Supplemental Application for

Other Ruminants
Market Development Program
2005-2006

Market Development Strategy

Canadian Sheep Federation
September 30, 2005

CANADIAN SHEEP FEDERATION FÉDÉRATION CANADIENNE DU MOUTON

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Glossary of Terms

Consumer - The final purchaser of the product

Customer - Is defined as the organization that purchases the product for distribution and sale to the final consumer. The customer base is composed of retail customers, food service customers and industrial customers. Each segment has a unique set of needs in terms of distribution, packaging, pricing and product performance that must be addressed by the manufacturer

Federal Registration – the level of plant designation required in order to sell product nationally across Canada and for export into the international marketplace. Federal registration is achieved by complying with CFIA plant structural and operational standards and meat inspection regulations.

HACCP - Hazard Analysis Critical Control Points

Primary Processing - The limited alteration of raw materials from their primary state

Secondary Processing - The conversion of ingredients by physically breaking down (cutting, dicing, slicing, etc.) and adding flavour and packaging

Value-Added Products - Products that have been further prepared or have unique packaging to add value for the customer and/or consumer

1.0 Environmental Scan

This section outlines the background of the Canadian sheep industry and relevant market information, providing a rationale for the development of the proposed market development strategy.

1.1 Description of Industry Sector

The Canadian sheep industry is responsible for the production of a number of products, including mutton, lamb, wool and hides. In 2004, the total value of outputs for the industry was $77,382,764, with production for each sector as follows: 678,860 lambs; 3,100,128 lbs of wool and; 500,000 hides.

As of 2004, there were 13,323 sheep farmers in Canada and all represented by the Canadian Sheep Federation (CSF), the submitting organization for this application. For this reason, all of the sector's output is represented by the national association. There are 9 provincial associations and two affiliated associations that belong to the CSF.

Over the past ten years, the Canadian sheep population has increased 59 per cent, from 617,300 head in 1995 to 980,000 in 2005. The increase was a steady one, until 2002. In 2003, the sheep inventory dropped 2 per cent to 975,600, which can be directly attributed to the border closure of May 20, 2003 and the drought experienced in the western provinces.

Ontario and Quebec are home to just over 50 per cent of Canada's sheep population, followed by Alberta with 17 per cent and Saskatchewan with 13 per cent.

While Canadian flock size has been increasing, global production has been decreasing; from 1 billion head to 850 million. Canada is one of the only countries (along with China and India) that are recording increases in sheep numbers. Since the mid-1990's the U.S. sheep inventory has fallen from 15 million to 7 million in 2004.[1] Sheep inventories in New Zealand and Australia are following a similar trend. New Zealand currently has less then 40 million sheep[2]; its lowest level since the 1982. Australian sheep numbers are down from 173 million in the early 1990's to just less than one hundred million in 2004.[3] The shrinking sheep population in the international market can be attributed to increases in cost of production due to drought conditions as well as other market-related factors.
The reduction of sheep numbers globally offers an opportunity for growth in the Canadian market. Increasing supply is an important strategy for CSF as well as improving market access. Limiting factors include lack of federal primary processing. Quebec and Alberta have access to federal primary processing while Ontario consists almost entirely of provincial kill facilities.

Developing industries associated with the Canadian sheep industry include sheep milk and cheeses made from sheep milk. These products are expected to expand and begin to generate increasing revenues for Canadian producers.

In 2001, the average Canadian sheep farm had a flock size of 74 head.
This statistic indicates that the majority, if not all, Canadian sheep farmers are considered to be SMEs (small and medium-sized enterprises) and therefore the total output of the sector is accounted for by SME production.

The emergence of BSE in Canada in 2003 had a demonstrated effect on the Canadian sheep industry as it did on many other commodity groups. This incident made the need for increased education and industry infrastructure even more evident than previously observed. Specifically, CSF was successful in

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[1] American Sheep Industry. 2005. www.sheepusa.org
[2] New Zealand Department of Agriculture. 2004. http://xtabs.stats.govt.nz
[3] Australian Wool Innovation. 2005. www.woolinnovation.com.au

providing the provincial and affiliate associations with the much needed communication and information regarding the impact of BSE to the sheep industry.

1.2 *Production, Importing and Exporting Statistics*

Production
In 2003, the sale of sheep and lamb generated $103 million for the Canadian economy; which equates to over 3500 on-farm full-time equivalents. Standard recognized income multipliers would suggest that for the same year the Canadian sheep industry generated $383 million in wages. Given this information, the industry's impact on the economy (total output multiplier) of all goods and services purchased by sheep farms exceeded $412 million.[4]

Export
With the increase in sheep numbers, there was a corresponding increase in international demand for Canadian lambs. The number of lambs exported increased from 85,470 in 2001 to 139,392 in 2002; an increase of 63 per cent. The economic value of the animals exported in 2002 was $18,661,242.
By May 2003, 68,867 animals had already been exported from Canada to the United States, totaling $10,946,224. If the border had not closed in May 2003, and exports had continued at this rate for the entire year, the number of exported animals would have increased 71 per cent when compared to 2002 (see Figure 1). As Canada's reputation for producing quality lambs and breeding stock increased, Canadian sheep producers were receiving inquiries for breeding stock from several countries including; traditional markets like Mexico, the United States, and emerging markets like China and Brazil.

There are many other export market opportunities emerging, such as those for embryos and semen. For example, Turkey, Chile and China have all imported over $1 million worth of these products from Canada. Once trade is normalized and protocols can be established for export to these additional markets, the CSF anticipates that export of sheep genetics can flourish.

While the Canadian sheep industry was continuing to grow, and lamb consumption in Canada is increasing, the reality is that Canadian shepherds were only supplying approximately 50 per cent of the national demand for lamb and mutton. This is partly due to seasonal cycles, lack of federal production and the need to develop distribution systems. Currently, imports from New Zealand are filling the gap. Still, there are vast domestic and export markets available to Canadian sheep producers that they have yet to tap. With 67 per cent of Canadian lambs being slaughtered in provincially inspected plants, there is very little lamb and mutton exported. For example, in 2002, 96 metric tonnes of lamb and mutton was exported, primarily to the United States or Korea, which is minimal compared to the number of lamb imported into Canada.

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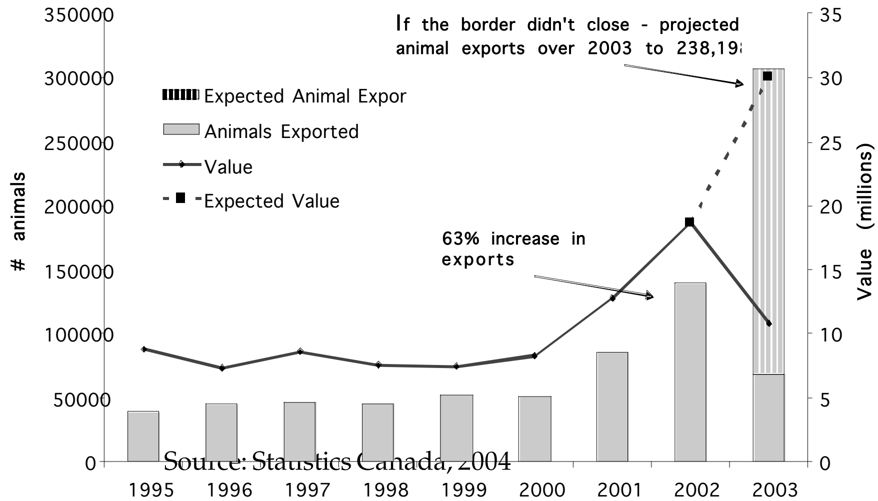
[4] Cummings, Harry. University of Guelph, 2000. Economic Impacts of Agriculture on the Economy of the New City of Ottawa.

Figure 1: Live Animal Exports to the United States



Import
In 2002, a total of 13,940 metric tonnes was imported, primarily from New Zealand.[5] The importation of lamb from New Zealand balances the current seasonality of Canadian lamb production. Flock sizes in New Zealand are decreasing as they are dedicating their production to maintain import quotas to both the United Kingdom and the European Union. This could affect the level of imports seen by Canadian markets and increases the need for increased production and quality by Canadian producers.

The following chart outlines the production, import and export statistics for the Canadian sheep industry since 2000.

Table 1: Summary of Production, Import and Export Statistics (2000-2005)

	Production (KGM)	Production* ($)	Imports (KGM)	Imports ($)	Exports (KGM)	Exports ($)
2000	12,540,000	103,830,216	15,403,385	67,865,905	236,205	784,381
2001	14,250,000	109,359,879	16,481,681	73,788,684	227,697	1,398,325
2002	14,750,000	95,098,993	15,925,780	78,152,169	246,090	1,916,990
2003	15,790,000	100,951,446	16,771,460	94,967,546	75,560	359,139
2004	17,620,000	73,900,699	12,991,888	88,186,786	253,496	545,238
2005 (as of June 1)	N/A	N/A	6,887,709	52,670,223	136,106	272,032

Source: Statistics Canada
* These numbers were generated using the ewe flock as of January 1, the average numbers of lambs marketed and the average price.

1.3 *Conditions in Domestic and International Markets*

[5] Agriculture and Agri-Food Canada. www.agr.gc.ca/redmeat

Target Markets

Lamb
The increase in domestic consumption of lamb can be attributed to several factors. The changing demographic profile, including the religious and cultural preferences of many new Canadians, as well as Baby Boomers that seek out new dining experiences all effect the demand for Canadian-produced lamb.

