

Canadian Pork Value Chain Strengthening Our Competitiveness

Presented to:
The Government of Canada

Presented by:
Canadian Meat Council
Canadian Pork Council
Canada Pork International

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Table of Contents

	Page
Introduction	1
The Situation Today.....	2
Components of Competitiveness.....	4
<i>Reducing Costs</i>	6
<i>Labour Availability</i>	8
<i>Innovation</i>	10
<i>Risk Management</i>	13
<i>Exports</i>	16
Summary of Requested Actions by Lead Organizations	20

Introduction

This report presents the combined views of the Canadian Meat Council, Canadian Pork Council and Canada Pork International. The report is intended to identify those areas in which action is required in the short term, by governments in Canada, to assure the competitiveness of the entire pork value chain.

Both in terms of the production of hogs and in the processing and packing of products, there is a good news story. Canada is a major player in the global trade of pigs and pork meat products. Canadian producers and processors have worked extremely hard to achieve these results. However, there are grave challenges that are being faced.

Two externally driven phenomena are having a deleterious impact on swine producers as well as pork processors and packers.

- The appreciation of the Canadian dollar is significantly reducing operating cost competitiveness relative to the US competition.
- The dramatic increase in the demand for corn, due to US ethanol subsidies is raising the price of corn, which is significantly increasing the feed costs of producers.

The outcomes arising from these issues, as well as other domestic challenges are not yet clear.

This report identifies those actions that are required, by government, in the short term, to ensure that public policies and programs are appropriately supportive of these important sectors.

The Situation Today

Pork Producers

The Canadian Pork Council is Canada's national trade association representing Canada's hog producers.

In 2006, Canada's 12,200 Pork producers raised 30.9 million pigs. More than 75% of this production occurred in three provinces—Manitoba (28.5%), Ontario (24.4%), and Quebec (23.5%).

In the same year Canada exported 8.2 million pigs into the United States (2.6 million market hogs and 5.6 million weanlings). Canada is the third largest exporter of pork in the world. With pork exports more than tripling in a fifteen-year period, it is a remarkable production success story.

The current level of success is due to major improvements that have been made in the swine industry. These include: significant investments in improved genetics; enhanced disease control strategies and biosecurity systems; as well as high rates of reinvestment in plant and machinery.

However, low prices, decreased profitability and vulnerable export market access, makes the business of hog production very precarious. The status quo is not an option for hog producers.

Pork Processing and Packing

The Canadian Meat Council is Canada's national trade association of federally inspected meat packers and processors. This industry is the largest food processing industry in the country. Total sales are estimated in excess of \$15 billion. The industry employs more than 45,000 people. The industry operates in all regions of Canada.

This industry is making significant adjustments to withstand a difficult business environment. Enterprise consolidation, plant closures, new productivity investments and business strategies to exploit increased value added products are playing out simultaneously. It is in Canada's interest to create the conditions in which processors and packers are adding capacity, finding new markets and growing their employment base.

Pork Exporters

Canada Pork International is the export promotion agency of the Canadian pork industry. It is a joint initiative of the Canadian Meat Council, representing the pork packers and trading companies, and of the Canadian Pork Council, which is the national hog producer organization.

Canada Pork International focuses on promotional activities in its priority markets, investigating and reporting on export market opportunities and informing foreign customers on the availability of Canadian pork products and on potential suppliers.

Components of Competitiveness

The Canadian Meat Council, Canadian Pork Council and Canada Pork International have recently undertaken a review of a range of competitiveness factors. The organizations recognize that the producers and processors have ownership of many factors of competitiveness, but not all. Some issues need to be addressed through public policy and government action.

