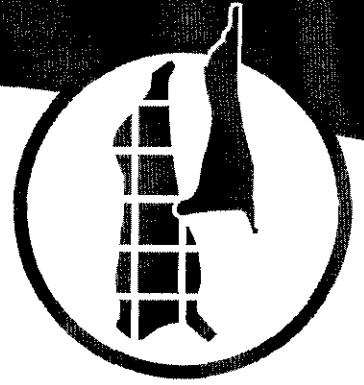


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Overseas packaging study tour VAMP.006

1996

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MEAT & LIVESTOCK

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1.0 EXECUTIVE SUMMARY

The international retail-ready packaging study tour was conducted 23 June - 8 July 1996, and was jointly supported by MRC and the Australian industry participants. The overall objective of the study tour was to define the key issues for the successful commercialisation of retail packaging systems in overseas markets.

Key industry sites for retail-ready packaging were studied in Taiwan, Hong Kong, France, Holland, United Kingdom, and Canada. Site visits were conducted of both the retail and the associated meat packaging supply organisations in these countries.

The key findings from the study tour are:

1. Potential of the Asian Retail Market

- ▶ The retail industry is becoming global, and expansion into Asia is a key part of the strategy.
- ▶ As part of this global expansion, the retailers are developing global food sourcing strategies to ensure consistency of international supply, quality and pricing.
- ▶ Management systems are relatively poor by Australian or European standards and shall be the focus of the next development phase by retailers. This shall include supply chain and cold chain management systems.

2. Dual Market Structures - The Wet Market and the Modern Retail Sector

- ▶ While detailed visits were not undertaken throughout Asia, it is evident that the Asian market has a dual market structure comprising the traditional wet markets alongside of modern supermarkets.
- ▶ The wet market sector of the Asian markets was often referred to as the major volume market of today for meat products, and clearly this market sector competes with the more modern retailers.
- ▶ It would appear that many importers of Australian meat have established and maintained their businesses based upon the demand of the wet markets.

3. The Australian Industry Needs a Physical Presence in the Asian Retail Market

- ▶ The study group noted that a key success strategy for other competitive meat suppliers to the Asian retail market was the physical presence of trading offices in the markets.
- ▶ It was considered that the increasing sophistication of the retail sector in the Asian markets warranted the need for on-site Australian industry resources to develop the

relationships with Asian retailers at a trade and distribution level.

4. The Fresh Image for Food in Asia is Paramount

- ▶ Observations by the study group and discussions with industry groups throughout Asia confirmed the importance of 'Fresh Food' in Asian retailing. Fresh food products are linked to market share for retailers in Asia.
- ▶ While it may not be a modern form of retailing, it was noted that the current wet markets are reputed for their freshness of product. Indeed it was reported that many of the customers of the wet markets are young consumers who also patronise modern supermarkets.

5. Australia's Competitive Advantage for Supplying

- ▶ The cost and limited availability of floor space in many of the developed retail markets of Asia is a strategic issue for the future growth and profitability of Asian retailers. This issue is compounded by the increasing difficulty of procuring skilled and cost-effective labour for the preparation of meat products.
- ▶ The trend is towards sourcing packaged and prepared food products which are consumer oriented and maximises profitability for retailers.
- X ▶ Australia can develop a competitive advantage by supplying Asian retailers with a product which requires minimal processing and handling. — mc 10 2 above

6. Strategic Alliances or Joint Venture with Asian Retailers

- ✓ ▶ Without doubt, the major success factor for the development and supply of retail-ready (and other packaged meat products) was the relationship between the retailer and the supplier.
- ✓ ▶ In all the sites visited in Europe and North America, the success of the retail-ready packaged meat product programs were based upon a strategic alliance or joint venture with a retail organisation.

7. Pilot Studies to Prove Packaging Technology and Supply Systems

The study group confirmed the requirement to conduct pilot studies to prove the Australian packaging and supply systems to Asia retailers. The overseas experience is that this is a necessary step to gain market acceptance by both the consumer and retailer markets.

- ▶ Based upon market requirements throughout Asia, the Australian industry needs to conduct extensive pilot studies with different retail groups throughout Asia. These pilot studies should extend to include not only the packaging technology but also the

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total supply, management and distribution, retail merchandising systems and consumer acceptance at the retailing level.

8. The New Retail-Ready Packaging Systems need a Product Champion

- ▶ Successful retail-ready meat sites demonstrated that there had been a committed product champion to ensure the success of the systems.

Broad recommendations to MRC are outlined in this report, however a follow-up meeting of the study tour group is planned at the end of August, to further develop detailed recommendations and strategies for review by the MRC and the Australian industry.

2.0 BACKGROUND

MRC's retail-ready packaging research has been undertaken within four strategic alliances involving Australian processors and packaging companies. The aim of the research has been to improve the export competitiveness and profitability of the industry through the application and commercial development of consumer-friendly retail-ready (RRP) fresh meat packs in modified-atmosphere or vacuum packaging systems.

These research projects and packaging systems are summarised in the Table below:

Project	Commercial Company	Packaging Company	Retail-Packaging System
M.719	Total Sales and Marketing/ KR Darling Downs	WR Grace	Vacuum Skin Packaging with non-permeable film
M.460	Castricum Bros	ACI Flavaloc	Modified Atmosphere with 'patented' technology plastic dome
M.465/ M.850	Melrina Australia	Trigon Packaging Systems	Modified Atmosphere with 'patented' Carboxy sachet
CS.171/ M.799	Tender Plus	WR Grace	Modified Atmosphere VSP Masterpack

The retail-ready packaging systems are currently at various stages of beta-testing in retail environments in Australia and overseas.

Following an industry meeting at AMLC in December 1995, two key strategies were recommended by the industry representatives to the MRC for the completion of the above packaging research program:

Industry Recommendation 1- Keynote Presentations on Retail-Ready Packaging

To conduct keynote presentations to major Australian retail and meat processing organisations on the successful research results to date, and the commercial viability of the technologies.

Results of Recommendation 1

These presentations were successfully completed during February and April this year with Tesco Stores Ltd and St Merryn Meats of the UK presenting case-studies of their retail-ready packaging systems. Over 180 participants attended the presentations, and key retail industry groups such as Woolworths and Franklins expressed their further interest in retail-ready packaged meat.

Industry Recommendation 2 - International Study Tour of Retail-Ready Packaging

Based upon the success of the keynote presentations, conduct an international study tour with major Australian retailers and processors to study in more detail, the commercial issues for the successful implementation and maintenance of retail-ready packaging systems, and other strategic packaging and presentation issues for Australia's key overseas markets.

Results of Recommendation 2

This recommendation was reviewed with Australian meat retailers and processors. Woolworths, Franklins and five meat processors confirmed their interest to participate in the study tour.

In addition, other MRC discussions with senior management executives from Woolworths, Coles and Franklins confirmed the importance of retail-ready and packaged meat in the Asian markets. These organisations noted their investment commitment to these markets for packaged meat (and food). Accordingly the study tour also represents a significant opportunity for MRC to develop strategic alliances with Australian retailers.

3.0 THE INTERNATIONAL STUDY TOUR

3.1 OBJECTIVES OF THE INTERNATIONAL STUDY TOUR

- a. Review and define the key issues for the successful commercialisation of retail-ready packaging systems in overseas markets.

Key issues shall be evaluated in the following areas:

- ▶ Markets and consumers.
- ▶ Retailer-Meat Supplier relationships.
- ▶ Distribution issues.
- ▶ Product specifications.
- ▶ Profitability/commercial viability.
- ▶ Strategic research imperatives.

- b. Based upon the study sites, identify other strategic 'Packaging and Presentation Needs' to increase the competitiveness of the Australian industry.

These needs may extend to areas outside of retail-ready consumer packaging to sub-primal packaging and automation, packaging materials, product traceability, and pack/product integrity during distribution, retailing and merchandising.

3.2 STUDY TOUR ITINERARY AND DATES

The study tour shall be conducted 23 June 1996 - 8 July 1996, and the tour itinerary is attached at Appendix A.

3.3 THE STUDY TEAM

- | | | |
|----|-------------------|--|
| 1. | Mr Frank Bray | - Manager, National Meat Buying, Woolworths. |
| 2. | Mr Denis Denton | - Australasian Meat Operations Manager, Franklins. |
| 3. | Mr David Woolrych | - General Manager, South Burnett Meat Works. |
| 4. | Mr Drew Studham | - Works Manager, Frews Kyneton. |
| 5. | Mr John Whyte | - Project Leader, ACI/Castricum Packaging Project. |
| 6. | Mr Frank Mesiano | - Managing Director, Tender Plus. |
| 7. | Mr Gary Stone | - Managing Director, Melrina Australia. |
| 8. | Dr Tony Gordon | - Program Manager, MRC . |
| 9. | Mr Barry Lee | - Program Co-ordinator for MRC . |

4.0 SUMMARY OF SITE VISITS

4.1 Taiwan

Market Comment from AMLC

Ms Joanna Fu is the AMLC representative in Taiwan, and the following market issues were noted in respect to retail packaged meat.