Little research has been conducted in Canada relating to market profile of lamb consumers, but the market is similar to that of the United States. With that said, U.S. research has shown that lamb consumers tend to be:

- Over the age of 55 and in an upper income level
- Of ethnic or religious backgrounds
- Immigrants originating from areas that already consume lamb (Australia, New Zealand, Middle East/Mediterranean and Western Europe)[6]

There is increased interest in consumption of lamb among average Canadians. The post war resistance to eating lamb caused by terrible experiences with "mutton" during the 2nd World War has largely died out. Baby boomers are looking for new dining experiences and smaller portions and are concerned in general about their health. This trend is also occurring in the younger working population. These factors have resulted in greater interest in lamb and contributed to increased lamb consumption. There are significant opportunities to increase consumption of lamb in these market with greater consumer education and awareness. Many Canadians have do not even think about lamb as a dining choice or are afraid to try it because of lack of knowledge about preparation. Both of these issues need to be addressed through greater consumer education, this needs to be targeted at all levels of the supply chain.

A significant contributing factor to the increase in lamb consumption is the demographics of immigration trends in Canada. The majority of Canadian lamb consumption occurs within Ontario and Quebec due to the high level of immigrant populations in these areas. It is estimated that by 2017, one out of every five people in Canada will be a member of a visible minority; which equates to between 7 and 9.3 million people.[7] Approximately half of all immigrants in 2017 will come from China or South Asia. However, the groups with the fastest growing populations between now and 2017 are West Asians, Koreans and Arabs.

These new Canadians, especially those coming from Africa and Asia, come from cultures where lamb and mutton are important for food security and constitute 26% of the total meat output.[8]

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[6] Manitoba Sheep Association, 2004 Expanding Our Markets: Phase 1 Market Research Literature Review
[7] Statistics Canada. 2005. www.statcan.ca/Daily/English/050322/d050322b.htm
[8] FAO. Agricultural Commodities: Profiles and Relevant Negotiating Issues. www.fao.org

The highest densities of Muslims are also found in South East Asia and, therefore, one could assume then that a substantial proportion of new immigrants into Canada will be Muslim.

It has been estimated that American Muslims alone will spend approximately 10 billion dollars per year on food beginning in 2002. This population is also growing. By 2025, almost 30% of the world's population will adhere to some form of Islam.[9] In response to the growing demographics of the Muslim population in Canada, the demand for Halal meat is predicted to demonstrate consistent growth rate with the Canadian Muslim population expected to double by the end of this decade.

In countries where Muslim populations tend to be highly concentrated, per capita lamb consumption tends to be substantially higher than in Canada, which only experienced an approximate per capita consumption rate of 0.46kg/person in 2004.[10] For example in 2000 Kuwaiti's ate 17.7 kg/person of lamb and Saudi Arabian's ate 6.1 kg/person.[11] Muslim households spend $31 per week on Halal meat products. This is almost double the Canadian household meat expenditure of $17 per week.[12] Muslims prefer to purchase Halal meat fresh once a week with most purchases made between Friday and Sunday.[13]

<u>Wool and Hides</u>
The main market for Canadian-produced wool and hides is actually achieved through export. The wool textile industry in China continues to be a very significant player in the market place, and is one of the largest purchasers of Canadian wool. China is also known for its import of Canadian hides, neither of these producers are in great demand in Canada.

Market Opportunities and Challenges

<u>Lamb</u>
The opportunities associated with the target market are mostly related to the influx of immigrant population to Canada. As mentioned, the current domestic consumption for lamb is lower than other countries, however, the there has been a steady, gradual increase in lamb consumption in Canada. Food trends have consistently identified international cuisine as increasingly popular largely attributed to the multi-cultural environment and greater access to travel. This produces a greater demand for lamb and has the ability to increase Canadian production.

The challenges for lamb are related to infrastructure. *The Halal Project*, which was conducted by Dr. Earle H. Waugh for Alberta Agriculture, Food and Rural Development, indicates that there is an inadequate supply of lamb and goats for the Canadian Muslim community. Challenges are mostly related to issues of

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[9] Waugh, Earle H. 2002. The Halal Project.
[10] Statistics Canada, Catalogue no. 23-011-XIE Sheep Statistics Vol. 4 no. 2 2005
[11] FAO and MHR Viandes www.mhr-viandes.com
[12] Statistics Canada, 2003
[13] Canadian Halal Meat Market Study 2005. Alberta Food and Rural Development

seasonal supply and a lack of steady distribution system in the marketplace. A lack of federally registered kill facilities and the need for a supportive supply chain for both retail and foodservice limit the productivity of the Canadian sheep industry.

Another challenge involves encouraging Canadian consumers to eat lamb. Their reluctance to include lamb in their diets can be attributed to:

- Taste perception (lamb has a strong flavour)
- Lack of versatility of the product
- Consumers do not know how to prepare lamb and relate it to a product ordered when eating out vs. preparing in the home
- Lamb is perceived to be lower nutritious than other protein choices. For instance, a U.S. study[14] found that consumers perceive lamb to be higher in cholesterol, have a lower nutritional content and low in economic value compared to other protein sources such as chicken, turkey, beef, pork, veal and fish.
- Consumers find it expensive

<u>Wool and Hides</u>
The ability of Canada to export wool and hides to markets such as China, where demand is growing, is a large opportunity for that particular sector of the sheep industry. The need to provide products of consistent high quality that meet the demands of the market is essential and needs to be developed.

There is also a critical shortage of shearers in Canada. Currently it is estimated that there are ten full-time shearers in the country; in order for the Canadian flock to be shorn effectively and efficiently, there needs to be at least ten more full-time shearers.

Impact of BSE
The border closing on May 20, 2003, was economically devastating for the Canadian sheep industry. Although farm cash receipts increased 46 per cent between 1995 and 2002; from $69,609,000 to $101,425,000, the immediate halting of animals crossing the border, caused farm cash receipts to plummet. The first quarter of 2003 was a strong one for sheep producers in terms of prices. The real economic impact of the border closure was not statistically apparent to the industry until 2004. Farm cash receipts dropped to $85,372,000, the lowest level since 1999. This is despite the fact that the sheep flock remained largely stable decreasing by 1 per cent over the same period of time.

The inability to move animals across the border was a real concern for Canadian sheep producers. This problem was compounded by the fact that the industry does not have access to adequate federal slaughter capacity dedicated to killing lambs. In 2003, 508,614 sheep and lambs were processed in Canada, 67 per cent of which were processed in provincially inspected plants. This meant that these products were consumed in the province in which they were processed;

[14] Ward, Trent & Hildebrand, 1995

ineligible for inter-provincial or international trade. Consequently, the provinces had to deal not only with dropping prices for animals, but were also saddled with the responsibility of marketing more lamb.

Prior to the border closure, Ontario had approximately 45.1 per cent of the nation's processing capacity. However, in 2004, Ontario was responsible for 57 per cent of Canada's sheep and lamb kill in 2003; only 6 per cent of which was federally inspected. The Ontario packers and Ontario Sheep Marketing Agency worked hard to build additional markets and increase provincial kill. Displaced lambs originally destined for export primarily from western Canada made their way to Ontario and Quebec. This continues to happen since these provinces have the largest markets for lamb in Canada and processing capacity.

At the time of the border closure, over 50,000 lambs were on feed in feedlots destined for the US market. These lambs were already too heavy to be sold on the domestic market at a break even price. In order to try and recover some of their losses, several feedlot operators continued to hold these lambs, shipping the lighter lambs that would bring them a higher price. It took these producers the better part of a year to move these lambs to market through slaughter plants. The feedlot operators tried to minimize both their losses and the impact on the entire domestic sheep market. In the process they collectively lost several million dollars. Their actions at the same time helped to stabilize the domestic market for lamb. Had they elected to dump these lambs immediately cutting their losses, there would have been a far more dramatic market crash.

Competitors
Competition in the sheep industry is largely within the lamb sector versus the wool or hide sector. The annual imports of New Zealand produced lamb are considerable and represent a large proportion of lamb consumed in Canada. They have been able to gain considerable market share in the industry as their product is available on an annual basis. The New Zealand products are seen to compliment the seasonal nature of Canadian lamb supply. The effective distribution and supply chain systems utilized by the New Zealand lamb producers allow their market to thrive and should be used as an example for further development of the Canadian market.

1.4 Summary

In summary, the above environmental scan provides insight into the Canadian sheep industry and identifies current issues facing the growth and prosperity of the industry. The most evident challenges facing the Canadian Sheep Federation and its producers are:

- Limited domestic and export market access due to lack of federal kill
- Growth of supply – ability to gradually ramp up flock sizes to meet demand
- Supply chain infrastructure – a "gate to plate" program that encompasses producer, processor and customer/consumer needs

- Consistency of product:
  - ♣ Year round production of lamb
  - ♣ Producer education to enhance grow efficiencies
  - ♣ Development of grading/production standards
- Processor information:
  - ♣ Lack of information regarding product specifications
  - ♣ Lack of knowledge re: cutting carcasses
- Lack of support material and information for butchers, grocery stores and food service operators
- Lack of communication – Canadian consumers need to know that they can access flavourful, safe and nutritious Canadian lamb products
- Ability to increase profitability of the sheep industry, specifically increasing sheep products including lamb as well as wool, shearing and hides needs to be enhanced

2.0 The Multi-Year Strategy

This section describes the market development strategy envisioned by the Canadian Sheep Federation. Through implementation, this strategy will successfully build the Canadian sheep industry through education, quality assurance and consumer awareness. It is perceived that a staged approach to building the market development strategy will assist the industry's structure to handle long-term development and growth. A detailed implementation timeline of the strategy has been created in order to monitor progress (see Appendix 1).

Key elements of the strategy include:

- Identifying consumer and customer needs
- Improving the profitability of the sheep industry by addressing improvements in the value and efficiencies of sheep and lamb production through producer education
- Develop tools to that will assist customers in purchasing and merchandizing lamb to consumers
- Increase consumer consumption by developing promotional materials that identify the healthfulness of Canadian lamb to consumers and assist them with purchasing and preparation of lamb

The initial stages of the strategy address understanding the market opportunities for lamb as well as consumer and customer needs. Programs will then be built to support the viability of the production and processing of lamb. Promotional programs will be developed to communicate to customers the profitability of offering lamb to their consumers. Targeted promotions to consumers will address their needs as identified in the research with specific attention given to improving the perception that lamb is difficult to prepare and to address the nutritional benefits of including lamb in a healthy diet.