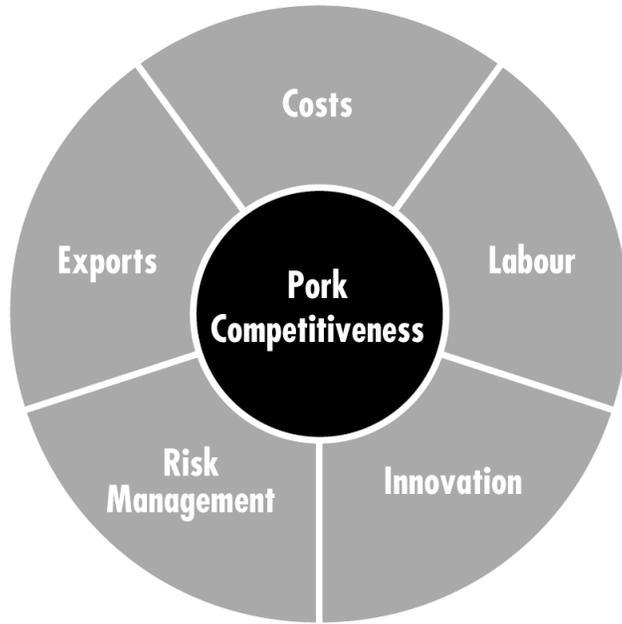
Some issues need to be acted upon within the next twelve to eighteen months. Others will need to be addressed during a longer time-frame.

Some of the longer time-frame issues include:

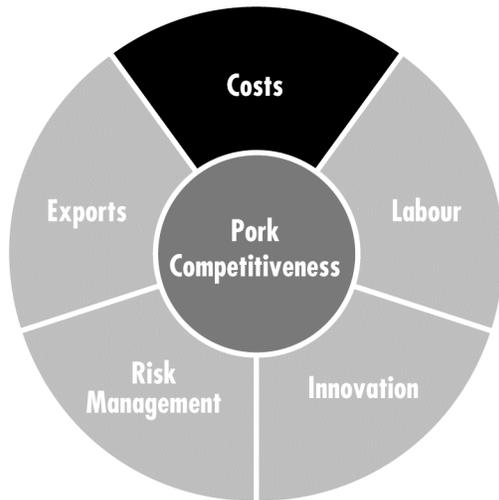
- Implementing a comprehensive National Animal Health Strategy
- Managing Canada/US border security initiative impacts
- Preparing for animal disease
- Increasing qualified federal agency resources to address increased export countries and technical issues
- Managing longer term immigration issues to support Canadian labour requirements
- Increasing Canadian research and development in production and processing
- Increasing Canadian technology development
- Improving transportation infrastructure
- Reducing risks associated with potential countervail
- Managing EU compliance regulations
- Negotiating multi-lateral trade agreements
- Harmonizing standards and tolerances between countries (e.g. approved animal health products and residue tolerances)
- Increasing feed grain costs due to US ethanol subsidies

The focus of this document is on the short term. We have identified five components of competitiveness that need to be addressed within the next year. These include issues related to reducing the costs of doing business; maintaining a viable labour force; fostering innovation; managing operational risk; and exploiting export markets.

These components are interdependent. There are no silver bullets that will radically alter the competitive landscape. However, the cumulative impacts of successfully addressing each of the issues noted in this document can be transformative.



Reducing Costs



It has been well documented that the processing and packing industries have been undergoing radical transformations, to create long term profitability. The producers and the processors have presented before Ministers and before Standing Committees of Parliament, their assiduous efforts to take costs out of their operations, through enterprise consolidations, process improvements, productivity enhancing capital investments, and business model modifications.

There are some costs which are borne by the private sector but are not within their direct control. In these cases the public sector is in a position to change the situation.

These include inspection and certification costs as well as the costs of vaccines.

Inspection and Certification Costs

Companies have been rigorous in improving the cost effectiveness of their slaughter, cutting, and packing processes. However, in the case of processors and packers, they absorb specific expenses which they have no control over, levied by the Canadian Food Inspection Agency.