- ▶ Taiwan is a unique market for Australian beef in that it has a Chinese population (20 million) which is not greatly influenced by expatriates as compared to the neighbouring Hong Kong market.
- ▶ The total meat market consists largely of frozen product with chilled product being 3.8% of the market in 1995. However, the total market has grown by 139% since 1990, the frozen sector by 135%, and the chilled sector by 400% since 1990. Chilled product is the major focus for the retail sector in Taiwan.
- ▶ The retail industry is dominated by major groups such as Wellcome with 90 supermarkets, Carrefour with 7 supermarkets and Yumowu with 7 supermarkets. However, the retail sector is in a state of change, and it is expected that over the next 2-3 years there shall be a rationalisation to fewer stores with an emphasis upon one-stop volume shopping in the form of hypermarkets. Carrefour from France, Makro from Holland and Wellcome in joint venture with Casino from France, are emerging as the major hypermarket players.
- ▶ Hypermarkets shall have large fresh-food and meat areas and therefore possess significant buying power.
- ▶ The US industry dominates the retail market and through Taiwan-based USMEF offices, US processors are packing and marketing frozen and vacuum packaged chilled meat; both in sub-primal and consumer portions. The US industry also enjoys preferential import tariffs under the Special Quality Beef (SQB) program which only allows the entry of USDA Choice and Canadian AAA product into the Taiwanese market.

Carrefour and Wellcome Supermarkets

These two stores had in-house butchering facilities and a traditional meat display cabinet which included Australian product. Major cuts of meat included loin cuts, and shin-shanks and intercostals which are a market specialty. These specialty cuts appeared to be predominantly supplied by the US industry.

Retail packs of meat are in over-wrapped EPS trays and vacuum-packed consumer portions.

Yumowu/Takashimaya Supermarket

This store was similar to Carrefour and Wellcome, however it was targeting a more affluent section of the consumer market. Of note, the USMEF had provided a (wooden in-laid) design for the meat display cabinet.

The store's meat manager expressed interest in retail-ready meat packaging subject to the quality and presentation of the meat pack.

Yong Yeh Glory

This company is a meat importer and was a meat packing house for Park 'N' Shop (before their withdrawal from the market), and Carrefour.

Yong Yeh Glory noted the importance of the wet market retail sector in Taiwan.

Makro Hypermarket

Makro was a very busy, large one-stop shopping facility of over 10,000 square metres.

Both frozen carton, primals, sub-primals and fresh vacuum packed products (tenderloins, shin shanks, intercostals and rib-eyes) were available.

4.2 Hong Kong

Market Comment from AMLC

Ms Fong Ling is the AMLC representative in Hong Kong, and the following market issues were noted in respect to retail packaged meat:

- ▶ From 1 July 1997, Hong Kong shall become a 'Special Administrative Zone' of China; 'One Country, Two Systems'. Strategically Hong Kong is an important Australian market as it is a major conduit for the consumption and re-export of meat products, and it is also rapidly becoming a showcase city to other developing cities in China.
- ▶ Australia dominates the fresh boneless beef and sheepmeat markets, USA dominates the bone-in frozen beef, and China and New Zealand are key players in boneless frozen beef.
- ▶ The two major supermarket chains which dominate the Hong Kong market are Wellcome and Park 'N' Shop. These two chains buy some 50% of Australia's chilled beef exports to Hong Kong.

WR Grace Hong Kong

The Cryovac packaging division of WR Grace presented the study group with its most recent market research (refer Appendix A), and confirmed the opportunity for retail-ready meat products in Asian retail markets.

Their research showed that:

- ▶ Asian countries are fuelling this growth in retailing through the emergence of a large and 'affluent' middle-class of consumers.
- ▶ While Hong Kong, Singapore and Japan are relatively well-developed retail markets, Taiwan, Malaysia, Thailand, Indonesia and China are experiencing rapid growth and

change. A major change for these latter countries shall be the development of modern food retailing at the expense of the more traditional wet-markets.

- ▶ Distribution and control of the cold chain shall be critical to the success of retail-ready packaged meat.
- ▶ The major investors in the Asian retail market include Holland's Makro and AHoldings, France's Carrefour and Casino groups, Hong Kong's Dairy Farm and Japan's Yaohan.

Wellcome, Park'N'Shop, DCH Supermarkets

These supermarkets are all common in that they are all supplied with retail meat from a central production facility.

Meat in these supermarkets was retailed in traditionally over-wrapped EPS trays, and it would appear that in the case of Park'N'Shop, product was out of stock.

Jusco, Uni Supermarkets

These two supermarkets have their own in-store butcheries, and target the 'upmarket' Japanese consumers with Japanese sirloin retailing for A\$200/kg.

Retail displays and cabinet temperatures appeared to be well-maintained with hourly 'check-temperature of cabinet' cards.

Wellcome Company Presentation

Glen Feist, Fresh Food Manager for Wellcome provided the group with a market presentation (refer Appendix B), and confirmed his company's participation and support for the current MRC pilot study for the export assessment of retail-ready meat. He considered that there were major opportunities for retail-ready meat in stores with butcheries and/or those stores which currently did not sell meat (Only 30 of Wellcome's 207 supermarkets currently sell meat). He noted that retail-ready meat was also consistent with the retail focus upon QA and hygiene as these issues would ultimately buy the retailers more consumer dollars.

The study group was also provided with a tour of Wellcome's Meat Packaging Centre at Aberdeen.

4.3 France

Market Comment

Key recent development trends in the French retailing industry include:

- ▶ The large combined food and general merchandise hypermarket (stores of over 2,500 sq.m.) has been a major driver of growth, although many independent supermarkets (store areas of 400-2,500 sq.m.) trade under a group 'banner' such as Leclerc or Intermarche.
- ▶ Industry acquisitions and mergers (eg, Carrefour and Euromarche) has created very

large multiple chain hypermarket and supermarket operators.

- ▶ The major French hypermarket and supermarket groups (eg, Carrefour) have been active international investors in South America and SE Asia.

Cryovac France also provided the study group with an overview of the French retail meat market as shown at Appendix C. Key points include:

- i. Supermarkets and hypermarkets account for 74% of retail meat sales, and butchers 26% of sales.
- ii. For the supermarkets and hypermarkets, 81% of the meat is prepared in back-of-store butcheries, and the other 19% is centrally packed.
- iii. Retail-ready packaged meat is a major European project for Cryovac, and the strategy involves developing pilot studies between retail-ready meat suppliers (eg, Socopa) and major hypermarkets which currently retail meat, and smaller supermarkets which currently do not retail meat.

Carrefour, Villabe

Carrefour is the largest food retailer in France and is also the most internationally active. As at 1994, Carrefour operated 111 hypermarkets, which accounts for 20% of all hypermarkets in France.

Carrefour is a member of a European buying group called Deuro, whose members also include Metro International in Germany, and Makro in Holland.

The Carrefour hypermarket at Villabe was approximately 10,000 sq.m., and almost 50% of the area was for food retailing. It was noted that the food areas integrated areas which were 'copies of traditional wet markets'. Meat was predominantly retailed in an over-wrapped tray format.

A separate, smaller display cabinet was used for the merchandising of retail-ready meat. The major retail-ready products included vacuum packed (unbloomed) sirloin steaks in 'sleeve-packs', and MAP ground beef packs. Both of these products sold at a premium, with the vacuum packed steaks selling at twice the price of the equivalent over-wrapped product. Both these products were supplied by Socopa in France.

The key issue for further development of supply systems for their meat was the development of product traceability and quality assurance.

Auchan

Auchan is the fourth largest hypermarket operator in France with 49. It also has stores in Spain, Italy and the USA. This company is currently attempting to acquire or take-over the Mammouth group which has some 89 supermarkets.

The hypermarket visited retailed a more extensive range of retail-ready meat products from Socopa and Charal. Retail-ready products included carpaccio, single and double meat patties, steaks and skewered kebab products.

Casino Supermarket

Casino is the second largest hypermarket group in France, and have recently formed a joint-venture to develop hypermarkets in Taiwan with Wellcome of Hong Kong.

The store visited was only a smaller format supermarket, however its range of retail-ready products was significant with products similar to Auchan above.

The back of the store butchery was well-organised with 'strict' control (including air locks) on the temperature in the butchery.

Lafayette Gourmet

This store is an upmarket 'David Jones' food market with a focus on gourmet and pre-prepared foods. The variety of food products, preparation and presentation were of a very high professional standard. The format of the food area included al-a-carte tables adjacent to each product (eg, meat, seafood, poultry). This enabled the cooking and serving of the high quality food to customers from the adjacent displays.

Socopa, Cheree

Socopa is the largest meat processor in Europe. Approximately 30% of the retail-ready product produced by Socopa is under 'Socopa's' brand name, and the balance is produced under a store's brand name. Over 90% of their production is for the domestic French market, and 10% is for export as frozen mince for other EC countries.

