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RETAIL CHANNEL

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VEAL DEAL

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— AND SUCCESSION

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BOX

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processors to think
about their place in the
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A cross-border merger in 2009 created
the largest, most automated veal
and lamb company on the continent.

Now if it could only convince consumers
to give the product a little respect.

by **Michael Fielding**, managing editor of technical content

Tony Catelli likes to joke with potential customers that his product is the Rodney Dangerfield of animal proteins.

It may be a might dramatic to say that veal and lamb don't get no respect, but the numbers don't lie: The average Canadian consumes just 2 pounds of veal annually — down from 3 pounds per person in 1980 — and the average American, less than half a pound. And, the USDA's Economic Research Service anticipates another reduction to 0.3 pounds of veal per capita by 2020.

Lamb consumption, though inching slowly upward, is even less on either side of the border.

Even so, Catelli, president and CEO of Catelli Brothers in Collingswood, N.J., sees bright days ahead for these proteins, his company, and for his Canadian partners — Montpak International and Delimax, its farming division. Together, the three companies constitute the most technologically advanced veal and lamb processing operations on the continent.

“We want to promote veal to millennials who don't know how to cook it,” explains Catelli, whose family has been in the veal and lamb business since 1946 — longer, he thinks, than any other U.S. veal or lamb company. “Promoting it at retail is extremely important for our industry.”

Promotion, and plenty of it, can only help sales in the veal and lamb industries. Two decades ago the North American veal industry slaughtered 20,000 head weekly; that's down to just 4,000 now.

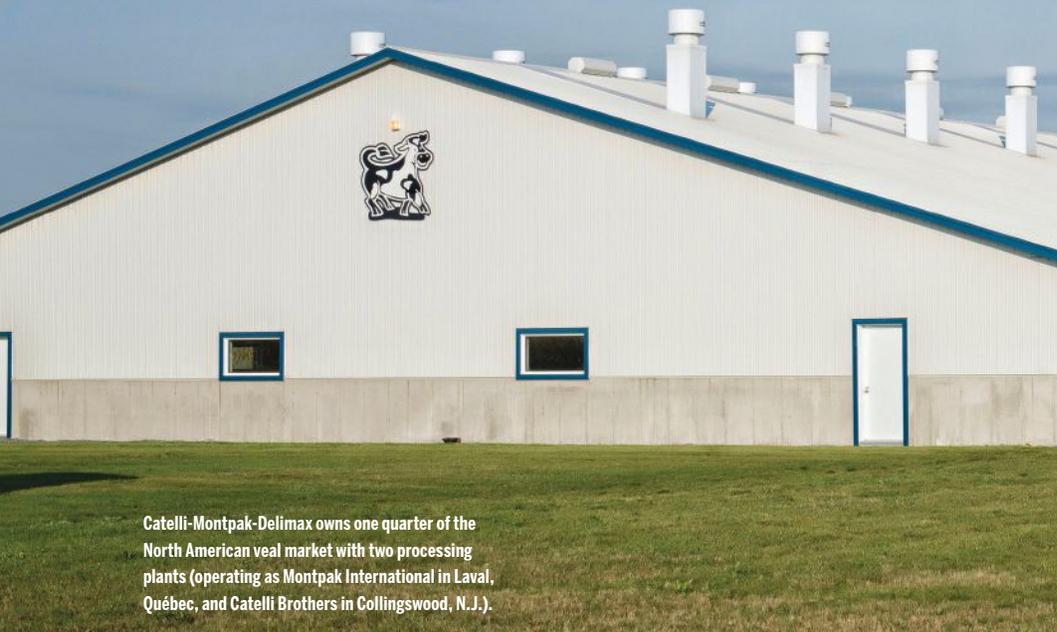
Veal sales in North America as a whole are barely C\$1.3 billion (\$1 billion). Catelli Brothers-Montpak International-Delimax contribute about one-quarter of that.

“The meat buyer in most cases is buying both veal and lamb. They've always been marketed side-by-side and compete together against the other proteins,” Catelli says.

CROSS-BORDER COURTSHIP

Here in the Montréal suburb of Laval sits the most advanced processing facility in the veal industry. Catelli Brothers-Mont-

COMPANY *profile*



Catelli-Montpak-Delimax owns one quarter of the North American veal market with two processing plants (operating as Montpak International in Laval, Québec, and Catelli Brothers in Collingswood, N.J.).