Companies are in different stages of implementing a rigorous HACCP based, control process on the dressing line (HIP). The new process provides enhanced management of risks in terms of meat quality and food safety. The process requires incremental resources from the companies—usually six additional people per plant. In addition, the process generates additional rework given their enhanced inspection mode.

At the same time, the Canadian Food Inspection Agency operates their inspection services in these same plants, operating on a fee for services basis. In fact, as HIP has been introduced there have been no plans for eliminating CFIA inspection costs.

It is estimated that fees paid to the CFIA for inspection services are costing pork processors and hog producers between \$20M and \$25M annually. These are expenses that go directly to the bottom line. **This is in sharp contrast to American processors** who are not subject to these same additional costs.

Fees for inspection services constitute a competitive disadvantage to Canadian processors and producers. To create a level playing field internationally, the fees should be removed.

We request that the Canadian Food Inspection Agency establish a Pork Industry—CFIA Working Group to:

- **Collaboratively determine the current level of aggregate inspection and certification costs to Canadian pork processors and producers; and determine what the comparable costs are to US processors and producers**
- **Negotiate the elimination of certification and inspections fees to achieve Canada–US parity**

Cost of Hog Vaccines

The industry acknowledges the cooperation of the CFIA in expediting the availability of vaccines to address porcine circovirus associated diseases.

The market place for hog vaccines in Canada differs markedly from that of the United States.

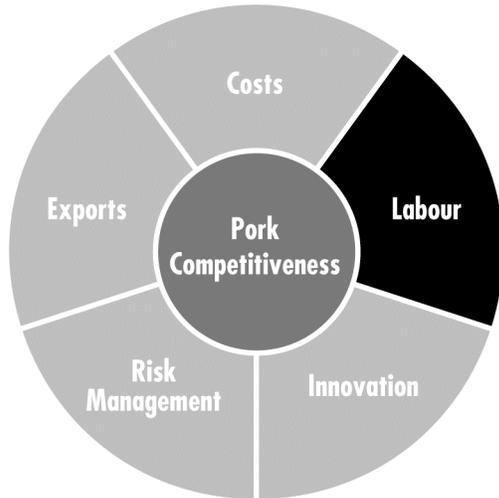
In the United States vaccines are purchased directly from the manufacturers. In Canada vaccines are accessed from veterinarians. In Canada, vaccines are priced at levels that cover the costs of technical support provided to the producers by pharmaceutical companies, through veterinarians.

Consequently, the costs in Canada range from two to three times the exchange rate adjusted levels paid by US producers. This constitutes a significant competitive disadvantage for Canadian hog producers.

The market for vaccines is an anomaly. Feed, like most other inputs is sold within a North American market. Why should vaccines operate in a dissimilar market environment?

We request that the Federal government establish a joint industry—government task force, to develop policy recommendations that will lead to capability of Canadian producers, being able to access vaccines at competitive price levels in comparison to their American counterparts.

Labour Availability



Temporary Foreign Worker Program

The lack of availability of skilled, semi-skilled and non-skilled workers is a serious issue throughout the Canadian economy. It is particularly acute in the western provinces. It is a serious threat to the meat processing industry.

Fortunately, the Federal government has recently acted on previous representations by industry that will affect the continued success of Maple Leaf's and Olymel's meat processing operations in Western Canada. The double shifting of their Brandon and Red Deer pork plants depends on access to low or

semi-skilled workers. The vehicle is the Temporary Foreign Worker Program (TFWP).

The situation at Maple Leaf's Brandon pork plant is particularly critical. The 550 foreign workers at the Brandon plant contribute towards annual gross sales of approximately \$425 Million. As part of a significant reorganization of the Maple Leaf's national protein value chain, the company's goal is to add a second shift to the Brandon plant by 2009. Double shifting Brandon will create an additional 1,100 jobs to be added in 3 major phases starting in 2007.

For Olymel, the double shifting of its Red Deer plant is also a priority. In June 2006, because of a lack of labour, Olymel had to close its second shift in Red Deer—despite significant recruitment efforts made all across Canada including Native communities.