2.1 Overview of the Strategy

The goal of this market development strategy is to expand the industry so that Canadian sheep producers are in the position to grow and adjust to the market demands and opportunities. The changing consumer food preferences and population demographics clearly indicate that there will be an increased demand for Canadian lamb. As an industry, the challenge is going to be to provide enough product to meet the demand in a consistent, year round manner. In the last ten years there have been dramatic changes in production systems that would indicate that with more work, the industry should be able to make significant in-roads towards fulfilling the requirement of year round, consistent product.

The goal of the Canadian Sheep Federation's Market Development Program is to increase lamb consumption by 0.25 kg/person over the next 5 years. In order to accomplish this goal; production must be expanded by 9% per year. This will allow for the opportunity for the Canadian sheep industry to produce an additional 60,000 lambs per year or 300,000 additional lambs needing to be slaughtered by the end of the 5 year span. A key component in the success of accomplishing this goal is an increase in slaughter capacity.

In order to increase consumption, a major component of this strategy is aimed at increasing awareness of the benefits and health-related factors of lamb. Following the BSE outbreak in Canada, many consumers became concerned with the healthiness of eating meat and it is important to demonstrate that lamb is a nutritious and healthy product. With an increase in confidence in the Canadian Sheep Federation, provincial associations and producers are actively working towards improved regulations and production practices.

In addition, the strategy will foster the market development in the Canadian sheep industry and incorporates a number of components, which together will fulfill the above objective. This strategy is supported by all members, including provincial organizations as well as associate members; the Canadian Cooperative Wool Growers Limited and the Canadian Sheep Breeders' Association. Each organization stands to gain from the market development of the Canadian sheep industry through increased communication between producers, processors and consumers.

This strategy aims to contribute to the objectives of the Other Ruminants Market Development Program by addressing issues currently faced by the Canadian sheep industry and the producers of lamb, wool and hides. By increasing the productivity of Canadian producers, the ability to capitalize on a greater number of domestic and export markets is possible. As the quality and consistency of Canadian products increase, Canada's reputation for high-quality agriculture and food products will be influenced. Issues surrounding increasing consumer demand are also addressed through education and awareness initiatives.

Successful implementation and delivery of this strategy will improve the overall productivity and economic out put of the Canadian Sheep Industry.

For example the CCWG estimated that improved wool preparation and shearing could increase the value of wool by 10%. In today's market conditions this would result in an additional $200,000.00 additional income to our farmers. It would also help to ensure greater market access for our wool and more stable prices.

The benefit to our industry for improving the quality of our hides going to market is harder to quantify. Currently many hides are not marketable either because of poor quality or lack of market for the product. The result is that these hides have to be either disposed of, or stored in the anticipation of a future market. Both of these options have a cost to the industry. If even minimal improvement in the marketing ability of this product was realized, and additional $500,000.00 in income for the industry could be generated.

The ability to market the hides has the additional benefit of making the processing of lambs more cost effective. The current situation results in additional cost to packers for the disposal of hides that makes lamb processing less profitable. Elimination of this problem would make it more attractive for processors to kill and market lamb.

Projected increases in consumption and the resulting increase in production would generate significant increases in farm income for the Canadian Sheep Industry. At the end of the five year period sales of an additional 300,000 lambs per year would generate an additional $39,000,000.00 per year of farm gate sales for the industry. It is also not unreasonable to think that in total the successful implementation of the CSF's Market Development Strategy could generate an additional 1200 on farm full-time equivalents. This equates to an additional $130 million in wages and a total impact on the economy of $140 million of goods and services purchased by sheep farms.

It should be noted that prior to BSE the Canadian Sheep Industry was expanding and growing, lamb consumption was increasing, and the industry was responding well to market opportunities with out significant government investment. It is not unrealistic that if the Canadian Government invests in the industry by funding the CSF's Market Development Strategy that the objectives, as outlined, would be, at the least met; if not exceeded.

2.2 Implementation of the Strategy

Current Association Activities
The Canadian Sheep Federation (CSF) was established on August 31, 1990. The organization, which replaced the former Canada Sheep Council, was created to provide a strong national body that represents the Canadian sheep industry on issues of national importance. CSF's current core activities include:

- Communication;
- Imports;
- Health and research;
- Finances and stabilization;
- Marketing; and
- Wool.

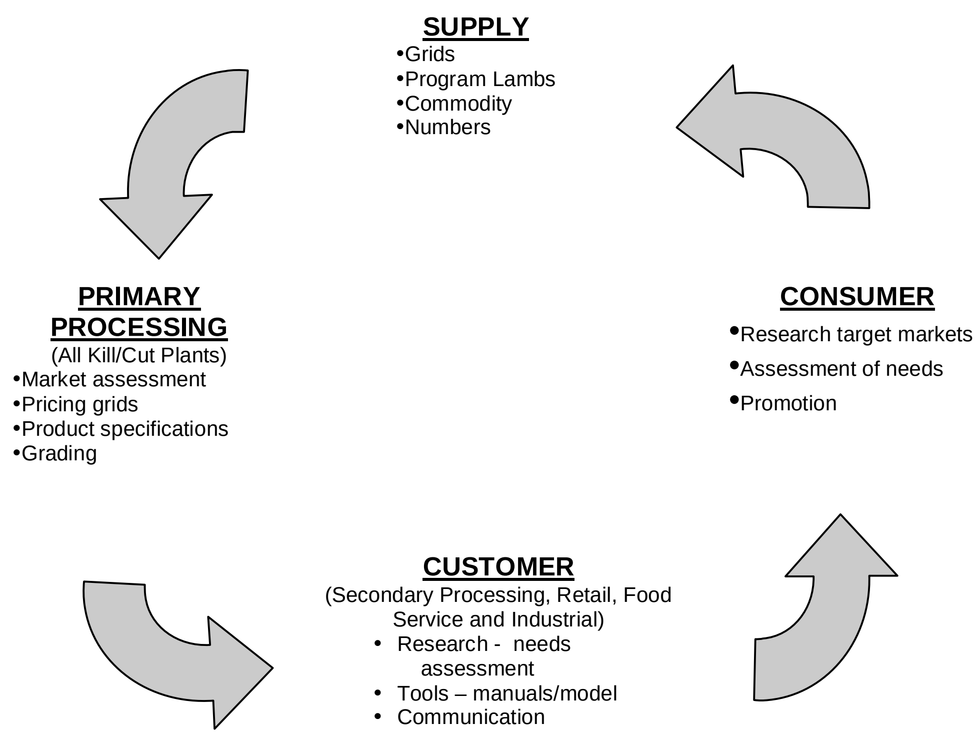
The strength of the core activities of the national organization was particularly felt during the BSE crisis. It was largely due to the diligent communication efforts on behalf of CSF that the provincial associations and all affiliate members had access to updates and information regarding the impact of the incident. These priorities provided the framework to move forward and will serve as a foundation for programs in the future.

CSF's ability to communicate within the industry as well as identify ways to increase the stabilization for the industry has helped to identify areas which need to evolve in order to allow for greater market development. For long term market growth, the support of a national organization can offer benefits of industry structure and response to industry issues. The national body can lay the ground work for initiatives that will support the provincial marketing efforts and allow them to increase their effectiveness.

The activities made possible by the Other Ruminants Market Development Program will be directed to support the long term development of markets with infrastructure as well as provide the much needed marketing support that will drive greater demand for Canadian lamb. Both areas of focus will work hand in hand to support the overall market development.

Market Development Strategy

The market development strategy utilized by the Canadian Sheep Federation must address the needs of the entire supply chain which is multidimensional in nature. The following diagram identifies the product flow from **supply** and **primary processing** to **customer** and **consumer** needs. Each aspect of the value chain must be considered in order to provide a viable foundation for long term sustainability of the Canadian sheep industry.



The market development strategy proposed by the Canadian Sheep Federation incorporates a variety of elements that will provide for a solid foundation of structure and programs which will strengthen the profitability of the Canadian sheep industry. The programs are inter-related and are designed to support one another for long term viability. Beyond this plan, the Canadian sheep industry will have to address how best to provide continued support and build on this framework.

Supply
The strategy addresses elements that are important to support the supply chain. It is essential to identifying consumer and customer needs and how they can be translated into market opportunities. These needs must be communicated to the processors and producers to provide them with an understanding of attractive product attributes. Currently there is not a system that identifies desirable attributes of the animal back to the producers nor is there a mechanism that rewards them when they add value to their flock production.

Processing
Processors would benefit from gaining insight into consumer and customer needs to help identify specific attributes of products as well as new opportunities to grow their business. By linking information to the producer regarding desirable attributes for sheep, processors will have available a better quality raw material from which to work with. This will translate to added value throughout the supply chain. Mechanisms to support this would include identifying a product specification that meets the needs of the customer and consumers and linking it with a pricing mechanism that addresses the higher profitability of the animal and additional expense the producer incurs to produce the animal.

Promotion to Customers and Consumers
Growing the right animal and presenting the desired cut products must be supported with tools for the retail and food service customers in order to promote and increase the sale of lamb. A key priority of this plan will be to communicate to customers ways in which they can increase their sales by offering lamb to their consumers. For example, the ability for retailers and food service operators to purchase and provide a consistent product is paramount to their bottom line. This includes assisting them with ordering, product pricing and merchandising support.

National and Regional Support
Providing the infrastructure and necessary relationships throughout the supply chain will be key to successful consumer promotional efforts. It is by ensuring that the right product is grown, processed into desired products and made available to retail and food service customers that greater market access can be achieved. Due to the strength and apparent diversity of the consumer needs across Canada, the promotional programs identified in this proposal will rely heavily on identifying regional partnerships with the provincial sheep associations as well as producer, processor and retail/food service customers to ensure successful execution of the programs.