Montpak International-Delimax is responsible for more than half of the investment in the veal industry in North America over the past decade. The 80,000-square-foot processing plant, built in 2010, is among the fruits of a cross-border marriage among three veteran lamb and veal families — a courtship more than 50 years in the making.

The modern veal industry came of age half a century ago out of the disruptions of technological advancement: Artificial insemination meant fewer male Holsteins were needed in dairy production. With a surplus of animals, and a concurrent surplus of whey from a booming cheese industry, the milk-fed veal business was born in the 1960s.

In the 1980s, a French milk-fed veal company set up shop in Québec and hired Fabien Fontaine — the first Québec farmer to raise milk-fed veal, and the eldest of three Fontaine brothers. Nine years later, Fontaine and his brothers launched their own business, Delimax.

Founded by the Buksbaum family of Montréal in 1959, meat processor Montpak entered into a partnership with the Fontaine brothers in 2006 to form Montpak International. “Veal was always

a family-oriented business. It’s always been a smaller industry,” explains Harvey Buksbaum, Montpak executive director.

Meanwhile, in Philadelphia, the Catelli family was eking out a living buying calves and lambs daily to supply the urban market. In 2007, Fontaine invested in a primary supplier of calves to Catelli. The Canadians knew Catelli could open doors to a massive new market to the south, leading to the 2009 three-firm merger.

“We instantly became partners, with them supplying me calves,” Catelli recalls. “They brought the integration that Catelli never had. I used to offer marketing contracts and homes for calves raised by different feed companies, but Delimax had full integration.”

Says Buksbaum, “Veal is such a small, specialized industry. The model has become so sophisticated on the supply side.”

TRY THE VEAL

At the Montpak plant in Laval, so many (more than 1,000) SKUs are produced that President and CEO Alex Fontaine estimates workers go through dozens of changeovers every day.

One customer requested that Montpak take on modified atmosphere packaging



AT A GLANCE

COMPANY:
CATELLI BROTHERS-MONTPAK
INTERNATIONAL-DELIMAX

FOUNDED:
CATELLI - 1946 / MONTPAK - 1959 /
DELIMAX - 1989 (MERGED 2009)

LOCATION:
QUÉBEC, CANADA,
AND COLLINGSWOOD, N.J.

FACILITIES:
80,000-SQUARE-FOOT
PROCESSING PLANT IN LAVAL,
QUÉBEC; 45,000-SQUARE-FOOT
SLAUGHTERHOUSE IN ST-GERMAIN
DE GRANTHAM, QUÉBEC; AND A
65,000-SQUARE-FOOT-PLANT IN
COLLINGSWOOD, N.J.

LEADERSHIP:
FABIEN FONTAINE, PRESIDENT OF
DELIMAX; ALEX FONTAINE, PRESIDENT/
CEO OF MONTPAK INTERNATIONAL;
HARVEY BUKSBAUM, EXECUTIVE
DIRECTOR OF MONTPAK INTERNATIONAL;
DONALD FONTAINE, PRESIDENT OF
TRANSPORT DOFAX; ANTHONY CATELLI,
PRESIDENT/CEO OF CATELLI BROTHERS

REVENUES:
C\$325 MILLION (\$254 MILLION)

EMPLOYEES:
800

ANNUAL PRODUCTION:
114,000 CALVES AND 104,000 LAMBS

PRODUCTS:
FULL LINE OF MILK- AND GRAIN-FED VEAL;
AMERICAN, CANADIAN, AUSTRALIAN AND
NEW ZEALAND LAMB CUTS

CUSTOMERS:
RETAIL, FOODSERVICE, FURTHER
PROCESSORS

COMPANY *profile*

“

As a family business,

WE DON'T NEED TO FULFILL WALL STREET EXPECTATIONS WITH ROI,

so we can make investments and look a long, long time out.

”



to alleviate the cumbersome workload at retail. “Big retailers said, ‘We want you guys to take control of the slicing and packaging for us,’ so now we price it for them, we do everything,” Fontaine says. Although the additional lines ate up the remaining one-third of the plant floor, Fontaine says taking control of food safety and ensuring consistent product was worth it. “They don’t have to worry about the veal any more.”