The Cheree plant visited by the study group is the largest in Europe, and was also considered to be the most professional plant visited during the tour.

The plant consisted of a slaughterhouse facility, and a further processing facility for retail-ready packaged meat. Most of the investment had been targeted at the further-processing or retail-ready production area, and the slaughterhouse area had been 'neglected'.

Retail-ready products included hamburger patties, kebabs and steakettes in MAP packs. Each of these products were produced in large volumes with dedicated work rooms for each product. The ground beef operation worked 24 hours per day with only one clean-up operation.

The plant is capital intensive with the latest equipment, the production is fully computerised, and strict QA procedures are in place for purchasing, receiving and processing. This is important as the plant holds no raw material or finished material stock. Their production of 800 tonnes per week, relies upon an efficient system of daily deliveries and same day production and distribution.

4.4 Holland

Market Comment

The Netherlands is a relatively smaller European market and is dominated by the activities of the major national supermarket retailers, Albert Heijn and Makro which is an affiliate of Metro International (the largest retailer in Europe and one of the largest in the world).

Makro

The Makro Amsterdam store is the same retail format as in Asia and the rest of the world. Stores are membership warehouse clubs where access is restricted to card holding club members who must be registered as small business owners. This is the same model as Campbell's Cash and Carry in Australia. The philosophy is that business customers are easier to service than personal shoppers, and most importantly business shoppers average a larger purchase transaction.

The national food buyer for meat met with the study group and confirmed:

- ▶ Retail-ready meat or MAP meat was one of the many formats which was used for the sale of meat. The other major forms were vacuum packed cuts and sub-primals, and frozen product.
- ▶ The Makro group was an active partner in the development of buying groups with European partners.
- ▶ SE Asia was a major focus of expansion for the organisation.

Albert Heijn

The Albert Heijn (AH) supermarket chain is the leading food retailer in Holland. The organisation consists of more than 600 supermarkets, including 156 franchisees, and promotes itself based upon modern retailing, quality, pricing and a well-established private label program.

Albert Heijn is owned by a publicly listed company, AHoldings which has a combined annual turnover of some A\$15 billion. It is an international operation, and derives over half of its revenues from its activities in the USA.

Albert Heijn operates four central meat processing plants. with over 5 million meat packs being produced for distribution each week.

The study group visited the meat processing plant at Zaandam, and noted the following key issues:

- ▶ The retail-packaging operation is very capital intensive with major investments in carcass chillers, boning room (with modern lighting, painting and music), ground beef processing, packaging, materials handling conveyors and crates, and management information systems.
- ▶ Staff welfare was of prime importance with major investments in work flow areas and other staff amenities such as change areas and canteens.
- ▶ Hygiene was a major focus of all operations throughout the plant.
- ▶ Tenderness (eating quality) and appearance/red colour of the meat were major issues under review as the BSE situation had closed their supply source of Irish beef steers, which was of better eating quality than the local 'dairy' herd (bull) animals.

- ▶ Meat product revenues were in decline due to consumer health animal welfare issues. Future growth of their business was linked to the opening of further stores, and new product development of pre-prepared meals.
- ▶ In the stores, some 45% of the meat product is retailed as traditionally over-wrapped product, and 55% is retail-ready packaged. The major volume product for retail-ready packaged product was minced beef and meat patties. Steak cuts were the next largest volume line, and it was noted that a significant amount of retail-ready steak product was promoted as being of South American origin.
- ▶ The major focus of the companies expansion outside of the USA, was in Asia. In 12 months AHoldings has opened some 50 stores through joint-ventures in Malaysia and Indonesia

4.5 United Kingdom

Market Comment

As with Australia, UK food retailing has become increasingly concentrated with the growth of the large chains at the expense of the smaller independent retailers. The 'Top 5' comprising J. Sainsbury, Tesco, Safeway, Asda and Somerfield accounts for over 40% of food retail sales in the UK. By comparison in Australia, Woolworths, Coles and Franklins account for over 70% of the food market.

Key features of the industry are:

- ▶ Much of the growth in market share by the top retailers has been achieved by opening large scale superstores with essentially a food only offering, especially in out of town locations. This is in contrast to the combined food and non-food hypermarkets of France.
- ▶ The industry in the UK is uniquely profitable in world terms. Between 1990 and 1993, J.Sainsbury's profits rose by from 6.7% to 7.7% and Tesco's operating profits were 6.5% last year.
- ▶ International expansion of the industry has been primarily in the USA and Europe, and M&S has been the only major group to establish in Asia; but this has been mainly for its range of dry goods and non-food product lines.

Tesco

Tesco has undergone a major transformation in recent years, and is now the number one food retailer in the UK, and was voted last year by the UK Consumers Association as the most innovative food retailer.

Over the last 4 years, Tesco has changed to a major retail-ready packaging program with supplies from two major central meat packaging operations; St Merryn Meat in Cornwall and Hilton Beef at Cambridge.

The major reasons for this change to central meat packaging were to increase profitability of meat sales, reduce the costs of in-house preparation and butcher labour, and to improve

product quality consistency.

Tesco works extremely closely with its central meat packaging organisations, and has invested heavily in assisting these suppliers with systems for production and packaging, distribution and quality assurance, and yield and profitability of operations.

During a visit of a Tesco supermarket at Hatfield in Hertfordshire, it was noted that there was no separate meat display along the back of the store as is common in Australia. Rather, meat was retailed in one of the many gondoliers in the food area. In many ways, meat had been 'desanitised' as just one of the many lines of food, such as poultry, pork, seafood and pasta.

Meat was retailed in principally the MAP retail-ready packs, however there was some product (about 10%) in over-wrapped EPS trays. The study group also considered that the range of meat cuts available were much less than the range of cuts in Australia. Tesco considered this to be a part of their overall strategy as it has increased meat sales margins to 20-30% for cuts (compared to 3% in Australia), and over 35% for value-added meat products.

Of note, the BSE situation has reduced meat sales by some 30% but the market is claimed to be recovering.

Marks and Spencer

The M&S Marble Arch store was visited and the study groups comments are:

- ▶ The display of retail-ready meat in food gondoliers was similar to Tesco's.
- ▶ The range of meat cuts in retail-packs appeared limited, and presentation of the meat packs could have been improved. In some instances, meat use-by dates were at their limit and meat was developing discolouration.
- ▶ There was a major focus upon pre-prepared product such as pre-seared barbecue packs of meat and pre-cooked chicken packs.
- ▶ The service counter was devoid of display product (and customers).

St Merryn Meat

St Merryn Meat is the largest and oldest supplier of centrally produced meat to Tesco. St Merryn was a supplier of boxed beef to Tesco's previous in-store butcheries, and was the key partner for Tesco's transition to MAP retail-ready packaged meat. Mr Terry Johnson is the owner of St Merryn, and may be described as an entrepreneurial meat supplier.

The plant at Cornwall is a modern, 7 day per week facility with large investments in capital equipment and systems. Their strategic alliance with Tesco justifies their capital investment as they 'sign-off' on yield, pack production, pack costs and the sharing of any cost savings.

The plant consisted of a small slaughterhouse facility (300 head/day), and large further processing facilities for retail-ready packaged meat. Current production is 400 tonnes per week with a capacity of 750 tonnes per week. Of the production, over 85% is in a MAP retail-ready pack and the remaining 15% of the production is in traditionally over-wrapped

EPS trays (which are often gas-flushed into a masterpack). The volume product lines are ground beef (up to 30% of production), steak cuts, roast pieces, marinated products and pre-prepared products.

Of note, meat product from Australia had recently been imported by St Merryn, and was being packaged during our plant visit.

The success factors for retail-ready packaging for St Merryn were:

- ▶ Alliances with retailers.
- ▶ Alliances with producer groups.
- ▶ Clear raw meat specifications and quality of the raw material product.
- ▶ Control of cold chain temperature during both production and distribution. It was noted that distribution distances were significantly less in the UK than in Australia.
- ▶ Management systems to control pricing and yield.

St Merryn are expanding into Spain with another major retail organisation in Portugal, and are developing a similar central production plant.

Hilton Meats

Hilton is the second and other supplier of retail-ready packed meat to Tesco. It is noteworthy that Hilton's Cambridge plant is only 2 years old and is the joint venture of two previously competitor meat suppliers to Tesco.

Production is currently 150 tonnes per week with a capacity for 400 tonnes per week. It was emphasised that BSE had caused a major downturn in production, and those meat suppliers who were not strategically aligned with a major retailer, were operating at less than commercially viable levels.

The plant is a modern, 7 day per week facility with over A\$11 million of capital equipment investment and systems. Their systems have been custom developed and these are not shared with any other organisation. In this respect, Hilton and St Merryn are fierce competitors.

The plant does not have slaughter facilities, and all raw material is supplied as boxed vacuum packed beef from processing plants owned by Hilton in England and northern Ireland. The current major issue for supply is development of alliances with producer groups and traceability of production packs back to a 'batch' of 20-30 cattle. The volume product lines are ground beef, steaks cuts, roast pieces, marinated products and pre-prepared products as with St Merryn Meat.