The long term sustainability of the initiatives identified in this proposal is going to require both regional and national support. The support and participation of the provincial sheep associations will be key in developing, designing and implementing the various aspects of this proposal. For some aspects, national coordination is going to be critical. Currently, CSF relies on a combination of provincial producer organization and federal government resources. In order to build on the foundation of these initiatives, a national support mechanism needs to be considered by the Canadian sheep producers to ensure the long term viability of their industry.

2.2.1 Market Opportunity Analysis

The completion of a market opportunity analysis for the Canadian sheep industry is needed in order to assess the current state of the industry and identify areas for potential growth. The full analysis will cover four customer markets including processors, retail, food service, and export. Each one of these elements will be examined in terms of product needs such as product specifications, distribution requirements and promotion.

This information will allow CSF to gain a national perspective of their customers while identifying regional opportunities across the country. Each province will have the ability to customize the identified market opportunities to reflect their specific market needs and processing capabilities.

Objectives:

- Increase demand for Canadian lamb by identifying opportunities for both national and export markets
- Increase market access into new and expanding markets

Strategies:

- Work with customers in retail, food service, processors and export to identify market opportunities. This will be done by:
    - Phone surveys with customers (retail, food service, export, processors)
- Conduct category reviews and analyze market information for trends to determine new and expanding market opportunities in various Canadian and international regions

Outcomes:

- Understanding of customer needs will provide the information required to design product attributes and specifications
- This information will assist processors to produce desired product specifications and cuts to satisfy customer needs
- Needs of customers can be communicated back to producers to add value to production
- Allow for the development and design of the retail and food service materials which will aid them in increasing lamb sales
- Understand needs of the export markets
- Educate processors/producers in order to supply products to meet needs of customers

2.2.2 Consumer (end user) Research

It is imperative that the CSF strategy focus on the research and analysis of existing and potential lamb consumers to best identify key markets and sizes for sheep and lamb products. This research provides insight into key attributes that consumer's desire.

Objectives:

- Understand needs of consumers and growth opportunities for Canadian-produced lamb
- Increase consumption of lamb

Strategies:

- Identify target market for lamb and conduct a national survey of identified target market to access consumer's perception of lamb and and identify appealing attributes. Results will be analyzed to determine which demographics present the most opportunity and those that present current challenges which may be addressed through marketing efforts.
- Conduct qualitative focus group research to identify specific ethnic markets focusing on 1st and 2nd generations
- Utilize the outcomes to identify findings and communicate to retail, food service, processors and producers

Outcomes:

- Develop understanding of consumer needs
- Determine desirable product attributes based on these needs
- Communicate product specifications to processors and producers
- Express product specifications in retail merchandising manual and food service manual and consumer directed promotional programs

2.2.3 Assessment of Processing

The need to assess the lamb processing capabilities within Canada is essential to determine the options for future market access of the Canadian lamb industry. It will be important to assess processing on a regional basis as different areas of the country possess varying processing capabilities. Today, the majority of Canadian lamb is slaughtered in provincially inspected processing plants and therefore is limited in its market opportunities. In order for lamb to be distributed nation-wide or internationally, it must be processed at the federal inspection level. Retail consolidation has had a great influence of the food processing industry. Major retail chains as well as foodservice distributors look towards federally inspected processors as they demand increased volume and uniformity. Their desire for federally inspected lamb is strengthened by their need for particular product specifications, distribution and food safety. Therefore, securing adequate federal slaughter and processing capacity across the country is of the utmost importance to expand the market demand for Canadian lamb.

In order to secure federal slaughter capacity, a supply chain usually must already exist. At minimum, the ability to supply consistent animals on a weekly basis must be in place. In addition, a retailer or distributor may or may not require that a customer base is in place. They may also work with the packer(s) to develop a program. The long term viability of this program will hinge on the ability of all industry levels (producers, processors and packers) to work together to strengthen the importance and significance of the pricing grid.

Currently most federal lamb/sheep slaughter in Canada is carried out in Western Canada and Quebec. Some federal capacity is under utilized and opportunities to secure the supply to these plants must be considered.

Ontario is considered to be the largest processing province in Canada, yet very little of this lamb processing occurs in federally designated plants. It will be important to also assess the volume needs of the processors at the supply level. Due to economies of scale and current market conditions, federal packers may be reluctant to designate slaughter time for lamb or sheep in lieu of cattle based on the cost benefit analysis.

Objectives:

- Increase market access on a national level
- Increase volumes and sales in both domestic and export markets
- Ensure consistent supply of lamb to meet processor demand

Strategies:

- Assess current federal and provincial capacity and challenges/barriers of increasing federal capacity and current capacity utilization
- Determine need requirements of primary processors
- Evaluate growth potential for both consumer and customer markets
- Develop a strategy for flock growth to coincide with expanded market demand

Outcomes:

- This analysis will provide an overview of the current processing capacity in Canada and the needs of processors to facilitate the growth of federal capacity
- Recommendations can be made to identify opportunities for increasing federal processing of lamb
- A structure can be created to gradually increase flock production in a strategic manner as federal capacity increases
- Programs can be identified to increased demand by consumer and customer markets to sell the increased federal volumes

2.2.4 Value Chain Development

While expanding market access with federal kill capacity is critical, there are other aspects of the value chain that must be considered in order to ensure the long term sustainability and growth of the industry. These include aspects such as identifying the consumer and industry needs for the product as well as mechanisms to improve the overall profitability of the industry for all levels of the supply chain.

<u>Product Specifications</u>

Identifying consumer and customer needs will help identify the desirable attributes or unique selling points (USP) of the product and provide a basis for the product specifications. Product specifications will be determined by consumer preference and buying habits. The attributes influencing these preferences and buying habits will have to be determined by obtaining this information from retailers and various foodservice providers who are actually putting the products into the consumers' hands. Attributes such as the most popular cuts or products, preferred cut size and/or package size (i.e. value pack versus single piece), preferred fat cover, preferred package format (i.e. Fresh tray pack, frozen, vacuum packaged etc.) would all be required to help ensure that the consumer needs are being met. Delivering the desired product consistently to consumers is critical to the success of program.

Once it is known what the desired cut/product specifications are then they can be implemented across a retain chain for example to ensure that every meat cutter in that chain makes a 'frenched rack' the same way and of the same size etc. Likewise a set of product specifications for foodservice cuts or products can be implemented by the processor producing the product to ensure that every piece in a case of 'loin chops' is of the same size, has the same amount of fat etc. every time. Product specifications ensure that processors provide consistent products to their customers. Another advantage to product specifications is that it can add efficiency into the system not only for processors but ordering efficiencies as well.

Bottom line, it is all about delivering a consistent product to the consumer. The only way that consistent retail or foodservice cuts or products can be produced is by providing the retail chains or foodservice product processor with carcasses, primal cuts or other boxed primary cuts of consistent size, colour, shape, fat cover etc. These characteristics in turn determine what the desired carcass type and quality is. Since lambs are grown by producers, a method to ensure that producers grow lambs that yield the desired carcass quality, size etc. on a consistent basis is required. They need motivation and a return for producing consistent lambs. A pricing grid based on grading is a way to provide feedback, motivation and a return to producers who consistently grow lambs of the desired quality. A value chain will be created from lamb grower through to the consumer.

Objectives:

- Help ensure the consistency of the product by identifying product specifications
- Communicate desirable attributes back to producers to add value to sheep production

Strategies:

- Communicate and work with prominent lamb retailers, foodservice distributors and foodservice institutions to determine consumer preferences
- Develop product specifications for retail, foodservice lamb cuts and products based on findings from the above

- Work backwards from the product specifications to determine desired lamb carcass /primal specifications – communicate with lamb packers for confirmation
- Work backwards from the carcass quality specifications to determine live animal characteristics required to deliver target carcasses (breed, weight, feed program, etc.)

Outcomes:
- Determining product specifications will allow for consistency for customers and consumers, increasing satisfaction
- Provide a standard throughout the industry for pricing grids
- Address consumer and customer needs
- Provide producers and processors with valuable information to increase profitability of lamb

<u>Grading</u>
Canadian grading regulations for lamb and mutton exist and are based on maturity, muscling and fat depth and colour characteristics (see Table 2 below). Grading regulations provide quality standards by which all carcasses being graded are measured – a professional grader examines each carcass and gives it a quality and yield grade based on the criteria outlined below. This carcass-specific quality indicator could then be used as part of a price grid (see section below) to determine the payment that the grower of that particular animal will receive.

<u>Table 2: Overview of Canadian Grading Criteria</u>

Quality Grade	Maturity	Muscling	Fat Depth	Fat
Canada AAA	Lamb	• Individual muscle score>=2.0 • Average muscle score>=2.6		• GR>=4mm • Trace fat streaking • Firm
Yilmaz Grade				
Y1			• Less than 13mm	
Y2			• 13 to 18.9mm	
Y3			• 19 to 24.9mm	
Y4			• 25mm or more	
Canada C1	Lamb	• Individual muscle score>= 1.0 • Average muscle score< 2.6		• GR<4mm
Canada C2	Lamb	• Dark red meat		• Yellow fat
Canada D1	Mutton			• GR< 13mm
Canada D4	Mutton			• GR>=13mm

Source: Canada Gazette: Regulations Amending the Livestock & Poultry Carcass Grading Regulations

As discussed in the product specifications section above, the target quality and yield grade would ultimately be dictated by consumer needs (retailer and foodservice specifications used to determine desired carcass specifications). Feedback to producers via grading data will help steer them towards growing the target animal – they will be informed how each and every one of their animals grades and will help them receive higher prices for their animals more consistently (as part of a price grid – see below).

The existing grading system regulations need to be reviewed by industry stakeholders (producers, packers and retailers / distributors) do determine their appropriateness and acceptability. They may be modified and/or updated to reflect current industry practices and standards if necessary. Also, consumer understanding of grading could allow differentiation by price of higher quality lamb as it has for beef (eg. Prime, AAA, AA etc. are each valued differently) – ultimately producers would compensated accordingly for higher quality animals.