Without foreign workers, it is impossible in the short term to hire the 1,100 employees necessary to operate fully Red Deer's world class facilities and to compete efficiently with our American neighbors.

Recently, the industry was extremely gratified to learn of the Federal government's decision to extend to two years, the maximum duration of stay for lower skilled foreign workers. This will make a remarkable improvement in the ability of the companies to secure labour. The government is be congratulated by taking this significant step in responding to this critical issue.

Outstanding Eligibility Constraints

We request that the Federal government build on their recent decision, by addressing a number of eligibility issues which have the effect of lessening the utility of the Temporary Foreign Worker Program, regardless of duration.

We recommend:

- TFWP be re-defined to make skilled, semi-skilled and low skilled workers eligible;
- Permit spouses accompanying lower skilled foreign workers to become eligible for open work permits;
- Allow low skilled workers, who are demonstrably good employees and productive residents of Canada, to apply for permanent resident status on a “fast-track” basis, without Grade 12 education;
- Expand to all four western provinces the designation of “laborers in food, beverage and tobacco processing” as an “occupation under pressure”

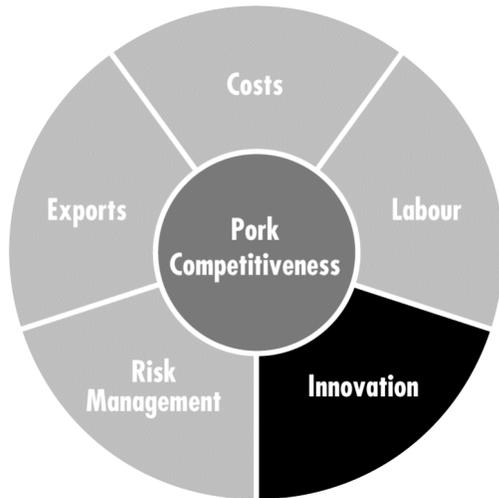
Ongoing Administrative Process Challenges

To accompany the recommended adjustments in eligibility criteria, there are a number of process improvements that would result in greater consistency, ease of application and increased speed of decisions.

We request:

- HRSDC and Citizenship and Immigration Canada establish a clear process to coordinate between employers, foreign governments and Canadian embassies the identification of credible recruiters and the selection of reliable workers; and
- HRDC to set improvement targets for:
 - ⇒ Time to process workers;
 - ⇒ Reduction of paperwork requirements;
 - ⇒ Allocation of internal resources to the highest needs (e.g. Brandon & Red Deer);
 - ⇒ Creation of master approvals to facilitate foreign workers’ movement between plants of a company, to accommodate seasonal changes in production and other corporate priorities.
 - ⇒ Clear and continuous points of HRSDC contact for large employers

Innovation



Drug Product Licensing Approvals

Innovation requires a regulatory system that is at least as responsive as Canada's trade competitors, particularly the United States.

Hog producers and other observers have noted for years that the current drug licensing and approvals process in Canada is both unpredictable and inefficient.

An important study has been coordinated by the International Federation of Animal Health (IFAH). This is the global animal health industry association. The study is called the IFAH Regulatory

Benchmarking Survey—the Survey was done by Business Decisions Limited (a UK based firm) in 5 regions including; E.U., U.S., Australia, Japan and Canada. The Canadian portion is entitled, "Benchmarking the Competitiveness of the Canadian Animal Health Industry."

While the report is not going to be released until mid April, 2007 it is expected to say that Canada's regulatory process is not competitive with the other regimes. The report will discuss the delays and unpredictability in the regulatory review process.

It will discuss other factors which undermine investment in new technology in Canada and the availability of licensed products that are important to the competitiveness of our hog producers.

We recommend that a multi-stakeholder advisory council be established, to develop a program of drug regulatory process reform that is both timely and responsive to the needs of producers.