Hilton noted that J. Sainsbury are attempting to emulate Tesco's meat production model, and that Marks and Spencer are a high quality but niche market retailer when compared to Tesco.

4.6 Canada

Market Comment

The North American retail industry is less concentrated than in Europe or Australia, and no group of retailers can claim majority market share.

A recent review of retail-ready red meat by Meat Marketing and Technology confirms that retail-ready packaging is a 'top priority' by supermarket groups and the industry is secretive about their developments and plans.

The reasons suggested for the relatively 'slower' development of retail-ready in the North American market include:

- ▶ The previous development of poor and inconsistent quality product.
- ▶ Lack of alliances between packers and retailers, and
- ▶ Most importantly, industrial labour issues and structures in the retail industry.

Indeed, a 6 week strike by Safeway workers over wages (and centrally produced retail packs) had shut down most of the Safeway stores in western and central Canada. (This was the key reason for the study group not being able to conduct a site visit of the Lucerne Foods retail-ready packaging plant in Calgary).

Despite the above, all the major retail and packing organisations have pilot trials of retail-ready meat. These include Excell with their double-diamond product, Cargill Foods/ Trillion Foods with their gas flushed masterpacks of over-wrapped meat, Monfort and Hormel Foods.

However, due to the labour issues it would appear that the smaller retail-supplier groups are more pro-active with retail-ready packaging programs than the larger groups. eg. Loblaw's and Sobey's in east Canada, Fairway Foods and Krogers in Indianapolis.

Lucerne Foods - Presentation by Cryovac North America

Lucerne Foods is a subsidiary of Safeway, with some 60 plants in North America and 16 plants in Canada. The Calgary plant in Canada is a primary supplier of meat and other fresh foods to Safeway's supermarkets in Alberta.

Over the last 3 years, Lucerne Foods have worked with Cryovac to develop the 'Peelable' retail-ready system which uses a patented barrier film material which not only extends meat shelf-life to 14 days, but can also be peeled off by workers at the supermarket just prior to retail display. The shelf-life extending properties enable Lucerne Foods to more effectively distribute packaged meats from a central location, and this is being piloted through 68 stores in Alberta.

Lucerne Foods is a 'fabrication plant' using boxed beef equivalent to processing 1200 head/day from a nearby slaughter plant owned by IBP. Some 60% of its production is in the form of retail packs, and the packs formats are 50/50 between the 'peelable' system and traditionally over-wrapped EPS trays.

The major success factors for the pilot program to date have been:

- ▶ The investment by both parties in a (retail) product champion to co-ordinate the pilot program between the retailer, Safeway and Lucerne Foods.
- ▶ Implementation of a yield and profitability management system called CARDS (Computer Aided Retail Decision System) developed by Texas A&M University and the National Cattlemen's Beef Association from Chicago.
- ▶ Investment of over A\$2 million in capital equipment and systems.
- ▶ Development of trial systems to prove the technology for high volume product lines

including ground beef and steak cuts.

The pilot trial has been successful with commercial packaging costs ranging between 20 and 50 cents per pack (depending on the single, meal or family pack sizes), and subject to a planned feasibility study by Safeway, the system shall be extended to all 235 stores in Canada.

Safeway Supermarkets

Two Safeway supermarkets were visited and the study group noted that the store formats were similar to those in Australia.

The major issue noted by the study group was that the 'peelable' product format was displayed and sold beside other retail pack formats including MAP retail packs, vacuum packed cuts and traditionally over-wrapped red meat product.

Consumers are apparently accepting of the meat in a range of pack formats, and no product/pack promotion occurs prior to the launch of the new pack formats.

4.7 Summary Comments of Site Visits by Study Group

Does Australia have the opportunity to establish alliances with Asian retailers?

All the major suppliers of retail-packaged meat have strategic alliances with a major European supermarket group. The European retailers are currently more active with their expansion into Asia than those from the UK.

For Australia's emerging Asian retail markets, what are the product range and volume lines for meat products?

The Socopa plant in France appears to have a much larger range of products than the Albert Heijn, St Merryn or Hilton Beef plants. However all plants appear to have developed their businesses around one or two high volume product lines such as ground beef or steaks.

What is the most appropriate retailing and supply system for Asia?

All the sites displayed a range of retailing formats (hypermarkets, club warehouses, supermarkets), supply agreements, and merchandising and display systems. Of note, the UK groups are focussed upon local supply sourcing whereas the European groups have developing global sourcing philosophies.

Central production in Australia or in Asia?

The experience from overseas is that central production (and distribution) of retail-packed meat occurs in the local country or destination market. This has largely been associated with the capabilities of the distribution infrastructure in these areas. For Australia the paradigm is that the market is in Asia, but the distribution facilities are more developed in Australia.

5.0 KEY FINDINGS FROM THE STUDY TOUR

5.1 Potential of the Asian Retail Market

While the study group conducted brief visits to some 8 key retail outlets in the Taiwan and Hong Kong markets, the dynamic growth of the retail sector was noted and confirmed from a range of industry sources including AMLC country representatives, packaging organisations and senior retail market executives (in Asia and European corporate offices).

The trend for continued growth and investment in the retail industry in Asia was highlighted by both WR Grace and Wellcome in Hong Kong. The conclusions arising from the presentations were:

- ▶ The retail industry is becoming global, and expansion into Asia is a key part of the strategy.
- ▶ As part of this global expansion, the retailers are developing global food sourcing strategies to ensure consistency of international supply, quality and pricing.
- ▶ Asian countries are fuelling this growth in retailing through the emergence of a large and 'affluent' middle-class of consumers.
- ▶ While Hong Kong, Singapore and Japan are relatively well-developed retail markets, Taiwan, Malaysia, Thailand, Indonesia and China are experiencing rapid growth and change.
- ▶ The overall key priority for international retailers appears to be to establish store networks and gain market share (against other retailers and the wet markets).
- ▶ Management systems are relatively poor by Australian or European standards and shall be the focus of the next development phase by retailers. This shall include supply chain and cold chain management systems.
- ▶ The major investors in the Asian retail market include Holland's Makro and AHoldings, France's Carrefour and Casino groups, Hong Kong's Dairy Farm and Japan's Yaohan.

5.2 Dual Market Structures - The Wet Market and the Modern Retail Sector

While detailed visits were not undertaken throughout Asia, it is evident that the Asian market has a dual market structure comprising the traditional wet markets alongside of modern supermarkets. The wet market sector of the Asian markets was often referred to as the larger market for meat products, and clearly this market sector competes with the more modern retailers. It would appear that many importers of Australian meat have established and maintained their businesses based upon the demand of the wet markets.

For the above reasons, the operation and dynamics of the wet markets requires a greater industry awareness. Issues which require further understanding include:

- ▶ Rate of market change from wet markets to more modern retailing forms.
- ▶ Market strategies of the new retailing groups in Asia.

- ▶ Current meat products, product range and products wanted by the wet markets.
- ▶ Supply service levels and importer strategies to compete with retailers.
- ▶ Supply service levels and strategies by competitor meat supply countries.
- ▶ Distribution issues and ownership of the distribution infrastructure.
- ▶ What has been the 'wet market' lessons from Japan for Australia?
- ▶ Profitability of traders and whether this profitability can be captured by the Australian industry.

5.3 The Australian Industry Needs a Physical Presence in the Asian Retail Market

The study group noted that a key strategy for other competitive meat suppliers (such as USA) to the Asian retail market was the physical presence of trading offices in the markets.

It was considered that the increasing development and sophistication of the retail sector in the Asian markets warranted the need for on-site Australian industry resources to develop the relationships with Asian retailers at a trade and distribution level. Such resources would increase the opportunity for Australian industry to develop 'meat merchandising' strategies which add value for Asian retailers rather than to supply an exported commodity product.

In this respect, chilled packaged Australian meat product (including vacuum packaged and retail-ready packaged meat product) can be more accurately targeted for market sectors, possibly including the currently large wet market sector in many parts of Asia. Most importantly, these on-site offices may be able to:

- ▶ By-pass importers and trading groups to improve supply and seek to maximise margins and profitability for the Australian industry.
- ▶ Provide market feedback to the Australian industry to ensure such market signals as pricing and quality are incorporated into Australian supply strategies.
- ▶ Provide market intelligence on competitor strategies and policy issues.

Major European retailers are currently the driving force for the development of hypermarkets in Asia. Their strategies involve market entry through local product supply agreements, followed by increased market share with higher quality imported products.

With the state of change and growth between the wet market and newer retail sectors, the commitment of full-time resources by the Australian industry in these Asian markets is considered to be a necessary step to gain market share for the Australian industry.

5.4 The Fresh Image for Food in Asia is Paramount

Observations by the study group and discussions with industry groups throughout Asia confirmed the importance of 'Fresh Food' in Asian retailing. While it may not be a modern form of retailing, it was noted that the current wet markets are reputed for their freshness of product. Indeed it was reported that many of the customers of the wet markets are young consumers who also patronise modern supermarkets.