Bottom line, grading of lamb carcasses could provide a standardized measure of lamb carcass quality. A standardized system to determine carcass quality is absolutely required in a value chain and as part of a pricing grid system. Whether or not the existing lamb grading regulations (as is) will be used or some modified form of them is yet to be determined. A detailed explanation and examples of price grids is provided below.

Objectives:
- To serve as a standardized measure of carcass quality
- To serve as a basis of a price grid for producer compensation

Strategies:
- Communicate and work with industry stakeholders to review current lamb grading regulations and obtain feedback on acceptance of standards, appropriateness of standards etc.
- Modify or update grading regulations if required via appropriate government channels
- Approach and work with government to institute lamb grading program/grading services

Outcomes:
- A recognized national grading system that reflect the needs of consumers and customers
- Grading provides a standard measure for carcass quality and will serve as the basis pricing grids
- Processors will have a national standard of identifying carcass quality
- Provides producers a mechanism for being rewarded for higher quality animals

<u>Pricing Grids</u>
Pricing grids are often a significant element of any supply contract or marketing agreement. Pricing grids are designed to encourage livestock producers to grow their herds in a strategic manner; allowing them to consistently produce carcasses with desirable attributes in a profitable environment. Consistent, on-spec carcasses are critical for packers producing branded products and consumer-orientated lamb. Unlike other pricing methods, pricing grid formulas would take into account known quality and yield characteristics of all lamb sold in the value chain. Premiums and discounts are applied to carcasses above or

below the base or standard set of quality and yield specifications (grading standards could be used as this standard). This method more accurately values lamb, rewarding producers of 'higher quality', or more desirable, lamb. However, producers of 'lower quality' or less desirable, lamb will likely receive less money then they would under simple live or dressed weight pricing methods.

A critical element of a successful vertically-coordinated or vertically–integrated supply chain (value chain) is the communication of information between partners. Significant flock improvement can only be accomplished through open communication between packer, grower and end product retailer or distributor. This requires proper traceability and the divulgence of slaughter information for individual carcasses. Growers can use such information to fine tune their feeding and breeding practices in such a manner that will allow them to more consistently produce lamb with acceptable characteristics.

Grid pricing uses a base price to determine the appropriate worth of purchased lamb. There are many examples of effective pricing grids being used in North America. USPB uses an electronic ID system to collect and receive individual carcass data, which is provided directly to members. This information is used by producers to guide genetics, feeding and other herd management decisions. These are seen in the beef industry, and have been adapted to the lamb industry in Canada.

Lamb-specific examples of pricing grids include the OSMA forward contract program, Sunterra Meats and Northumberland Lamb Marketing Co-Op. While this program does not use the exact lamb carcass grading regulations as discussed above, as is shown in Table 3 below, the characteristics of this 'scoring' system are similar (muscling, fat depth etc).

Table 3: Index Score Percentages (based on muscle and fat depth scores)

New Grading Grid (effective October 6th, 2003)		**Muscle Score** (subjective measurement taken visually)					
		5,5,5 5,5,4 A	5,4,4 4,4,4 B	4,4,3 4,3,3 C	3,3,3 3,3,2 D	3,2,2 2,2,2 E	2,1,1 Or Less
Fat Depth Score (objective measurement taken using a calibrated knife)	1-3 mm	95	95	90	90	75	70
	4-6 mm	105	100	95	85	85	75
	7-16 mm	115	110	105	100	95	80
	17-19 mm	105	100	95	90	80	75

http://www.ontariosheep.org/ForwardContract/forwardcontractupdates.html

Each program animal/carcass is examined by a grader and given a muscling and fat depth score (this particular program also has a target carcass weight). Using the grid, a given muscle and fat depth score provides the user with an index. This index is multiplied by the base price (also determined using a forward contracting program-specific formula) and the dressed carcass weight to give a total payment the producer received for that carcass. As is obvious, carcasses that achieve an index of over 100 are paid a premium. Likewise carcasses that achieve an index of below 100 are paid a price per lb lower than the base price.

In order to provide producers incentive and compensation for producing animals yielding carcasses with the desired characteristics, a pricing grid will need to be developed and agreed upon before a supply contract can be put into place. A supply contract between growers and packers is part of any value chain. As mentioned above, the exact desired carcass type and method to assess carcass quality (grading or a form of it) will have to be determined to form the basis of the pricing grid.

Product specifications, carcass grading and price grids all link together and are all essential to the development of a Canadian lamb value chain.

Objective:

- Develop a price grid that improves the profitability of lamb for both producers and processors

Strategies:

- Determine the desired carcass type by collaborating with processors and customers for feedback.
- Identify the method to assess carcass quality – likely based on grading/product specifications – to develop an index.
- Develop a forward contracting program-specific formula that accurately compensates producers for quality production and demerits lower quality carcasses.
- Identify producer and packers partnerships and establish parameters for supply agreements
- Communicate information back to producers that will improve the profitability of their flocks

Outcomes:

- Pricing grids will provide an infrastructure to producers and processors to develop desirable animals/products and improve the profitability of the industry
- Pricing grids remove some of the dramatic market variances common with commodity pricing
- Compensates producers for quality animals and provides them with information to improve their flocks

2.2.5 Producer Education

The further development and expansion of the Canadian sheep industry is very reliant on an increase in producer education. The more aware that Canadian producers are of the needs of their customers and consumers, the more easily they can go about addressing these at the farm level. Producer Education seminars will be developed to address production and quality issues that are identified in other segments of this strategy with the aim of enhancing production efficiencies and increasing profitability. Information would be developed to address both national and regional issues, with delivery seminars being adjusted to recognize both common and regional issues. These issues can be divided into two basic areas:

Expanding & Improving Lamb Supply and Supply Availability
It is clear that there is opportunity to expand production of lamb in Canada. To fulfill demand it is important to recognize the need for consistent levels of supply. This will help achieve market stability leading to increased investment on the producer, packer and retail levels. Seminars will address supply management opportunities to achieve supply continuity through various methods, such as feed lotting, out of season lambing and intensification of lamb production.

It is proposed that the following producer education initiatives be pursued to foster increased quality, growth and market development in our industry:

- Lamb Meat Quality Improvement
- Hide Quality Evaluation and Improvement
- Sheep Shearing Seminars

<u>Lamb Meat Quality Improvement</u>
The need for producers to fully recognize the value of the product that they are selling to market is essential as well as those attributes that add value. Despite great efforts in production capabilities, increased education on conformation and grading/product specifications is necessary. The Canadian Sheep Federation will develop and deliver a series of educational seminars to aid producers in understanding their market, increasing value of their animals and increasing production efficiencies.

Objectives:
- Increases quality and consistency of Canadian produced lamb meat
- Increase overall value of lamb carcass
- Increase overall production efficiency

Strategies:
- Producer evaluation of conformation and finish of live lambs
- Producer evaluation of lambs following slaughter
- Comparison of grading and understanding the differences in scoring outcomes
- A class room section would allow producers to understand various markets (i.e. Ontario, Sunterra, etc.)
- Expect 14 seminars in total (2 per region – BC, AB, MB, SK, ON, PQ & Atlantic Canada)

Outcomes:

- The increased understanding and knowledge that producers have regarding ways to improve the quality of their industry will inverse the value of their animals and overall profitability of the industry.
- A greater understanding of product specifications and grading and how it relates to production
- Ability of producers to increase flock supply to meet above requirements

Hide Quality Evaluation and Improvement
To further efforts in improving value of the Canadian sheep industry it is important to address all areas of sheep production that can lead to greater profitability. The quality of hides is very dependent upon the procedures followed not only by producers, but also those slaughtering and skinning the animals in the processing plants. For this reason, it is important to evaluate all current practices and develop possible strategies to improve the quality of Canadian-produced sheep hides.

Objectives:
- Increases quality and consistency of lamb hides produced in Canada
- Increase overall value of lamb hides
- Improve skill level of workers skinning the animals

Strategies:
- Identify those purchasing Canadian lamb/sheep hides
- Discuss with hides buyers the issues they are encountering with Canadian-produced hides
- Produce educational materials for producers describing the effects that certain farm practices have on hides quality
- Travel to processing plants and assess methods used in producing hides
- Hold educational seminars in processing plants to increase skill level of those workers skinning the animals

Outcomes:
- Understand needs of the international hide markets
- Communicate needs to processors and producers in order to supply international markets with desired product

Sheep Shearing Seminars
In order to maintain sales of Canadian wool in international markets, the Canadian wool clip needs to be prepared and packed to international standards prior to marketing. The most important aspect of the preparation is the skillful removal of the wool from the sheep, followed by the further separation of the fleece into the various grading categories.

A lack of qualified shearers in Canada is limiting flock expansion, creating both animal welfare and wool harvest quality issues. If production is to increase, it must be balanced by an increase in the number of skilled Canadian shearers.

Objectives:
- Increases quality and consistency of Canadian produced wool

- Increase overall value of lamb wool
- Improve skills of Canadian sheep shearers

Strategies:
- Shearing clinics to be offered to producers (at both beginner/intermediate and advanced levels)
- These clinics will be lead by expert shearers from Canada & New Zealand depending on level of shearer
- Clinics to be held in 3 locations across Canada to ensure maximum participation

Outcomes:
- Developed understanding of international requirements for wool markets
- Develop increased number of skilled Canadian shearers
- Supply of wool and overall flock size will increase as a result of greater capacity for sheep shearing in Canada

<u>Wool Market Research & Development</u>
To market Canadian wool clip to give the best return to Canadian sheep producers, CCWG needs to study the emerging markets for greasy wool, the most important of which at this time is China.

