to the needs and expectations of those customers. These are fundamentally related goals, making turkey and everyday protein demands that turkey be available in everyday formats and products.

Innovation demands a change in mindset: a willingness to do whatever it takes to get new products and more production to the table. The need is urgent, and an aggressive outlook is compulsory. There is a policy challenge here, but also a cultural one: moving to an approach that accepts more risk and drives experimentation.

**First**, the industry must maintain and even enhance the Think Turkey campaign and overall marketing strategy. Now is not the time to retreat from marketing. The industry should strongly consider increasing marketing activity during the pandemic recovery period, leveraging turkey's local, healthy, safe, and reliable attributes. Also for consideration: expanded partnerships, increased investment, or recommitment to a longer time horizon for the strategy.

**Second**, the industry should explore the establishment of a Turkey Promotion Research Agency, and apply check-offs to all imported product. Import pressure will be an increasing concern over the next five to ten years, eroding growth of the domestic system. Establishing a promotion agency is a way of using the presence of imports to, at least somewhat, help grow rather than cannibalize, the existing market.

**Third**, the industry needs a revised approach to innovation that spurs new product development, allows for greater risk taking, and prevents innovation-based production from spilling into core allocation and/or destabilising national allocation. This could include a dedicated sleeve of innovation kgs, strategically leveraging TRQ to spur growth, and other actions to manage innovation inclusively. Innovators would be asked to share relevant data to help the industry learn and adapt. Priority should be given to strategically-oriented innovation that targets new consumer groups, generates new products, or brings in new partnership opportunities. TFC should explore a package of innovation incentives such as price offsets, shared risk, or other measures to help kickstart turkey innovation. That said, identifying and seizing innovative opportunities depends on value chain cooperation; producers can't push innovation up the chain independently.

**Stay committed to Think Turkey, and consider expansion**

**Establish a Turkey Promotion Research Agency with import check-offs**

**New approach to innovation with more incentives, more experimentation**

# Conclusion

This paper articulates some of the key challenges and barriers to change facing Canada's turkey industry, that boil down to:

- Declining consumption and evolving consumer behaviour
- Permanent disruption of the traditional whole bird / processed product mix and implications for the inclusion of all provinces in the system
- Unprecedented market conditions due to the global pandemic
- Chronic oversupply of the market, and difficulty in adapting allocation quickly enough to meet market demands

These are serious challenges – described universally as an existential crisis for the industry – but they are not insurmountable. Turkey in Canada retains some important strategic advantages:

- A healthy, delicious, and versatile product
- A product that meets increasing demands for sustainability, environmental responsibility, and made-in-Canada production
- A strong supply management system with which to drive change across the country
- A national value chain –national and provincial boards, processors, and further processors – that is already in broad agreement on the need for action

The strategies suggested in this paper are designed to address some of the historical structural issues pressuring the industry, increase efficiency and profitability throughout the value chain, drive further market development and growth, and continue the strong stewardship that defines the turkey industry. These suggestions are, purposely, not detailed prescriptions for how to solve every problem. Instead, they form the outline of how to approach the major challenges, and some broad goals to be achieved therein. It will be up to the industry itself to figure out the details in ways that make the most sense.

But change must happen within the framework of supply management, and with the interests of producers foremost in mind. This means being creative in finding ways to keep all provinces in the system and to support all producers in making the best investment and capital allocations decisions for their farms. This may require some policy or regulatory measures of a short term or emergency nature to assist farmers over hurdles to make the long term vision a reality.

Whatever the specific solutions, we know that this set of proposals amounts to a generational change in how turkey is managed, and will be different, uncomfortable, and even disruptive for many. All of the players will have to work together, and stay committed to the big picture, even as these measures cause some short term pain. The goal in question is the thing: a thriving, profitable turkey industry, and increased Canadian consumption. The building blocks are in place, and now industry leaders need to commit to change, take the plunge, and get down to the business of restricting the turkey industry within the supply management context.

## Emerging Strategic Agenda

Data-based planning scenarios and a concrete plan to quickly reduce supply to more closely meet demand

Formula-based allocation policy, responsive to the market, and decision-making processes to make it work

Long-term investment in data collection and forecast to increase future market responsiveness

Producer forum to build cohesion for a national approach and drive efficiency

Producer and processor joint roundtable to identify efficiencies

Identify means of leveraging the existing differentiated pricing system

Commit to Think Turkey, consider expansion

Establish a Turkey Promotion Research Agency with import check-offs

New approach to innovation with more incentives and more experimentation