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Baseline review of Australian (red meat) Value Adders 2016

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Executive summary

MLA commissioned ProAnd Associate to complete a baseline review of Australian value adding companies using red meat in 2016/2017. This report is a summary only, with commercial in confidence intel removed. It showed there has been considerable change in structure and activity by these companies since the last ranking completed for 2004 and other reviews highlighting barriers (see: A.MPM.006 - <https://www.mla.com.au/download/finalreports?itemId=2094>). The study initially identified 50 entities using red meat in their value adding processes: this was narrowed down to approximately 40 companies. Profiles were produced for a total of 30 companies. The study achieved a relatively high response rate from companies wishing to participate and 18 of the final 25 companies gave agreement to be listed in the table below.

Rank 2016	Company	Volume of raw red meat 2016 tonnes	No. of employees
1	Thomas Foods International Pty Ltd	37,500	3000
2	Beak and Johnston Pty Ltd	35,500	950
3	Australian Country Choice Pty Ltd	24,482	1400
4		22,800	
5	Comgroup Supplies Pty Ltd	21,000	300
6	Australian Food Corporation t/a Keystone Foods Aust'a	20,000	145
7		17,500	400
8	OSI International Foods (Australia) Pty Ltd	17,100	300
9	Simplot Australia Pty Ltd TBC	17,000	
10	The Kraft Heinz Company	10,200	140
11	Yolarno Pty Ltd t/a Bindaree Beef TBC	9,500	800
12	Patties Foods Pty Ltd	7,000	600
13		6,000	280
14		5,500	200
15	Farm Foods Pty Ltd	3,400	100
16		3,100	210
17	Saizeriya Pty Ltd	3,000	80
18		2,900	na
19	Mrs Mac's Pty Ltd	2,850	340
20	Marathon Food Industries Pty Ltd	2,800	300
21		2,600	~190
22	Challenge Meats Pty Ltd	1,900	110
23	George Weston Foods Limited	1,850	1500
24	Peppercorn Food Company Pty Ltd	1,350	60
25	Hastings Food Processing Pty Ltd	1,250	60
		278,082	

Salient points are as follows:

- The updated ranking shows structural change and product-based change over the past decade including several companies not working in this space at the time of the previous ranking.
- Total estimated red meat usage by the Top 25 entities was 290,732 tonnes in 2016 compared to 200,806 tonnes in 2004.
- The ten largest groups used an estimated 236,282 tonnes in 2016, almost 100,000 tonnes more than in 2004 (146,780 tonnes).
- Major changes have resulted from mergers and acquisitions over the past decade and are outlined in the report
- There are several new entrants, mostly preparing products for the retail market
- Data provided by the total group suggests that the retail market took approximately 52% of red meat by volume in 2016 with the balance produced for commercial or institutional foodservice customers.

- Average usage among the group (including unconfirmed tonnages) was 11,509 tonnes last year compared to 8,000 tonnes in 2004. There were as many companies using under 3,000 tonnes in 2004 as there were in 2016, suggesting that value adding can be sustained at lower volumes provided the unit values remain attractive.
- In 2004, average employee numbers at a value adding entity were 337 compared to 535 in 2016.
- Ready-to-eat meals and home-delivered meal kits are gaining traction
- New entrants to the ranking include private-equity companies looking for good returns from the food economy
- Burgers and sausages still lead the pack as the “go-to” centre-of-plate items
- The further manufacturing sector has seen several takeovers, buyouts and exits over the past decade, consistent with changes elsewhere in Australian manufacturing
- Current price levels are causing some value adders to decrease beef usage in order to stay profitable.
- The study did not identify value added products using goat meat.

Background

MLA first published a list of the major value adders that use red meat back in 1999 as a companion piece to its Top 25 Processors ranking. It sought to give producers and other stakeholders some insight into this important but less-understood stage of the value chain. The last ranking was published more than a decade ago in 2005. Beyond the companies featured in this article, there are estimated to be around 30-40 other Australian value adding businesses using red meat in their manufacturing operations.

Definition and Methodology:

MLA’s Top 25 series defines value added product as any type of red meat that has had other ingredients added to it (for example, smallgoods, sausages and marinated products); or has been processed in such a way that it is no longer raw meat; and which should result in increased market value, including shelf-stable products, cooked meats, or highly trimmed portion control cuts. The ranking is based on estimated tonnes of red meat raw material used by a company in its value adding operations during 2016 calendar year.

Data was collated based on:

- In-market research using search parameters
- Desktop and literature search
- Company searches using ASIC
- PAA’s information database
- Telephone contact with consultation guide
- Site visits and discussions
- Writing up company profiles
- Obtaining company’s approval for profiles
- Ranking the companies

Research noted:

- Change of company name, ownership structure etc
- Companies no longer involved in value adding
- Processors now engaged in value adding

Each Profile contained the following fields:

- Entity name and contact details
- Company Directors and management team, Parent company where applicable
- Background on the types of products, brands and markets and channels
- Volume of red meat used in 2016
- Employee numbers
- Value Adding facilities and descriptions
- R&D Program/approach
- Other proteins used in value adding other than beef
- Final comments

This information has been entered into MLA's Customer Relationship Management (CRM) tool.