Processing Meat Additives

Sodium and potassium lactate are salts of lactic acid which are salty in taste and are hygroscopic in nature.

They offer a variety of benefits including acting as bacteriostats by interfering with the metabolism of the bacteria; thereby extending the shelf life of the product and increasing the safety of the product. Lactates, because of their hygroscopic characteristic exert a positive effect on the water holding capacity, thus resulting in less purging and higher yields for cooked products.

Lactates are typically added to meat and meat products during the cutting or mixing stage. They may also be blended with the curing agents (in the brine) or tumbled with meat depending on the type of product.

Potassium lactate can be used instead of sodium salts to reduce the sodium levels in processed meat products and research studies indicate that potassium salts work equally well in inhibiting *Listeria*.

In the United States, lactates are used in a wide variety of fresh, cured and uncured meat and poultry products such as fresh sausage, fresh marinated whole muscle products, bratwurst, cooked sausage, roast beef, sliced deli items and poultry products. Sodium and potassium lactate are recognized in the United States as a GRAS (Generally Recognized as Safe) substance for use as a direct food ingredient.

Currently, lactates are not permitted in uncooked meat cuts in Canada and the request to allow them in uncooked meats has been pending before Health Canada, since April 1998.

An Interim Marketing Authorization (IMA) was published to permit the use of potassium lactate and sodium lactate in cooked solid cut meat and poultry products at specified levels. The IMA was issued as an interim measure until the regulatory process to amend the regulations was formally undertaken.

The CFIA has been working for several years on a policy to label fresh meat and poultry with added water. This is cited as a reason for the delay in the approval of lactates for fresh meat and poultry.

The Canadian Meat Council believes that the science related to lactates is clear. They allow the extension of product shelf life, control pathogens and enhance flavor, while not adversely affecting other sensory characteristics of the product.

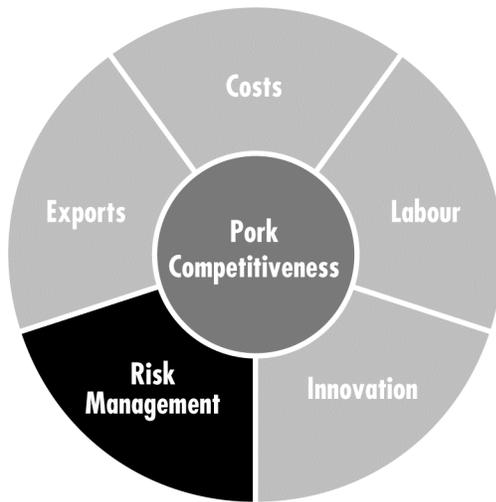
We request that the Federal government expedite their approval processes for the use of lactates in both cooked and uncooked meat, in a timely manner.

Diversification of Alternative Fuel Inputs

There is an urgent need to lessen the pressure on feed input costs. This can be done by encouraging the diversification of the range of inputs of alternative fuels.

We request that the Federal government adopt measures, including fiscal incentives that will promote the production of ethanol from plant cellulose. In addition, we request that the Federal government introduce incentives that will encourage alternative fuels from bio-digestion processes, which have the effect of lowering odours and reducing greenhouse gas emissions.

Risk Management



Traceability & Zoning— West Hawk Lake Zoning Initiative

The West Hawk Lake Zoning Initiative is a key component within the Canadian zoning strategy. It will contribute to Canada's ability to better prepare for a major foreign Animal Disease outbreak. In fact it will become a critical component of Canada's animal health infrastructure.

The purpose of the initiative is to create an effective border control point to monitor and control the road transportation of live animals and animal products between Eastern and Western Canada, thereby dividing Canada into two zones.

All other livestock entry points into the zones (with the exception of a small amount of rail and air transport) are at international borders. The demonstration of effective import controls at these points should be sufficient to establish the integrity of the zones. The tools and processes developed under this project are readily transferable and could be used for the establishment of additional zones within Canada.

