Make Informed Decisions

KevinGrier
Market Analysis and Consulting Inc.

79 Pheasant Run Drive
Guelph, Ontario
N1C 1E4

T 519 823 9868
C 519 240 8779
E Kevin@KevinGrier.com
KevinGrier.com

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Breton Renews Focus

Viandes du Breton Inc., issued a press release on October 1 stating that the company intends to concentrate operations on niche products, such as Organic pork, Rustic Farm pork (GAP 5-step ® and Certified Humane Raised and Handled®) and antibiotic free raised pork, sold under the brand name duBreton. The release says that effective February 2, 2020, this decision will increase the volume of niche pork produced in its Rivière-du-Loup plant from 60% to 90%. Presently, nearly half the plant's volume is made up of commodity type pork. The commodity product does not carry the duBreton brand name.

The October 1 release says that the complete conversion of production towards specialty programs, not subject to the ups and downs of the market, is the path forward in order to ensure the company's sustainability. Vincent Breton, President, says that "The decision to concentrate our efforts exclusively on niche products has been assessed over time and the conversion process has been underway for several years now. It goes without saying, we will be in step with consumer demand, however, we strongly sense that the moment has come to advance one step further in this direction."

In 2015, the company undertook to invest $30 million in order to convert its commodity farms to conform to Certified Humane Raised and Handled®, GAP 5-step and Organic standards. That allowed the company to produce over 300,000 pigs raised without crates over a 3-year period. In 2016, Les Viandes du Breton made the decision to abandon the use of the electric prod in its facilities and, in January 2019, the Breton family announced its disassociation from The Farm Income Stabilization Insurance (ASRA) program, according to the press release.

Only a Matter of Time

Breton has been on this non-commodity path for 20 years; it was only a matter of when and how they would go fully to the niche program. The commodity business was never the focus of Breton's production and marketing efforts. With this move the entire focus will be on what the company does best and what they are known for in the market.

Making the move now makes sense for a variety of reasons, including the massive increase in U.S. production and the loss of the Chinese market. I expect another good reason is the recent decision by the Quebec marketing board supervisory body, the Regie des marché agricoles et alimentaires Quebec, regarding pricing. As noted here in the last report, the Regie decision mandates pricing off a percentage of the U.S. cutout. That decision would have had significant impacts on margins in the commodity business. With the move to niche products, the Regie's decision will be a non-issue. Hog costing on the Breton programs are based on costs and other factors which are well above pricing driven by the Regie's decision.

No Change for Niche Suppliers

Breton owns about 12-13,000 sows located in Quebec. The company also has significant volumes that come from Ontario as well as smaller volumes from the Maritimes. Breton does not own sows in Ontario, but they have very strong production relationships focused on the niche programs. As such, there will be no change regarding the Ontario supply relationships and production. In fact, all producers that are currently working with Breton on niche programs will not find much change, if any. The small number of producers that are now supplying commodity product that stays with Breton will be those that are able to convert to niche. Most of the commodity hogs come from Quebec.

Regarding niche products, about 70% is marketed in the U.S. and 30% in Canada. The niche sales have been growing in terms of new customers and channels in the United States and Canada. The expectation is that with the focus now solely on niche, that growth will accelerate.

Breton's Differentiation is Different

With that noted, there has obviously been a notable increase in pork products claiming some niche or differentiated attribute, such as Raised without Antibiotics, for example. In fact, these types of products that attempt differentiation are almost moving into commodity territory given their widespread adoption. Breton, however, has managed to, if not isolate, at least separate itself. That is, given its more hardcore production practices, procedures and certifications. In addition, rather than having one aspect of niche, the Breton product offers the full gamut. As a result, it can work with merchandisers who also want to differentiate themselves from the mass merchandisers and grocers that offer the commoditized "free from" offerings. The Breton merchandising channels include firms like Whole Foods, Longos, and recently, HEB based in San Antonio.

All of Breton's hog harvesting and cutting is at the plant in Rivière-du-Loup. That plant has a listed capacity of 5,000 per day, but when it goes full niche program, I expect slaughter will not be up to that level. The company does some boning outside that facility and it processes hams, sausage, bacon and spreadable product in three different facilities.

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