Key discussion points:

The company at first position in 2016's ranking is Thomas Foods International Pty Ltd (TFI). Based in South Australia, TFI is the country's largest Australian-owned meat processing group. It entered the value adding sector in 2008 through the establishment of the Thomas Farms brand. It has continued to embrace the opportunity through several purchases and strategic partnerships domestically and abroad. In 2015 it launched its own direct-to-consumer meal kit business in major cities across eastern Australia. Read more about TFI's strategy in the company profile.

Close behind TFI is well-known manufacturer Beak & Johnston Pty Ltd (B&J). This company more than doubled its red meat utilisation in the 2016 ranking over the previous ranking. B&J supplies supermarkets with pre-packed and priced red meat products as well as producing pre-cooked meals under the supermarkets' house brand. B&J also has its own branded burgers, sausages and ribs range. Additionally, B&J are very active in the foodservice market across the country. In 2015 the company opened a state-of-the-art manufacturing centre to underpin the next stage of its growth supplying these market channels.

The companies at third place in the ranking wished to remain anonymous.

Top Cut Foods Pty Ltd, whose parent company is owned by JR Simplot (USA), took out 4th place. Its business model supplies a wide range of portion control and other products to foodservice establishments throughout Australia and Asian markets.

Australian Country Choice Pty Ltd (ACC) took the next position: it is a vertically-integrated meat supply chain company which supplies the Coles supermarket chain across eastern Australia.

Several companies have exited the Top 25 ranking due to organic growth by other companies that have increased their red meat usage. Others have been merged or bought out by other parties. Here are several developments that resulted in companies not being listed in the current Top 25:

- MQF Pty Ltd was acquired by Primo Smallgoods in 2008 which also bought Hans Smallgoods Pty Ltd in 2009.
- Newland Food Company Pty Ltd was merged into Primo Smallgoods in 2013.
- Tatiara Meat Company Pty Ltd is now owned by JBS Australia (which also owns Foodpartners and Primo Smallgoods both of which appeared in earlier Top 25

rankings). JBS is a significant value adder with interests in smallgoods manufacture, portion control, foodservice and other activities but did not participate in the Top 25 study.

- Patties Foods (in early 2017) bought a part-share in Australian Wholefoods (AW), a meal solutions company based in South Australia that produces lasagne and other chilled meals under the Banquet brand: this should increase Patties Foods' share of the value added sector going forward.

Trends

A constant requirement for all the major value adders is the need to comply with customer requirements. Invariably their customers are retailers that require their suppliers to meet a raft of certification and accreditation standards such as environmental sustainability; packaging disposal; overseas retail standards, food safety and animal welfare.

Six companies in the Top 25 ranking have ownership connections to integrated abattoirs. These are Thomas Foods International; Australian Country Choice; Bindaree Beef; Challenge Meats (M.C. Herd); and two others which did not wish to be identified.

Value adders are aware of changing consumer tastes and trends. Many note the high cost of beef and lamb in their formulations currently and that vegetarian and flexitarian diets are becoming popular with some consumers which may affect demand for red meat products in the future. There are non-meat products entering the market that claim to have meat taste characteristics. Earlier in 2017, Tyson Foods USA bought a minority share of Beyond Meat, an alternative meat protein company that uses plant-based protein.

All in all, the largest food manufacturers used around 208,000 tonnes of beef and lamb in value adding tasks during 2016. Total estimated red meat usage by the Top 25 entities was 287,732 tonnes in 2016 compared to 200,806 tonnes in 2004. The top ten entities used an estimated 236,282 tonnes in 2016, almost 100,000 tonnes more than in 2004 (146,780 tonnes). Average usage was 11,509 tonnes per entrant last year compared to 8,000 tonnes in 2004. There were as many companies using under 3,000 tonnes in 2004 as there were in 2016, suggesting that value adding can be sustained at lower volumes provided the unit values remain attractive.

In 2004, average employee numbers per value adder were 337 compared to 535 in 2016. For meal-makers, which is about 50% of the companies listed in the ranking, beef or lamb is simply a component of the finished product. Therefore changes may be made in ingredients or the size of product range to maintain or improve sales revenue levels year-on-year. A few companies in the ranking expressed concern about how their businesses could absorb higher red meat costs in the current tight supply situation. Combined with pressure on energy and packaging costs, this may result in some business mergers/takeovers or closures of some divisions.

This project has provided a baseline review of the industry for MLA to use in 2017 and beyond, assisting MLA's service offer in account management and future Measurement and Evaluation metrics in growing demand and capability development within the value added red meat sector.