The Final Phase (3) will include:

- Pilot testing of the tools developed in Phase (2)
- Implementation of the recommendations arising from the pilot testing
- Limited operational start up of the zone—to facilitate a transition from voluntary reporting by a few to mandatory reporting by all livestock transporters through the zone
- Business case for funding and cost-sharing formulas completed
- Governance and operating agreements negotiated
- Training a complement of inspectors
- System validation
- Financial collection mechanisms established.

The outcome of Phase 3 will be a functional border control point at West Hawk Lake, effectively providing the capacity to trace and control movements of livestock at the major crossing point between Eastern and Western Canada.

We urgently request the Federal government to confirm by the first quarter 2007/08, a commitment to the implementation of a zone border, at West Hawk Lake, Manitoba, as well as confirming the role of the Canadian Food Inspection Agency in zoning Canada, in the event of a foreign animal disease.

We urgently request that the Federal government take the necessary actions to have key international customers acknowledge and support our zoning.

Disease

The industry acknowledges the creation of the PCVAD Task Team to find solutions to address the crisis in the hog industry, as a consequence of this disease. We look forward to the rapid implementation of the recommendations.

Impacts to the Canadian economy are unacceptably high when there is a major market failure in the production of hogs, as a consequence of a regional or national disease outbreak.

In the event of a disease that closes borders, the impact to processors is severe. The cost to consumers is substantial. The damage to producers is devastating. Part of a sound approach to risk management is the development of effective mitigation measures, in the event of a serious disease outbreak. Mitigating production losses is critical.

There is a need to develop and implement on a national basis, methods to provide protection to producers for disease outbreaks. Protection must be able to cover both the loss of productive assets as a direct result of the disease, and the losses that may occur if markets are closed as a result of the disease. Production insurance, such as is currently available to crop producers, with appropriate coverage and affordable pricing, must be a priority. Also, predictable coverage in the event of catastrophic losses that occur when the disease impact is severe and includes impacts of border closures needs to be in place.

There are likely more animal (pork) disease management dimensions that need to be considered in comparison to a crop insurance program. This can only make it more pressing that disease insurance be established.

The nature of the coverage is critical. There must be sufficient incentives for producers to take up the plan. For example, coverage of direct consequential losses without regard for business interruption losses may make the programs ineffective, with insufficient take-up.

Geographic coverage is also an important criterion. Disease does not follow regional/provincial boundaries. Producers often operate in more than one region.

We would encourage the program to be applied consistently across the country and to be designed in a manner that will minimize the risks of trade actions.

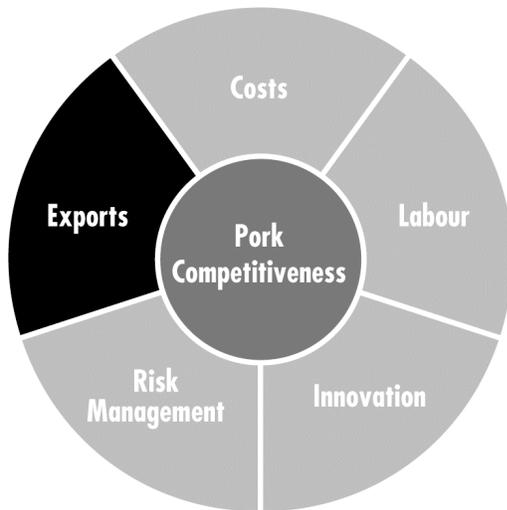
It is recognized there need to be incentives for producers to continue the adoption of world class risk management operational processes and procedures. Insurance is not the default position for the lack of operational rigour.

There may be a role for public/private partnership in the development and offering disease insurance.