While arguably wet market meat products are less well packaged and less hygienic than supermarket meat products, wet markets are apparently perceived as offering a fresher product. This perception of freshness is fundamental to the Asian food culture and the

expansion of store networks and market share. One major supermarket group, France's Carrefour appears to be addressing this perception by successfully developing hypermarkets which incorporate 'wet market' style food stalls.

However, it was also noted by Asian retailers that quality assurance and food hygiene are emerging as the new consumer issues which shall increase their sales at the expense of the wet markets.

5.5 Australia's Competitive Advantage for Supply

The cost and limited availability of floor space in many of the developed retail markets of Asia (eg, Japan, Hong Kong and Singapore) is a strategic issue for the future growth and profitability of Asian retailers. This issue is compounded by the increasing difficulty of procuring skilled and cost-effective labour for the preparation of meat products.

The trend is towards sourcing packaged and prepared food products which are consumer oriented and maximises profitability for retailers. Australia can develop a competitive advantage by supplying Asian retailers with a product which requires minimal processing and handling, and maximise profitability.

However, in developing this competitive advantage there are a number of issues which require to be addressed:

- ▶ Size, specification and quality (including edibility) of packaged meat products for the individual Asian markets.
- ▶ Consistency of supply of packaged product to Asia.
- ▶ The effectiveness of distribution and cold-chain systems for chilled meat.
- ▶ Many retailers are unaware of the profitability of their meat retailing operations.
- ▶ Where is it most profitable for the Australian industry to package and distribute meat; in Australia or Asia?
- ▶ On a country by country basis, where can we add the most value and optimise profitability for the Australian meat industry and the Asian retail industry?

5.6 Strategic Alliances or Joint Venture with Asian Retailers

Without doubt, the major success factor for the development and supply of retail-ready (and other packaged meat products) was the relationship between the retailer and the supplier. In all the sites visited in Europe and North America, the success of the retail-ready packaged meat product programs were based upon a strategic alliance or joint venture with a retail organisation.

Indeed, all the suppliers and retailers appeared to be operating at more profitable levels than the Australian industry equivalents, and the major focus for these groups was to further increase profitability through cost controls, expansion of the retail-ready packaging programs and development of higher margin prepared meat products and meals.

The importance of such market relationships is evident in two examples:

- ▶ In the UK, where BSE has resulted in a reduced market demand of some 30%, the suppliers of retail-ready meat note that they are operating at better (though reduced) margins than those meat suppliers who operate without strategic retailing partners.

- ▶ Retail-ready packaging equipment and systems require significant capital investment, and such investment can only be warranted based upon the support of the retailer relationships.

The development of the Asian retail market is well-established and in this regard comments have been raised that the Australian industry has already 'missed the boat'. Strategic alliances are an important option for the Australian industry to 'accelerate its rate of entry into Asian meat retailing' and capitalise on the existing experience and expertise in Asia.

5.7 Pilot Studies to Prove Packaging Technology and Supply Systems

The study group confirmed the requirement to conduct pilot studies to prove the Australian packaging and supply systems to Asia retailers.

The overseas experience is that this is a necessary step to gain market acceptance by both the consumer and retailer markets. For example, Safeway/Lucerne Foods in Canada has been operating a pilot trial of retail-ready packaged meat to some 70 stores since 1993, and subject to a feasibility study, plan to expand the system to all 235 stores throughout Canada. Similarly, current industry strategies to expand retail-ready meat markets in Europe are based upon developing pilot trials in current major meat retailing hypermarkets, and in convenience store chains with no current meat retailing operations.

Based upon market requirements throughout Asia, the Australian industry needs to conduct extensive pilot studies with different retail groups throughout Asia. These pilot studies should extend to include not only the packaging technology but also the total supply, management and distribution, retail merchandising systems and consumer acceptance at the retailing level.

Key retailer issues which require analysis during such pilot trials include:

- ▶ **Margin and profitability of the packaged meat cabinet products**

The National Cattlemen's Beef Association in the USA and Texas A&M University have worked extensively to develop the CARDS system to quantify the profitability of meat retailing options including retail-ready packaged meat. The optimum proportion of 'serviced' meat retail areas versus retail-ready/self-serve areas requires further assessment.

- ▶ **Meat product range and cuts of meat to be developed in a retail-ready product program**

For example, the French experience has been to develop retail-ready packaging formats for a wide range of meat products founded upon higher volume meat product lines such as ground beef and kebabs. By comparison, the UK industry has a more restricted range of retail-ready packaged meat products.

- ▶ **Inventory control management systems, distribution and retail display systems**

Major investment is occurring for the development of management and distribution systems and facilities such as state-of-art warehouses. Australian packaged meat needs to be consistent with the requirements of such systems.

► **Consumer Acceptance**

The market penetration on retail-ready packaged meat ranges from 21% in Europe, to 46% in the UK, and in the case of Safeway/Lucerne Foods in Canada, the penetration is 48% for their pilot stores. Retail-ready meat is marketed as just one of the packaging options for consumers. Often retail-ready meat product was seen to be displayed alongside of conventionally over-wrapped product, vacuum packed cuts of meat and other varying formats of modified atmosphere packaging.

► **Product Traceability**

In both the UK and France a key issue was to develop tracking systems which will allow individual shelf items to be tracked back to the farm gate. Currently the tracking system is only able to operate from individual primal cuts.

5.8 The New Retail-Ready Packaging Systems Need a Product Champion

Successful retail-ready meat sites demonstrated that there had been a committed product champion to ensure the success of the systems. In the case on Safeway/Lucerne Foods, there was one person who co-ordinated the relationship of the retail and meat supply organisations.

In some cases, there was more than one product champion. Many of the systems had product champions from both the retail organisations and the meat supply organisations working together. This was the case of Tesco and St Merryn Meat of the UK.

While each of the retail-ready packaging systems varied in terms of their technology and systems for supply, the role of the product champion remained fundamental to the commercial application and success of the systems.

5.9 Establish Relevant Time Bound Actions and Goals

While this may appear to be rhetorical, but the importance of the Australian and Asian retail market, and the above issues need to be emphasised and acted upon with industry based action plans and goals.

This is to be the focus of more detailed recommendations and action plans to be workshopped at a further meeting of the study group on during August 1996 in Queensland.

6.0 IMPLICATIONS FOR THE AUSTRALIAN INDUSTRY

6.1 The Asian Retail Market - A Strategic and Expanding Market Sector

The Asian retail market has emerged as a rapidly growing and sophisticated market. The strategic importance of the Asian market to international retailers is demonstrated by the level of investment activity by the major 'new' retailing groups from Europe and Asia.

The opportunity exists to improve the Australian industry's trade with these retailing groups. As these groups seek to improve their management and supply systems, the Australian meat resource shall become increasingly more relevant. But it is questionable as to whether an exported meat commodity product is consistent with the strategic objectives of the retailers. Rather it is expected that more sophisticated supply systems and reliable supplies of higher value (margin) products shall be the subject of demand.

It is important for the Australian meat industry to recognise that there is a limited window of opportunity in the Asian retail market. Now is the time for Australian industry to be developing relationships with these retail groups, as these retailers are currently developing global sourcing strategies to ensure the consistency of product supply, quality and pricing.

The Australian meat industry needs to evaluate and establish its role in the development strategies being implemented by the retailers in Asia.

6.2 Developing a Fresh Product Marketing and Integrated Supply Focus for the Asian Retail Industry

Fresh food products means market share for retailers in Asia.

To date, Australian meat products would appear to have been supplied without any strategic industry focus upon value or the development of loyalty for the Australian meat product. Australian meat product needs to be perceived by the Asian retailers as adding value and margin to their business strategies.

A value-based system of supply for fresh meat product warrants further investigation by the Australian industry. This system would include the production, supply, distribution and merchandising of all packaged meat including retail-ready packaged meat. Retail-ready packaged meat should form part of the 'portfolio' of packaged meat products marketed by the Australian industry. However, based upon the retail market developments in Asia for prepared fresh food products, it would appear that Australian retail-ready meat products can also provide a competitive advantage for the Australian industry over its competitors.

6.3 Develop Relationships with the Asian Retailers - The Total Integrated Skills of the Australian Industry

The rapid rate of expansion of the retail industry in Asia, and the development of global supply strategies by the major retailers is a major implication for the Australian meat industry. The Australian industry needs to urgently assess the need to develop relationships with these retail groups in Asia.

One opportunity for the development of relationships is to utilise the total integrated 'skill set' of the Australian meat industry. This includes the skills of Australian meat retailers who

have core competencies in:

- ▶ Meat management and supply systems.
- ▶ Meat merchandising and display systems.
- ▶ Management information systems.
- ▶ Customer service programs.

Such skills (in conjunction with the Australian meat resource) may be used as leverage to develop market entry strategies and relationships with the Asian retailers.

Plans and actions should be expedited to evaluate the need to initiate relationships with key retailers in Asia. Such an evaluation should include an understanding of any competitive relationships under-development by competitor supply countries such as South America.