Objectives:
- To better understand the market that is purchasing Canadian-produced wool
- Understand the requirements of wool for the Chinese market

Strategies:
- Conduct a pre-market study of the Chinese Market for wool focusing on the size, trade shows, government regulations, statistical data competitors, and contacts in the wool trade
- Establish customer contacts in Hong Kong working in conjunction with the Canadian Trade office
- Establish customer contacts in China in conjunction with the Canadian Trade Office

Outcomes:
- Understanding needs of international customer markets for wool
- Informing producers and processors of these needs
- Increased supply and improved quality of wool

2.2.6 Nutritional Analysis

The ability to promote the nutritional attributes of lamb to consumers will be considerably important to improving the nutritional perception of lamb, and ultimately, consumer demand. Consumers have identified health and nutrition as a key concern when purchasing food products. The success of "better-for-you" products such as President's Choice Blue Menu products is testament to the interest consumer have in identifying healthy food choices.

As concern regarding national and world health increases in importance, Health Canada's mandatory nutrition labeling regulations published on January 1, 2003, coupled with education, are very significant supports to improved public health in Canada. The new nutrition label, *Nutrition Facts*, table will appear in a standard format so it looks the same from one product to another, making it easier to find and use.

Currently, the Canadian Nutrient File (CNF) contains nutritional profiles of American and New Zealand lamb. This puts Canadian lamb at a competitive disadvantage compared to other protein choices. With no Canadian lamb nutritional analysis, nutrition labelling will not accurately represent Canadian lamb. As well, in order to be eligible for programs that promote public awareness of healthy food choices, such as the Heart and Strokes' Health Check program, Canadian nutritional analysis must be provided.

National nutritional analysis will require the collaboration of three regions (Alberta, Ontario and Quebec) to assist in coordinating sample sets for the research. As well, this research will require the product specification information to assure consistency in product samples. Finally, the analysis will include cooked product which will require the development of cooking methods for each of the identified cuts to be analyzed. This cooking information will be useful when developing customer and consumer materials to promote the proper cooking techniques for various lamb cuts.

Objectives:

- To develop a nutritional database of Canadian lamb cuts this will support consumer promotions regarding the healthfulness of lamb in the Canadian diet.
- To increase lamb demand by developing promotions that will improve consumer's nutritional perception of lamb

Strategies:

- Collaborate with a recognized research lab and consult with Health Canada's Nutrition Research Division to develop methodology for inclusion into the Canadian Nutrient File and to satisfy *Nutrition Facts* label requirements. (See proposed research methodology and quote from Silliker Candia Co. Appendix 2. For the purposes of budgeting, 6 cuts were identified as key to include in the analysis.)
- Partner with regional sheep associations to identify cuts for inclusion in the analysis as well as to obtain consistent sample sets throughout Canada by:
    - ♣ Utilizing national product specifications
    - ♣ Developing cooking method by cut
- Develop promotional materials to communicate the nutritional attributes of lamb such as:

- ♣ Develop materials to communicate the nutritional aspects of lamb at the retail level such as nutrition label sticker design for on-pack use and/or brochures that include nutritional labelling information and that promote the healthfulness of lamb in the diet.
- ♣ Collaborate with the Canadian Heart and Stroke Foundation's Health Check program to help consumer identify that lamb is a healthy choice.
- ♣ Develop promotional information that can be communicated on the website and through various public relation activities including press releases and for distribution at consumer events.
- ♣ Develop materials for health professionals so they may understand the healthfulness of lamb and ultimately support and communicate this to their clients.

Outcomes:

- By completing this research, Canadian lamb will be referenced in the Canadian Nutrition File which is accessed by health professionals on an ongoing basis allowing them to understand the healthfulness of Canadian lamb.
- The preliminary methodology will require the development of cooking instructions which can be linked to customer and consumer promotional strategies to promote the proper cooking method of lamb to increase the chance of a positive eating experience.
- This information will serve as the scientific basis for consumer and health professional materials to improve the nutritional perception of lamb.

2.2.7 Food Service Merchandising Manual

A food service merchandising manual is designed with the purpose of providing both food service operators as well as culinary students with information on preparation that is current, accurate and useable. Important information to provide the food service sector includes information such as quality and grading, handling and storage, cooking, nutrition and mechanisms to boost food service profits. The development of a Canadian Lamb Food Service Merchandising Manual will help food service operators and serve as means for CSF to deliver product information to the food service industry.

Objectives:

- Promote Canadian-produced lamb to the food service industry
- Increase volumes demanded by domestic and export markets

Strategies:

- The production of the manual will begin with a focus group of chefs from across the country, representing a diverse range of operations. Input from the buyers from the onset will be invaluable to creating a useful and accurate resource

- An advisory panel will be created to guide major production milestones within the manual to ensure the most accurate, useful information possible
- The manual will be segregated monthly to offer a diverse range of fresh ideas to market and merchandise lamb.
- Regional opportunities will also be outlined
- The manual will feature product specifications that will allow for easier ordering and deliver more consistent products
- Findings from chef focus groups will assist in the product development, product presentation, and preparation details for both the Retail Merchandising Manual as well as recipe cards
- Findings will be used to create a detailed cooking instruction brochure with recipe ideas for consumers to foster interest as well as to ensure proper product preparation

Outcomes:

- Increase in food service demand for lamb by educating the food service sector regarding the purchasing and preparation of lamb
- Identify purchasing, ordering and distribution challenges that limit market access
- Provide processors with information to better serve this sector
- Identify the need for producers to increase level of lamb supply to meet demand and product specifications of the food service market

2.2.8 Retail Merchandising Manual

The purpose of a retail merchandising manual is to inform retail chains of valuable product information that will assist in the sale of the product. The information provided in the manual will consist of information relating to food storage, preparation and merchandising. Research conducted by Mallot Creek Group Inc. and OSMA in 2004 found that low levels of profitability in lamb sales at retail were due largely to improper carcass cutting. For this reason, the CSF feels that the development of a retail merchandising manual will aid retail chains in the overall handling and sales of lamb.

Objectives:

- Promote Canadian-produced lamb to the retail industry
- Increase volumes demanded by domestic and export markets

Strategies:

- Created with the guidance of an advisory panel including buyers from a diverse range of retail outlets
- The manual will be segregated monthly to offer a diverse range of fresh ideas to market and merchandise lamb – regional opportunities will also be outlined
- The manual will feature product specifications that will allow for easier ordering and deliver more consistent products

- Findings will be used to create a detailed cooking instruction brochure with recipe ideas for consumers to foster interest as well as to ensure proper product preparation
- The retail merchandising manual will be accompanied by a model (in c.d. format) that will assist retailers in determining optimal profitability for lamb sales

Outcomes:
- Increase the retail demand for lamb by communicating information to retailers to help them purchase and merchandise lamb
- The manual provides accurate information for the retail sector regarding lamb cuts.

2.2.9 Retail Merchandising Model

As discussed earlier, the development of a set of retail and food service product/cutting specifications to help ensure uniformity and consistency of lamb cuts and products at the consumer level. To help develop these specifications, a computer model developed in Access will be designed to allow retailers or those who process lamb primals into retail or food service cuts or products to cost and price these products.

For example, a retail chain will be able to perform cutting tests at several or all of their stores in which each butcher will create a given retail product according to the given brand or company specifications for that product; based on primal, packaging, labour, overhead and other costs, the given product will be costed and priced based on a target profit if desired.

Objectives:
- Assist retailers in identifying the profitability of selling lamb and to show the competitiveness of lamb compared to other proteins

Strategies:
- Tracking of the cost of various primal and sub-primal lamb prices and other ingredients
- Tracking the price of various retail or food service lamb products
- Track labour costs (skilled and unskilled)
- Handle the input of various cut tests (recipes) over time that relate a given primal and various ingredients to the production of retail or foodservice products
- Average the results of various cut tests for selected retail or food service products to summarize results
- Allow the use of all existing tests to contribute to an averaged basis for further pricing analysis or to select which tests contribute to pricing (this would allow the flexibility to base a pricing analysis on a single, recent test, a set of tests from a given class of stores, or the tests performed in the past two months if desired)
- Allow for the use of multiple currencies, primal or sub-primal suppliers, primal or sub-primal specifications etc.

Outcomes:

- Enable the retailer to accurately assess the profitability of offering lamb to their customers
- Show how lamb compares in competition with other proteins

2.2.10 Market Development Communication

Marketing and promotion of lamb is needed to help build demand and grow the framework activities. The ability to increase awareness and demand for Canadian lamb is essential. In order to build awareness, promotion will be important as well as developing support systems that help make Canadian lamb available across the country. Marketing Strategies will be developed at both the customer and consumer level.

<u>Customer Level</u>
It is vital that the retail and food service industries are fully informed of national product and cut specifications. This will be made possible through the development and delivery of the food service manual and retail merchandising manuals.

Seasonally targeted marketing efforts are an effective manner to reduce the strain of annual sales fluctuations. Marketing campaigns for lamb in countries such as Australia have shown that seasonal marketing can increase the base level of lamb consumption within a country. The strategy proposed by the CSF includes the development of a great deal of materials designed to target increasing overall lamb consumption in Canada.

Objectives:

- To communicate national lamb specifications
- To increase domestic and export volumes of lamb
- To help develop a balanced annual consumption of lamb

Strategies:

Foodservice

- Food service P.O.S. material may include a menu logo or table topper that markets the Canadian lamb and its unique selling features. Since food service often leads food trends, it is a way for consumers to be educated on the wide variety of lamb cuts
- Partnerships with the various provincial culinary institutes to promote the use of lamb in cuisine
- Develop template and deliver first annual chef boot camp targeted to various sectors of the food service industry (i.e. golf courses, resorts, etc.)
    - Partnerships with a variety of industry stakeholders will be established to ensure the long term viability of the program
- The Food Service Merchandising manual will feature monthly recipe ideas, entertainment, presentation and products specific to the month or season (this will include tasty barbeque items in the summer, hardy stews

in late fall, comfort foods such as roasts in the winter, etc.) this ideation will occur through the same chef focus group for new product development (one day session)

Retail

- Develop a Canadian lamb identity
- The Retail Merchandising Manual will allow retail locations to produce value-added lamb products that will appeal to consumers throughout the year

Outcomes:

- Increased demand by customers seen through a raise in number of sales
- Need for federally inspected processing plants to meet demands both domestically and internationally
- Ability of producers to increase supply to meet new demand levels

<u>Consumer Level</u>

Promotional efforts must also be directed at the target market consumer who is purchasing from both the retail and food service sectors. It is essential that consumers are made aware of lamb products and begin to pull the products through the system – affecting the entire supply chain from the retailer right back to the producer.