In view of the significant risks to the hog production sector, we request that the Federal government establish a Disease Insurance Task Force, to:

- **determine the aggregate insurance requirements**
- **develop design recommendations**
- **develop pricing and coverage model**
- **establish a timeframe to implement a program**

Exports



Trade Access

Currently, our closest competitors, (most importantly the United States), are aggressively negotiating free trade agreements. This is giving them preferential market access over Canada. As a result, Canada's competitiveness in these markets is being eroded and a substantial portion of Canadian pork exports are being negatively impacted.

The importance of achieving successful negotiations with the Andean Community (Colombia, Ecuador, Peru, Bolivia, and Venezuela) needs to be underscored. Similarly, Korea is a very important market for Canadian pork. Completion of a successful agreement with Korea is critical.

In the context of North American trade, the Canadian government has proposed to include the hog and pork sector in a "NAFTA Sectoral Initiative" to further reduce regulatory and policy measures that are out of step with the integrated, free trade environment in which the North American industry now operates (for livestock, meat and feed grains).

The Canadian industry fully supports this effort, particularly if it leads to the reform of abusive trade remedy actions that have been so disruptive and costly to the Canadian industry in the past.

In addition, China, Japan and India are judged to be strategic markets for Canadian pork.

The Canadian pork industry is highly dependent on access to the Japanese pork market. Reform of the Japanese gate price and import safeguard system for pork is long overdue.

We request that the Federal government re-engage the Japanese government on this issue now, not waiting for a potential resolution in the context of the Doha Round negotiations.

In the longer term, we encourage Canada to keep pushing for a free trade agreement with Japan so we don't lose further ground to competitors like Mexico who have signed FTA's with Japan.

We request that the Federal government make completion of these Free Trade Agreements a priority; and to allocate the resources required to achieve success in a timely manner.

The completion of the Doha Round is extremely important for the Canadian pork industry. This report has already referenced the enormous appreciation in the Canadian dollar and the work that the producers and processors are doing to restore competitiveness. However, it is essential to have favourable access to export markets for long-term survival.

We request that the Federal government give our negotiators a clear mandate to vigorously pursue all avenues, to achieve the best possible outcome for Canadian agriculture, from the Doha Round.

In addition to tariffs, Canadian exporters must deal with a myriad of technical conditions which can vary significantly from one country to the next. We acknowledge the important coordination role for addressing outstanding issues that is played by International Trade Canada in the cooperative effort involving other federal departments and agencies including Agriculture and Agri-Food Canada and the Canadian Food Inspection Agency.

We request that the Federal government ensure allocation of sufficient resources to maintain this cooperative government/industry approach towards resolving remaining technical issues.

Expanded Export Development Support

Canadian pork exporters will only be able to exploit market access opportunities if they have sufficient resources available to them. In addition to private capital, there needs to be financial support on favourable terms that is user friendly and is designed to accommodate the export realities.

We request that the Federal government establish a Canada Pork Export Fund with a minimum of \$30M to be available during a five-year period, commencing in fiscal 2007/08

Responding to the United States Country of Origin Labelling

The industry is pleased that Agriculture and Agri-Food Canada has revived industry/government consultative processes for addressing U.S. mandatory country-of-origin labelling legislation, scheduled to go into effect in September, 2008.

Under legislation that is expected to come into effect September 30, 2008, pork that is sold at retail will need to be marked with country of origin labelling. This will require a label, stamp, mark, placard or other clear and visible signage on the covered commodity, package, or its display, holding unit or bin.

Pork will be labeled to identify which production processes occurred in a foreign country and which occurred in the U.S. Any person that prepares, stores, handles or distributes pork for retail sale will be required to maintain a verifiable record keeping audit trail. In addition, any person supplying a covered commodity to a retailer will be required to provide information to the retailer.

The impact of this legislation could be extremely detrimental to Canadian interests. There is some question about whether U.S. processors will be prepared to purchase hogs born and raised in Canada. In order for it not to be damaging, U.S. packers will have to find that the costs of COOL compliance are more than offset by the value of procuring Canadian hogs.