7.0 RECOMMENDATIONS FOR MRC

Recommendation 1

Develop A Greater Understanding of the Dual Market Retail Structures for Meat in Asia - The Wet and Retail Market Sectors

Objectives:

- ▶ *Benchmark existing research on channel supply to the wet and retail market sectors in Asia, and define strategic issues which require further analysis.*

Such issues may include:

- a. *Rate of market change from wet markets to more modern retailing forms.*
- b. *Market strategies of the new retailing groups in Asia.*
- c. *Current meat products, product range and products wanted by the wet markets.*
- d. *Supply service levels and importer strategies to compete with retailers.*
- e. *Supply service levels and strategies by competitor meat supply countries.*
- f. *Distribution issues and ownership of the distribution infrastructure.*
- g. *What has been the 'wet market' lessons from Japan for Australia.*
- h. *Profitability of traders and whether this profitability can be captured by the Australian industry.*

Recommendation 2

Develop Action Plans Which Increase Industry Profitability for Fresh Packaged Meat in Asian Retail Markets

Objectives:

- ▶ *Develop industry-based market alliances which are linked to profitable, value-based fresh meat packaging strategies.*
- ▶ *Develop a range of plans for the Australian industry which represent an investment with the Asian retail industry.*
- ▶ *As appropriate, develop market entry strategies which may include Australian meat retail industry skills and competencies.*
- ▶ *Evaluate the potential to develop strategies based upon the application of management systems such as Computer Assisted Retail Decision System (CARDS) to define the profitability of retail-ready packaged meat.*

Recommendation 3

Support Pilot Studies to Prove Australian Retail-Ready Packaging Technologies

Objectives:

- ▶ *Continue support for the current MRC Projects (M.957A, M.957B, M.957C) for export assessment trials of retail-ready packaged meat.*
- ▶ *Under these projects retail packs of meat are being assessed by retailers in Hong Kong, Japan and the UK in terms of issues such as consumer acceptance, meat product appearance, product distribution and shelf-life, tariff or import requirements and profitability. The projects shall also define the preferred market positioning and the most appropriate strategies for the introduction of the retail-ready packs with particular reference to trading, transport and marketing systems for the retail-ready packaging systems.*
- ▶ *Evaluate the need to conduct further trials with other strategic retail groups in Asia.*

Recommendation 4

Co-ordinate a Follow-Up Meeting of the Study Tour Group to Further Develop Detailed Recommendations and Strategies for Review by MRC and Industry

Objectives:

- ▶ *Further industry based recommendations for each of the key issues shall be reviewed and developed for review by MRC.*

8.0 APPENDICES

APPENDIX A
STUDY TOUR ITINERARY

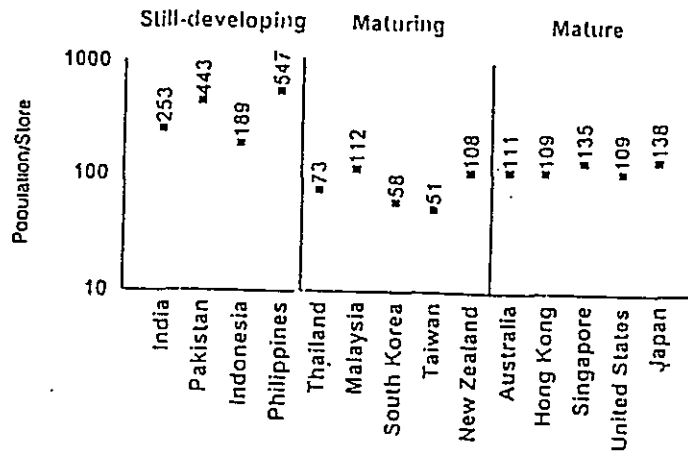
STUDY TOUR ITINERARY

DATE	TRAVEL	VISIT/LOCATION
Sunday 23 June 1996	Sydney - Taipei	
Monday 24 June 1996	Taipei - Hong Kong	TAIPEI 1. Visit a Supermarket Chain - Carrefour , Wellcome 2. Visit a Makro and Yong Yeh Glory
Tuesday 25 June 1996	HK/London/Paris	HONG KONG 1. Dairy Farm, Head office, to discuss meat distribution 2. Visit Dairy Farm Meat Packaging/Distribution 3. Visit Wellcome stores in Hong Kong 4. Visit other supermarkets.
Wednesday 26 June 1996	Paris	PARIS 1. Visit Head Office for Carrefoure Supermarkets 2. Visit Carrefoure supermarket 3. Visit Casino hypermarket
Thursday 27 June 1996	Paris - Holland	PARIS 1. Visit a packing house for Carrefour supermarket 2. Visit Socopa. Abattoir 3. Visit other supermarket s 4. Visit Casino - re: Wellcome joint venture
Friday 28 June 1996		AMSTERDAM 1. Visit Makro 2. Visit Albert Heijn
Saturday 29 June 1996	Amsterdam-London	1. Visit Albert Heijn - Supermarkets
Sunday 30 June 1996		LONDON 1. Visit St Merryn Abattoir and Meat Packaging Plant
Monday 01 July 1996		LONDON 1. Hilton Beef at Cambridge 2. Visit a Tesco Distribution Centre 3. Visit a Tesco Supermarket
Tuesday 02 July 1996	London- Calgary	LONDON 1. Visit Waitrose Supermarket 2. Visit Marks & Spencer Supermarket
Wednesday 03 July 1996		CALGARY 1. Lucerne Foods - RRP
Thursday 04 July 1996		CALGARY 1. Lucerne Foods/Safeway
Friday 05 July 1996		CALGARY 1. Debrief workshop 2. Cargills High River
Saturday 06 July 1996		CALGARY
Sunday 07 July 1996	Calgary - Sydney	

APPENDIX B
WR GRACE HONG KONG PRESENTATION PAPER

Classification of Countries

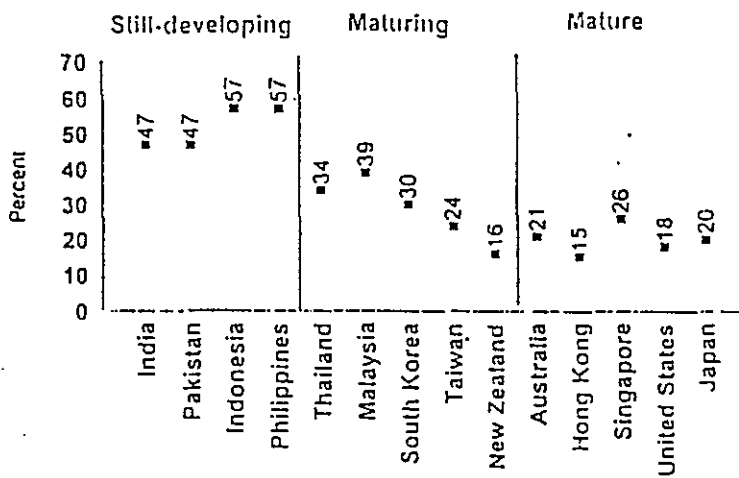
Population per Retail Outlet



Source: Euromonitor

Classification of Countries

Food/Bev Expenditures as a Share of Consumer Spending



RETAIL SCENE

- . Retailers go Global
- . Asian countries are embracing a retail revolution
 - > Middle class newly able to shop for more than bare necessities
 - > More working women
 - > Urbanisation
 - > Increasingly educated population
- . China, India and Indonesia are just starting;
- . In Taiwan and Thailand the changes are well under way;
- . In Malaysia retailing is at take-off point
- . HK, Singapore and Bangkok are at saturated with department stores; Shanghai will follow soon
- . Wet market Vs Modern forms of food retailing in Asia
- . Taiwan in 1987, only 3% of the population bought groceries in modern shops, in 1995 over half of them did
- . In Malaysia, a similar transformation beginning in 1994, and will take only half as long
- . Bangkok already has two of the world's five biggest shopping malls
- . The entry of Holland's Makro, France's Carrefour, HK's Dairy Farm, Japan's Yaohan

RETAIL SCENE

Country : **Malaysia**

Supermarkets

	<u>No.</u>
. Parkson	33
. Jaya Jusco	7
. Kerry	6
. Cold Storage	5
. Yaohan	5
. Giant TMC	5

Warehouse Clubs

	<u>No.</u>
. Makro	4
. Carrefour	2
. Price Club	1

Personal Care

	<u>No.</u>
. Watsons	17

Remarks

1. Most consumers believe wet market is more fresh and cheaper
2. Income per capita increase --> can afford to spend more
3. Concern more about hygiene standard of food and easy fast way cooking
4. Totally 105 supermarket and 350 minimarts in K.L.