Here, turnover is fast: Product is shipped within a couple days. The plant processes carcasses that aren’t entirely sold on the Canadian market, so “instead of processing them at Catelli we’ll do the finished product here, so we don’t need to re-pack at the other plant,” he explains.

The system raises an obvious question: With veal and lamb consumption still considered the narrowest of niche animal protein markets, how can such a process ensure that affordable cuts get into the hands of those millennials these companies are trying to woo?

“As a family business, we don’t need to fulfill Wall Street expectations with ROI, so we can make investments and look a long, long time out,” Fontaine says, pointing to recent major investments in stainless steel pens (most veal pens are still made of wood) and the improvements necessary for SQF certification of one of its barns (the only one in the world), as well as its slaughterhouse and both processing plants.

It’s all paid off: Forty-five of the milk-fed veal barns audited by Costco Canada’s third-party animal welfare audit in April/May – inclusive of 19,000 calves – earned a 99.5 percent rating, with 26 of those 45 earning a perfect score.

After all, animal welfare is a major selling point to today’s consumers.

“We need the young generation to consume more veal and lamb. We need to keep making it affordable and accessible for that generation and highlight our commitment to animal welfare and food safety,” Catelli adds.

Plus, the product variety doesn’t hurt, either: grain-fed veal and milk-fed veal, Québec lamb, American lamb, Australian lamb, New Zealand lamb. “We have every type of veal and lamb product out there, and they’re all at a different price point,” Catelli says.

Both proteins have a variety of cuts that meet every consumer’s needs, he adds, helping to get the product to customers as disparate as discount supermarkets and foodie destination restaurants.

“We worked so hard to get farmer beef and veal into the restaurant,” says David McMillan, co-owner of famed Montréal restaurant Joe Beef, who sources his veal from Montpak. “It’s been the elusive white whale of my career ...



Just three employees work in three shifts in the company's highly automated feed facility.

to get a steady stream of high-quality beef or veal for more than six months without the company going bankrupt or changing owners or just not producing any beef or have insane price variations.”

With a consistent supply from Montpak, that's no longer a concern.

“*There are only so many ways of raising calves, but knowing all of this **IN REAL TIME EVERY DAY** makes us different.*”

A ROBOT WALKS INTO A BARN

There's a room at the company headquarters in Saint-Hyacinthe, Québec, that resembles a small-scale version of NASA's war room, where Fabien Fontaine monitors a wall of four massive flat screens, all in real time.

One updates the conditions inside the company's 85 corporate barns (there are another 110 independent Québec farmers under contract), conditions such as temperature, ventilation, fan speed, number of animals and updates on utilities, which can be changed remotely via a mobile phone. Another maps the locations of the 60-vehicle farm fleet, while a third monitors the

feed mixing conditions at each barn.

The last one is all but painted with dollar signs: It monitors each barn's consumption of propane. The program is responsible for saving the company 265,000 gallons of propane in 2015.

“There are only so many ways of raising

calves, but knowing all of this in real time every day makes us different,” says Annie Dubuc, R&D director for the farming division. No wonder the company invests C\$1.5 million (\$1.15 million) into its farming R&D every year.

Automation is key: “We've invested million of dollars in automation. We know the challenge to take an expensive product and cut it and pack it efficiently so our customers can be excited about buying it. We've absorbed all that cutting. Years ago, we'd deliver a whole carcass to the butcher shop or restaurant. Not any more,” Catelli says.

In Louiseville, Québec, where the com-

pany-owned feed plant produces 25,300 tons of milk replacer annually, the entire facility is automated with technology that feed division general manager Rene Demers bought from France.

Three production areas add nutrients to the powder, make liquid fat, and finally convert the fat particles into fine droplets that crystallize onto each grain of nutrient-heavy powder.

One lone employee is needed to mix protein and fat; a couple of others fill bins with raw material or assist with packaging. The facility doesn't even need humans to seal the bags. A computer alerts the operator if the mixer temperature varies by just 2 degrees from target temperatures while another machine mixes multiple fats and emulsifiers based on various formulations, 24 hours a day. All weighing, mixing and storing is entirely automated as well.

“This is the most automated plant I've ever seen,” Demers says, smiling with pride. “In 17 years we've had no problems with arms and backs because there are no arms and backs.”

Same goes for the barns: The feed mixing system starts the process in the pre-dawn hours based on formulations entered by the farmer the night before.