Objectives:

- To increase overall consumption of lamb
- To raise awareness of the nutritional value of lamb

Strategies:

- Develop materials to educate consumers on the proper storage, preparation and cooking instructions. This could be in the form of brochures, recipe cards or on pack labels.
- Based on the research findings from the consumer research, advertising and promotional strategies geared to key target markets will be implemented – this may include articles (recipes) in *Canadian Living*, *Chatelaine*, and the LCBO's *Food and Drink* magazine
- The quarterly magazine *What's Cooking*, published and distributed by Kraft, may be a potential market fit to promote lamb as a complete entertainment dish (includes preparation instructions)

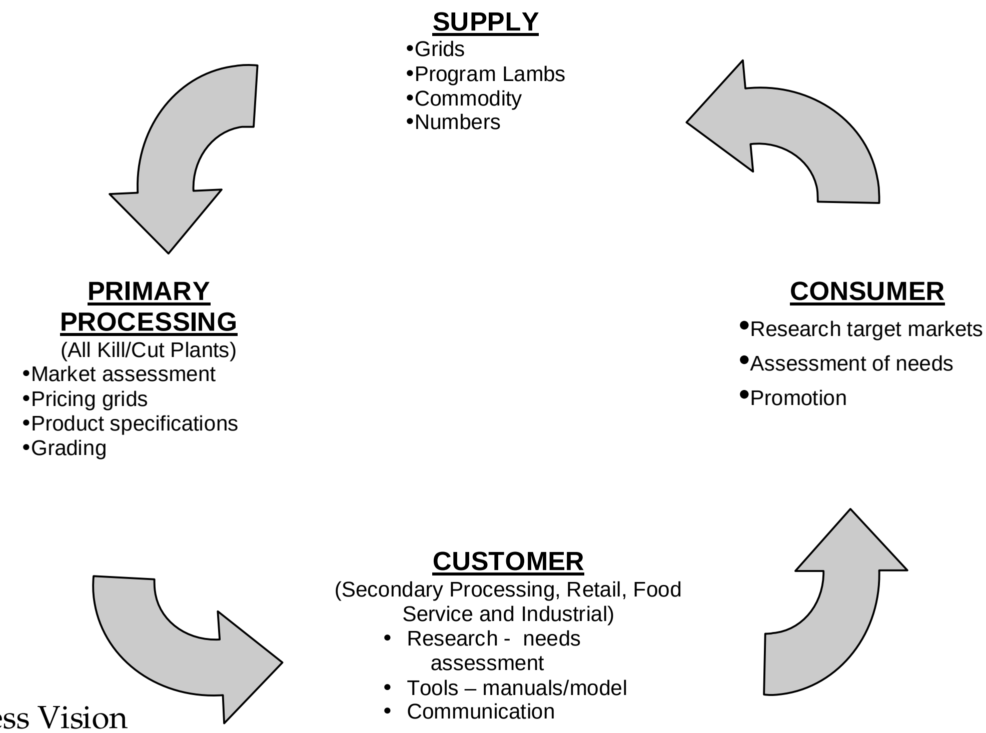
Outcomes:

- Increased demand by consumers seen through a rise in consumption levels
- Need for federally inspected processing plants to meet demands both domestically and internationally
- Ability of producers to increase supply to meet new demand levels

2.2.11 Long Term Business Strategy

The funding provided by the Other Ruminants Meat Development Program will propel the Canadian sheep industry forward by providing the necessary infrastructure and promotional programs. It is apparent that in order to continue to support the effectiveness of these programs, a means to aquire long term support and resources will be required. As a result, all of these initiatives will form the basis of the plan.

To this end, a long term business strategy is required to address the needs of the entire supply chain, from producers through to consumers.



Business Vision

The development of a strateg[illegible]uire consultation and collaboration from not only the provincial sheep associations but also identified industry stakeholders such as processors, retail and food service customers and export partners. By including the stakeholders, the CSF will obtain a broad realization of the issues facing each facet of the supply chain. As well, the business vision becomes richer and gains buy-in throughout the industry.

The business plan will utilize the industry stakeholders input as well as build on the information obtained through the market assessment to develop the focus for the vision and to set priorities. A necessary outcome of the long term business strategy requires identification of securing long term resources to sustain programs (i.e. national-check off).

Resource Implications and Budget

The previously described market development strategy is fairly extensive and will therefore require a considerably large financial budget in order to achieve all of the strategic elements. As this strategy will allow for the development of an industry framework and support system, the need to complete this project is vital to the future prosperity of the Canadian sheep industry. This will be accomplished by a unified approach between CSF and the provincial sheep associations as well as various industry consultants.

The following budget has been prepared and reflects the estimated costs of each element of the market development strategy.

Market Opportunity Analysis	
Customer research (processors, food service, retail, export markets)	
Phone surveys (50 across Canada)	7,000
Chef focus groups (5 across Canada)	20,000
Focus group incentives	5,000
Category Review	15,000
Sub-total	*47,000*
Consumer Research	
Online questionnaire	20,000
Conducted by region:	
Newfoundland	
Maritimes	
Quebec	
Ontario	
Western Canada	
Focus groups (1st and 2nd generation ethnic markets)	28,000
2 in BC, 2 in ON	
Focus group incentives	2,000
Consultant travel costs	4,000
Sub-total	*54,000*
Assessment of Processing	
Provincial/Federal Primary processing assessment	50,000
Conducted by region:	
Newfoundland	
Maritimes	
Quebec	
Ontario	
Western Canada	
Supply development plan	
Sub-total	*50,000*
Value Chain Development	
Product Specifications	45,000
Translate customer needs into product specs.	
Communicate product specs to producers/processors	
Grading	24,000
Grading regulations review	
Grading standards adjustment	
Implement grading standards	
Pricing grid analysis and development	15,000
Sub-total	*84,000*

Lamb Meat Quality Improvement	
Room rental	500
5 lambs & custom slaughter	1,000
Instructor	1,000
Travel/hotel	800
Seminar planning/administration	1,000
Total per seminar (14 in total)	4,300
Sub-total	*60,200*
Hide Quality Evaluation and Improvement	
Consultant (interviews with byers & plants)	7,500
Educational materials for producers	1,500
Conduct educational seminars in processing plants with expert cutter (travel costs, etc)	10,000
Sub-total	*19,000*
Sheep Shearing Seminars	
Beginner/Internediate Shearing Schools (Three: BC, Prairies, Maritimes)	
Travel for instructor	3,000
Fee for instructor	2,700
Equipment rental ($500x3)	1,500
Facility rental ($500x3)	1,500
Advanced Shearing Schools (Three: Western Canada, Ontario Quebec)	
Program development	3,000
Airfare (2 people from NZ @ 2900pp)	
New Zealand to Canada	5,800
Domestic	6,000
Fee for shearer (@6000 per seminar)	18,000
Hotels (30 days @$120x 2 rooms)	7,200
Meals (30 days @$75 per day x3)	6,750
Facility rental ($500x3)	1,500
Equipment rental (machines, combs, cutters - $500x3)	1,500
Miscellaneous (binders, printing, materials)	500
Translation to French	900
Sub-total	*59,850*

Wool Market Research & Development	
Obtain statistics and search for market information	7,500
Contact trade offices in Hong Kong and China	500
Air travel to China (international and domestic)	10,000
Consultant (5 days)	10,000
Hotels and meals - 3 people, 3 days	1,500
Hotels and meals - 3 people, 3 days	1,500
Participation in shows - fees, etc.	2,500
5 days of hotels and meals (2 people)	2,500
Preparation of post mission report, distribution and inclusion on website. Acknowledgement of business established. Contacts and follow up	2,000
Sub-total	*38,000*
Nutritional Analysis	
Program co-ordination	
Research Methodology	15,000
Cooking methodology	8,000
Product samples	12,000
Nutritional analysis	
Ribs (1 cut)	16,445
Chops - bone in (2 cuts)	33,778
Roasts - bone in (2 cuts)	42,418
Ground Meat, Stewing cubes (1 cut)	8,043
Nutrition Promotion Program	10,000
Retail nutrition facts/label	
Promotional materials	
Health check	
Sub-total	*145,684*
Food Service Merchandising Manual	
Focus groups	3,000
Advisory panel	7,000
Manual design and development	25,000
Sub-total	*35,000*
Retail Merchandising Manual	
Advisory panel	7,000
Manual design and development	25,000
Sub-total	32,000

Retail Merchandising Model	
Data collection	10,000
Historical lamb price analysis	
Labour costs	
Cut test analysis	
Model development	28,000
Sub-total	*38,000*
Market Development Communication	
Customer	
Partnerships with culinary institutes	10,000
Develop structure for chef boot camps	25,000
Create identity for Canadian lamb	12,000
Food service Manual distribution	15,000
Food service P.O.S. materials	12,000
Consumer	
Magazine articles/recipes	30,000
Lamb brochures	50,000
Cooking instructions	
Storage, preparation	
Nutritional information	
Sub-total	*154,000*
Long Term Business Strategy	
Business Plan	60,000
Consultation	
Opportunity assessment	
Business vision	
Development of plan	
Travel	*15,000*
Sub-total	*75,000*
Bookkeeper Salary and Audits	30,000
TOTAL	921,734

Implementation Factors

There are certain factors that should be addressed that may affect the timing associated with the implementation of the preceding market development initiatives. The ability of the Canadian sheep producers to obtain market access, in terms of federal processing and supply chain, will allow for the successful implementation of the proposed strategy. Another factor that may affect implementation relates to regulatory restrictions relating to border access. Another incident such as BSE has the potential to limit the ease of implementation.