RETAIL SCENE

Country : Korea

Department Stores

	<u>No.</u>
. Lotte Dept	3
. Shin Sae Gae Dept	3
. Mi Do Pa Dept	3
. New Co A Dept	3
. Jin Lo Store Center	2
. Hyun Dae Dept	2

Warehouse Clubs

	<u>No.</u>
. Korea Makro	1
. Price Club	1

Chain Stores

	<u>No.</u>
. Mi Won Store	82
. Hae Tae Store	60
. Han Hwa Store	59
. L.G. Store	55
. Nong Shim Ga	53
. Mi Hwa Dang	31

Remarks

1. A rapidly expanding market for modern & western style supermarket and convenience stores
2. Total number of Department Stores and convenience stores are 110 and 1,457 respectively in 1996

RETAIL SCENE

Country : Thailand

Supermarkets

	<u>No.</u>
. City Center	10
. Robinson Dept Store	7
. Mall Shopping Center	6
. Merry Kings Dept Store	3
. Tang Hua Seng Dept Store	3

The Whole Store-Supermarket

	<u>No.</u>
. Central Supermarket	15
. Mah Bookrong Siricai	10
. Foodland Supermarket	7
. Siam Jusco	7

Convenience Stores

	<u>No.</u>
. 7-Eleven	510
. Am-Pm	56
. Central Minimart	40
. Big 7	32

Warehouse Clubs

	<u>No.</u>
. Makro	11
. Lotus	3
. SavCo	2
. SaVe One	2
. Depot	1
. Carrefour	1

Remarks

1. Food sales through the modern retail sector are estimated at US\$1.98 billion in 1995

RETAIL SCENE

Country : Singapore

Supermarkets

	<u>No.</u>
. NTUC Fairprice	53
. Emporium	22
. Cold Storage	15
. Prime Supermarket	15
. Smart Supermarket	14
. Ollevan	10
. Yaohan	5

Convenience Stores

	<u>No.</u>
. 7-Eleven	84

Minimarket

	<u>No.</u>
. Econ minimart	203
. Happy Family	104

Remarks

1. Supermarkets have developed a niche among consumers
2. e.g. Cold Storage sells about S\$2 million worth of chilled meat a month
3. e.g. Chilled meat at Smart Supermarket accounts for 5-8% of its chilled food section
4. Convenience packs of chilled foods are fast catching on in the 90's

RETAIL SCENE

Country : Indonesia

<u>Supermarkets</u>		<u>Minimarket</u>		<u>Warehouse Clubs</u>	
	<u>No.</u>		<u>No.</u>		<u>No.</u>
. Hero	64	. Indomart	57	. Makro	6
. Matahari	49	. FM	62	. Walmart	1
. Gelal	40			. Goro	1
. Golden Truly	6	<u>Fast Food Chains</u>			3 (1997)
			<u>No.</u>		
		. Jollibee Foods	2		

Remarks

1. Hero supermarket is expected to have 100 stores by year 2000
2. Supermarkets control 13% of retail markets in Jakarta
3. Food spending at US\$30-40 billion a year --> there is a lot of room for growth --> at least 30% growth per annum
4. 13 million people in Jakarta of which 27% are middle class --> there is not enough shopping areas

RETAIL SCENE

Country : China

Supermarkets (Shanghai)

	<u>No.</u>
. Hua Liang	32
. Li Hua	22
. Wei Ming	10
. Yaohan	3

Warehouse Clubs

	<u>No.</u>
. Carrefour	1
. Mega Mart	1

Fast Food Chains

	<u>No.</u>
. Fairwood	20
. Kentucky Fried Chicken	10
. McDonald (Beijing)	17
. McDonald (Shenzhen)	13
. McDonald (Guangdong)	9
. McDonald (Shanghai)	2

Convenience Stores

	<u>No.</u>
. 7-Eleven	34

Remarks

1. Wellcom plans to open 60 more stores in Shanghai by year 2000
2. China has planned to double the number of chain store from 150 to 300 by year 200
3. McDonald is expected to have 61 stores by end 1996 in 11 cities and 300 stores by year 2000

RETAIL SCENE

Country : Hong Kong

Supermarkets

	<u>No.</u>
. Wellcome	205
. Park'N Shop	171

Warehouse Clubs

	<u>No.</u>
. Grandmart	8
. Value Club	3
. U-Save	3

Fast Food Chains

	<u>No.</u>
. Cafe'de Coral	118
. Fairwood	110
. McDonald	98

Convenience Stores

	<u>No.</u>
. 7-Eleven	
- franchised	180
- owned	140
. Circle K	116

Personal Care

	<u>No.</u>
. Manning's	90
. Waston's	72

Remarks

1. McDonald is expecting to have 190 stores by year 2000
2. Manning's to have 110 stores in the next 3 years
3. In 90's the average HK household spent 56% of its food budget eating out
--> twice Japan (25%) and 3 times of American (17%)

RETAIL SCENE

Country : **Philippines**

Supermarkets

	<u>No.</u>
. Evergodesco	11
. Uniwide Sales	11
. Shoe Mart	8
. Manuela	6
. Gaisano Mall	6

Warehouse Clubs

	<u>No.</u>
. Makro	2
. American Discount Store	3
. Save A Lod Discount Store	2

Fast Food Chains

	<u>No.</u>
. Jollibee	160
. Shakey's Pizza	81
. McDonald	71
. Greenwich Pizza	49
. Pizza Hut	46
. Wendy's	30
. Kentucky Fried Chicken	29
. Dunkin Donuts	29

Remarks

1. Makro is expected to have 3 stores in total by the end of 1996
2. Jollibee announced it had opened its biggest overseas outlet in Kuwait

RETAIL SCENE

Country : Taiwan

Chain Stores

	<u>No.</u>
. I-Ke-Lai	44
. Mei-Tsun	18
. Taipei Agriculture	17
. Shin Nong	14
. Song Ching	14
. Kasumi	11

Warehouse Clubs

	<u>No.</u>
. Carrefour	10
. Makro	6
. Far Eastern	2
. Dollars	2

Convenience Stores

	<u>No.</u>
. 7-Eleven	1,120
. 3Q	650
. Family Mart	280
. Hi-Life	230
. Circle K	208
. Niko Mart	128

Supermarkets

	<u>No.</u>
. Wellcome	88
. Park'N Shop	32

Personal Care

	<u>No.</u>
. Watson's	80
. Manning's	31

Remarks

1. Legislation to encourage the development of modern, hygienic and efficient food retailing outlets
2. Better infrastructure enhance the growth of modern food chains
3. Makro is expecting to add 10-12 stores in year 2000

APPENDIX C
WELLCOME COMPANY HONG KONG PRESENTATION PAPER

HONG KONG

“The Pearl of the Orient”

- Population: 6.2 million (500,000 Tourists at any one time)
- Density
 - H.K. 3,559 per square kilometer
 - Aust. 14 per square kilometer
- Highest number of Rolls Royce car per head of population in the world
- Not enough roads to hold all the cars if they were all in use at the same time
- Place of extremes
 - High tech finance to lowest tech retailing

Total Store Numbers Wellcome vs “the Enemy”

- 😊 Wellcome - 207
- ☹️ Park n Shop - 170
- ☹️ Da Chong Hong - 58
- ☹️ Wet Markets - 26
- ☹️ Japanese Stores - 12
- ☹️ Others + Mom + Pop Stores

Where do we sit in the Market

Fruit & Vegetable Market Share

Total Business 7.5 Billion Dollars P.A.

Re-Export (smuggled) China 25%

Wet Markets 40%

H.R.I. Sector 25%

Supermarkets 10%

Wellcome 4%

Key lines

Kiwi Fruit 30% Market share

Oranges 7% Market Share

Strawberries 25% Market Share

Grape Fruit 50% Market Share



SUPPLY CHAIN

Key Points

- Well advanced in Global Sourcing
- Able to ship the World
- 220 lines from 100 countries
- Delivery modes cover:
 - Air Shipment
 - Sea Containers/Reefer & Dry
 - Trucks open/refrigerated
- Clearances & delivery :
 - Air - 3 hrs
 - Sea - 7 hrs
 - Truck - 12 hrs
- All Shipments are independently assessed



PRODUCTS

- ✓ Quality is Paramount
- ✓ Build supplier relationships-honesty
- ✓ Don't chase the last cent!!!
- ✓ No back end income
- ✓ Specification driven - Suppliers agreement
- ✓ Moving away from General Brokerage to Specialist Suppliers