COMPANY *profile*



Alex Fontaine, CEO of Montpak International;
Fabien Fontaine, president of Delimax; and
Donald Fontaine, CEO of Transport Dofax

UP/DOWN

With robotics installed throughout its facilities and massive investments in R&D in its farming division, the company is believed to be **more advanced** than any other in the North American veal industry.



As a result of its own success as an emerging economy, Brazil is discarding a surplus of whey and euthanizing male calves — recalling an all-too-similar situation that gave birth to the Québec milk-fed veal industry four decades ago. The Fontaine brothers are keen to capitalize, using the cheese byproduct to develop a human protein supplement and expand their already deep product portfolio.



Americans eat less than half a pound of veal per person annually; Canadians, on the other hand, take in 2 pounds (although Québécois alone eat 6 pounds per person — on par with the French). Plus, marketing gets little investment from the beef industry as a whole: The Québec veal producers' organization sends C\$7 (\$5.38) per head, but the beef checkoff allocates just \$1 per head to promote American veal consumption.



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Each reserve tank holds 400 gallons, “so when the producer arrives in morning he has 1,000 gallons of milk that he can serve right away,” Dubuc explains.

No longer do company farmers mix milk by hand into bag; it's pumped directly into a tube, and the farmer pulls the tube along a rail to fill the troughs, eliminating the need to carry pails. It also lowers the risk of contamination.

GROUP HOUSING

Since 2000, 80 percent of the barns have been converted to group housing, and they're on track to be done by 2017. The company invested C\$25 million (\$19.2 million) over the past five years in group housing, adding windows, forced ventilation and solar walls. It also was the first in North America to convert to a Dutch system: open floor, stainless steel pens, constant watering. “It's a big change in the way we're raising the calves,” Dubuc says.

Catelli-Montpak-Delimax's foresight has already been rewarded: In 2010, an Ohio-based supplier to Costco was caught on camera by activists treating its calves inhumanely. Costco CEO Jim Sinegal announced that the company was disappointed with itself as well as the farm, which had not yet transitioned to group housing, among other problems.

Costco Canada soon after mandated that suppliers switch to



“
**This is
 THE MOST
 AUTOMATED
 PLANT I’ve
 ever seen.**
 ”

In it for the long haul: More than 40 percent of Catelli Brothers’ employees have been with the company for at least a decade, according to Anthony Catelli, president/CEO of Catelli Brothers.

Photo by Colin Lenton

group housing. Montpak, however, had begun that process years before and was well-prepared to maintain its supplier position.

“Costco took a stand with our suppliers that they had to go with group housing,” recalls Claude Gravel, Costco Canada’s general manager of fresh buying operations for meat, poultry and seafood. Montpak is the company’s only veal supplier, with four products in its stores across Canada. “We may have missed a little bit of volume, but we were willing to do that in the beginning. Very shortly they turned that around. They said, ‘Yes, we want you as a customer,’ and they never failed. They’re a long-term partner in our business.”

Nearby, at a grain-fed barn, innovation also is on display with a robot installed on a track from the ceiling. Ten times daily it automatically fills the trough with corn, straw and supplements to feed 900 head.

MEANWHILE ...

At the slaughterhouse, a 12-camera system monitors the facility in real time via a third party — the only veal firm doing so — inspecting everything from receiving and handling to stunning and bleeding. The system generates a daily report.

“It’s a wonderful insurance policy for us to make sure they’re not being mistreated. [W]e own these animals. There’s no reason for us to do anything but make sure they’re treated properly,” Catelli says.

Of course, that’s where the emphasis on automation stops. The technology has not been extended to processing, and for good reason, Fontaine explains: “We tried to automate, but this is a lot of fine cuts, and the best yield we have is by hand.”

It all reflects the group’s growth strategy — a tricky one to maintain in such a niche market. “If we can keep 5 percent to 10 percent growth per year in pounds that would be great,” Fontaine says. Catelli adds that the U.S. operation saw 12 percent growth in pounds processed this year alone, leaving plenty of light at the end of the tunnel.

“We’re not building [a company that we’re going] to sell at some point,” Fontaine says. “We have no plans to do something else — and all of our money is tied to the business.”

That’s a respectable market strategy.



For a closer look behind the scenes at the largest veal and lamb company in North America, visit <http://meatm.ag/fontelli>



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