Canadian allies to this issue are working with U.S. packers on achieving compliance and coordinating with and monitoring the efforts of the U.S. meat interests who are seeking COOL reform.

We urgently request that the Federal government of Canada represent Canadian pork interests in respect of COOL, such as by:

- ⊕ **Advocating an alternative to the COOL mechanism, that does not erect trade barriers**
- ⊕ **Requesting another comment period**
- ⊕ **Working to maximize the scope of opportunities for exemptions to COOL, such as marinated fresh meat**
- ⊕ **Preparing to utilize all avenues (NAFTA, WTO) to challenge COOL at the earliest opportunity where, upon its implementation, there is evidence of market discrimination against Canadian exports.**

Benchmarking Canadian Competitiveness Factors

The need for competitive information is growing. As global business becomes increasingly more competitive, the need for accurate and immediate information becomes critical. It facilitates the strategic decisions of both governments and companies.

Today, and for the foreseeable future, the principal export market for Canadian pork producers and processors will be the United States. At the same time, the US will remain our principal competitor. Consequently, there is a major requirement for competitive information about Canada relative to the United States. Today, there is too little decision-useful information.

We request that the Federal government mount a collaborative venture with industry on the issue of Canada–US Pork Competitiveness.

We request that the Federal government sponsor an initiative to identify those factors, which constitute a competitive disadvantage.

☉ **Developing a “snapshot in time” of the comparative situation across a range of factors**

☉ **Potential competitive factors to be considered include:**

- ⇒ **Price reporting mechanisms**
- ⇒ **Support for exports**
- ⇒ **Costs of inspections and certifications**
- ⇒ **Regulatory approval processes—timing and costs**
- ⇒ **Role of national organizations—(US AID)**

We request that the Federal government establish and maintain the information infrastructure necessary to provide Canadian producers, processors and exporters information that will support their strategic business decision making.

Summary of Requested Actions by Lead Organizations

Agriculture & Agri-Food Canada

- Establish a Canada Pork Export Fund with a minimum of \$30M to be available during a five year period, commencing in fiscal 2007/08
- Establish a Disease Insurance Task Force
- Re-engage the Japanese government now, on their pork import regime
- Represent Canadian pork interests in respect of Country of Origin Labelling

Canadian Food Inspection Agency

- Determine the current level of aggregate inspection and certification costs to Canadian pork processors and producers; and determine what the comparable costs are to US processors and producers
- Negotiate the elimination of certification and inspections fees to achieve Canada–US parity
- Establish joint industry-government task force to develop policy recommendations that will lead to Canadian producers being able to access vaccines at competitive price levels, in comparison to their American counterparts
- Confirm a commitment to the implementation of the West Hawk Lake zone border in the first quarter of the 2007/08 fiscal year
- Take the necessary actions to have key international customers acknowledge and support our zoning

Foreign Affairs and International Trade Canada

- Complete Free Trade Agreements and allocate the resources required to achieve success in a timely manner
- Give our negotiators a clear mandate to vigorously pursue all avenues to achieve the best possible outcome for Canadian agriculture, from the Doha Round

Health Canada

- Initiate drug regulatory process reform that is both timely and responsive to the needs of producers
- Expedite the approval processes for the use of lactates in both cooked and uncooked meat, in a timely manner

Citizenship & Immigration Canada

- Address a number of eligibility issues which currently lessen the utility of the Temporary Foreign Worker Program, regardless of duration

Human Resources Development Canada

- Address Temporary Foreign Worker Program process improvements that would result in greater consistency, ease of application, and increased speed of decisions

Natural Resources Canada

- Fiscal incentives to promote the production of ethanol from plant cellulose and incentives for alternative fuel inputs from bio-digestion processes

Industry Canada

- Sponsor an initiative to identify those factors, which constitute a comparative disadvantage to Canadian producers and processors
- Establish and maintain the information infrastructure necessary to provide Canadian producers, processors and exporters with information that will support their strategic business decision making