2.3 *Incrementality*

In order for the Canadian Sheep Federation to obtain the best value for their proposed market development strategy, it is essential that they contact certain consultants and industry experts for advice. Contracts for tasks such as market research, focus groups, interviews and strategic marketing development will be created with consultants, while skill development initiatives will be lead by industry identified experts. The allocation of funds will also be monitored through the hiring of a bookkeeper to ensure that funds are accounted for and assigned in an effective manner. The salary for this bookkeeper is accounted for under 'resource implications'.

In order to successfully implement the market development strategy proposed by the Canadian Sheep Federation, the requested level of funding is necessary and could not be accomplished with a smaller budget. The Canadian sheep industry is in great need for improved levels of infrastructure (i.e. . product specifications, pricing grids, etc.) as well as programs to promote lamb and the funding available through the Other Ruminants Market Development Program will allow for the further growth of the industry.

Little research has been conducted to date relating to market potential. This research would be a focus of the Canadian Sheep Federation in the early stages of this market development program in order to gain a thorough understanding of the target markets.

2.4 *Disclosure of Resource Implications*

Source	2005-06	2006-07
Other Ruminant Market Development Program	$645,234	$276,521
Other Federal	$173,875 On-Farm Food Safety program which	$170,000 On-Farm Food Safety

	ties into market development, product quality	program
Total Federal	$805,170	$440,555
Provincial Governments	$40,000	$25,000
Industry	$170,000 direct producer contribution; purchasing of ear tags, which ties into grading programs	$200,000 direct producer contribution; purchasing ear tags, which ties into grading programs
	$70,000 per year in in-kind producer ($25/hour) and provincial and national staff ($35/hour) time per year. This covers the time spent at • producer education seminars (14 seminars, 7 hours each) • sheep shearing schools (6 schools) • the other projects (2,000 hrs)	
Joint Programs	$650,000 Lakeland Carcass Sire Project – Canadian producers, Alberta Sheep and Wool Commission, Alberta Agriculture, Lakeland College and Sunterra Meats	
Total	$1,424,109	$1,066,521

3.0 The Association's Capabilities

This section of the report defines the structure of the association. Also addressed in this section is the ability of the applicant to effectively implement the proposed market development strategy.

3.1 Outline of Organization

The Canadian Sheep Federation (CSF) is the national representative for Canada's 13,232 sheep producers. The CSF is governed by a Board of Directors that is comprised of representatives from the provincial sheep organizations, the Canadian Sheep Breeders' Association and the Canadian Cooperative Wool Growers. Its mandate is to represent all sheep producers in Canada and encourage the growth and prosperity of the Canadian sheep industry. The Canadian Sheep Federation works with its partners to deliver programs that reflect the needs of our dynamic industry. These programs benefit sheep producers by promoting animal health, and food safety and quality.

3.2 Experience and Capabilities

Since inception in 1990 (see Appendix 3 for incorporation documents), the Canadian Sheep Federation has been working to further the viability, expansion and prosperity of the Canadian sheep and wool industry.

In January 2004, the CSF implemented the *Canadian Sheep Identification Program*, (CSIP) which was developed by producers for producers. The program is designed to be straight forward and affordable for producers while simultaneously meeting their concerns regarding sheep health. To-date Canadian sheep producers have contributed over $400,000 into the CSIP program ensuring that an animals' (or carcasses') farm of origin can be identified, should there be an outbreak of a foreign animal disease, or should problems be identified at the abattoir. The Canadian Food Inspection Agency is reporting a compliance rate of over 96 per cent which, can largely be attributed to the producer's sense of ownership of a program that they designed. The CSIP program and its evolution will factor largely into a long-term marketing strategy for Canadian Lamb as the industry looks towards a grading carcasses and feeding information back to producers.

The CSF has also developed and implemented the *Food Safe Farm Practices* program. Like the CSIP program, this program was designed by producers, for producers. The CFIA issued the letter of Technical Completion to the CSF in July 2005 and over 300 producers have undergone training for this newly implemented program. The FSFP program will also play a large role in the ability of Canadian sheep producers to establish long-term sustainable marketing programs.

3.3 Financial Information

In order to fully assess the financial position of the Canadian Sheep Federation, copies of all financial statements for the past three years have been included in this report as an appendix (see Appendix 4).

Over the past three years, the Canadian Sheep Federation has been fortunate to receive financial support from a variety of sources. These funds are outlined below and describe the name of the program, the amount of funding received as well as the project in which the money was directed towards.

Table 3: Previous Canadian Sheep Federation Funding

Name of Fund	Name of Project	Date of Funding	Level of Funding
Canadian Adaptation & Rural Development Fund	On-Farm Food Safety	January 1, 2003-December 31, 2003	$13,650 ($5,130 in kind contribution)
Canadian Agriculture & Food International Program	Canadian Sheep Identification Program (Implementation)	June 2, 2003 – March 31, 2004	$13,740 (50% of total project)
Canadian Food Safety & Quality Program	On-Farm Food Safety	March 2, 2004-March 31, 2005	$110,600 ($103,400 in-kind industry contribution)
Canadian Food Safety and Quality	Canadian Sheep Identification	May 1, 2004 – August 31, 2005	$49,050 ($5450 in-kind

Program	Program (Traceability)		industry contribution)
Canadian Food Safety & Quality Program	On-Farm Food Safety	June 1, 2004 – February 28, 2005	$94,620 ($62,080 in-kind contribution from industry)
Canadian Food Safety & Quality Program	On-Farm Food Safety	April 1, 2005 – April 30, 2006	$173,875 ($171,100 in-kind industry contribution)

4.0 Expected Impact & Performance Measurement

4.1 Measurement of the Strategy's Impacts

The effectiveness and reach of marketing initiatives can best be determined through specific measurement techniques. These techniques must be chosen according to the activities undertaken by the organization to achieve the most accurate results. The following performance indicators will ensure that funds are being efficiently allocated.

Activity	Performance Indicators
Market Opportunity Analysis	
Understand customer demands and perceptions	Change in recognition and perception of sector's products and capacity
Food service focus groups and interviews	Identification of buyer requirements
Consumer Research	
National survey	Develop thorough understanding of consumer needs
Identify target market	Change in market share/sales by targeted market from benchmark
Focus groups	Identify trends of target markets
Assessment of Processing	
Study to understand status of Canadian processing industry	Identification of processing needs and capabilities
Supply Chain Development	
Grading study	Develop a grading standard to meets the needs of consumer and customers buying Canadian lamb
Pricing grid development	Development of a pricing grid that enables producers to receive equitable payment for quality sheep that is linked into profitability.
Product specifications	Develop product specifications that is representative to consumer and customer needs and sets a benchmark for nutritional analysis
Producer Education	
Lamb Meat Quality Improvement	
Educate producers on quality	Change in quality of meat seen at processing plants Increased sales & demand of Canadian lamb
Inform producers of improved practices to improve quality meat	Noticeable change in farm practices Change in methods used by farmers (feeding, handling, etc.)

Activity	Performance Indicators
Hide Quality Evaluation and Improvement	
Interviews with hide buyers in other countries	Increased knowledge of problems associated with Canadian-produced hides
Assessment of methods used in processing	Identification of poor hides practices

plants	Ability to determine where education is most required
Production of educational materials for producers and processors	Demand for educational information Increased quality of hides Increased demand for Canadian hides
Educational seminars in processing plants	Number of seminars by plant operators Increased demand for Canadian hides Increased yield per carcass (less waste)
Sheep Shearing Seminars	
Educate producers on current problems with Canadian shearing practices and teach farmer s better shearing practices	Increased number of farmers addressing wool quality issues Number of farmers in attendance at seminars Demand for additional seminars Improved wool delivered to customers Increased yield of wool per farmer
Increase number of Canadian shearers	More farmers increasing their flock as they have the ability to be sheared
Wool Market Research & Development	
Pre-market study of Chinese & Hong Kong market	Increased knowledge of target market and their demands
Establish consumer contacts in Hong Kong & China	A change in demand for wool by contacts Increase in communication with buyers
Nutritional Analysis	
Nutritional analysis of Canadian lamb	Acceptance of data into the Canadian Nutrient File and improved nutritional perception of Canadian lamb
	Ability to determine which cuts can be submitted into the Heart and Stroke's Health Check program
Food Service Merchandising Manual	
Manual creation and distribution	Increased sale of lamb at food service operations who received manual (measured by # of sales and orders against benchmark) Independent satisfaction survey
Retail Merchandising Manual	
Manual creation and distribution	Increased sale of lamb at retail outlets who received manual (measured by # of sales and orders against benchmark) Independent satisfaction survey

Activity	Performance Indicators
Retail Merchandising Model	
Model creation and distribution	Increased demand of lamb from retail chains Improved perceptions of lamb compared to other proteins
Market Development Communications	
Customer	
Promote industry sector in targeted markets	Increased investment Increased number of Canadian processors pursuing new markets
Re-build Canada's reputation in a post-BSE environment	Positive feedback from buyers/focus groups

Increase consumer awareness and perception of Canadian lamb	Positive feedback from buyers/focus groups
Identification of distributor and wholesale contact info and needs by province	Increased number of distributor networks established, key contacts developed Increased number of business leads received and being actively pursued as a result of the activities supported
Consumer	
Initiate seasonal marketing campaign	Increased purchase of lamb during months of historically slow sales
	Promotional campaigns developed and implemented within a specified time frame

5.0 Association's Comments

It is the opinion of the Canadian Sheep Federation and its partners that this market development strategy will allow our industry to lay the foundation for the long term viability of the industry. The relationships developed over the next 18 months will help nurture the growth of both a national marketing program and the Canadian sheep industry.

6.0 Signatures

Name: Jennifer Fleming	**Title:** Executive Director

<table>
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<tr><td>Signature:</td><td>Date: September 30, 2005</td></tr>
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