CASE STUDY

The Kiwi Story

WELCOME HONG KONG

Italy
Jan - April

Australia
April - June

Iran
June - Aug

France
Dec - May

Chile
April - July

N. Z.
May - Jan

California
Dec - Mar

STRAWBERRIES

Quality Based Buying Period

WELCOME HONG KONG

Israel
Jan - March

Victoria
Jan - March

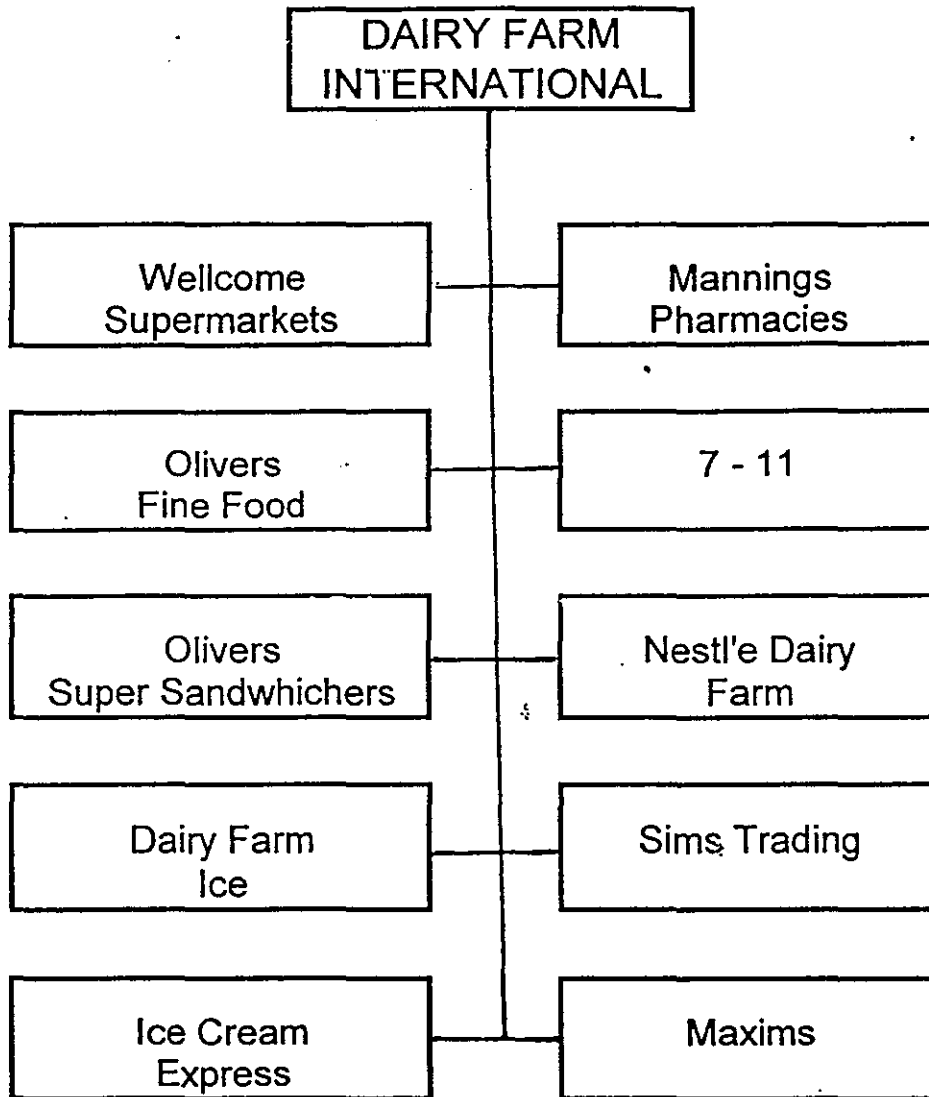
U.A.E.
Feb - April

California
April - Nov

West Aust.
Oct - Dec

N.Z.
Dec - Feb

HONG KONG COMPANY



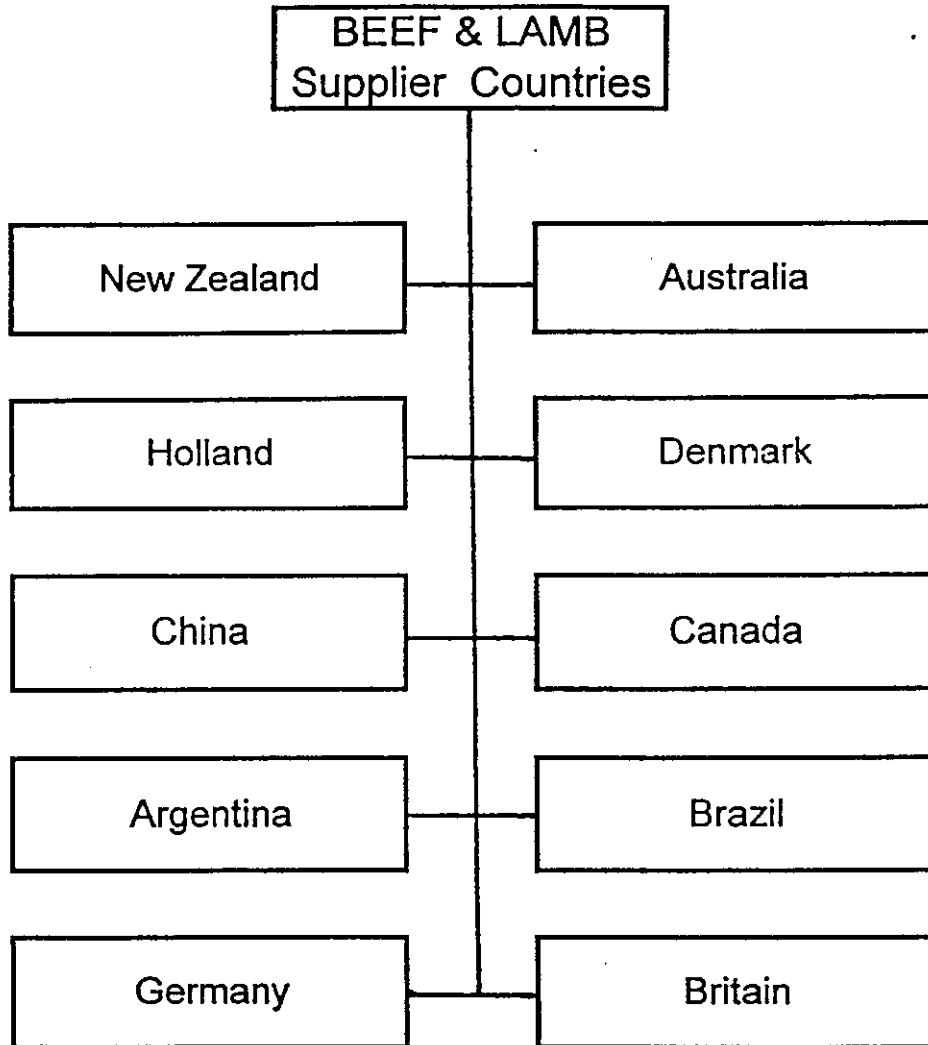
Franklins No Frills
 Franklins Fresh
 Franklins Big Fresh
 Kwik Save

Woolworths
 Price Chopper
 Wellcome Twaiwan
 Wellcome Thailand

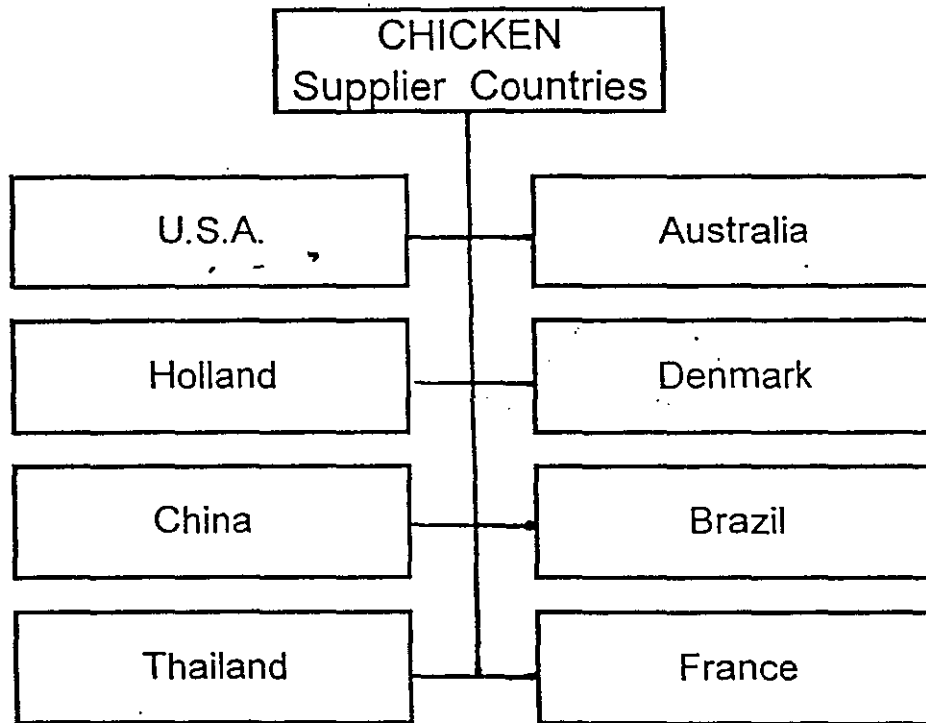
Cold Storage Singapore
 Cold Storage Malaysia
 Well Save
 Simago

Mitra
 Mannings
 Gardian
 7-11
 Shoe Repair

CASE STUDY



CASE STUDY



APPENDIX D
WR GRACE FRANCE PRESENTATION PAPER

**CASE READY
PACKAGING
OPTIONS
FOR FRESH
RED MEAT**

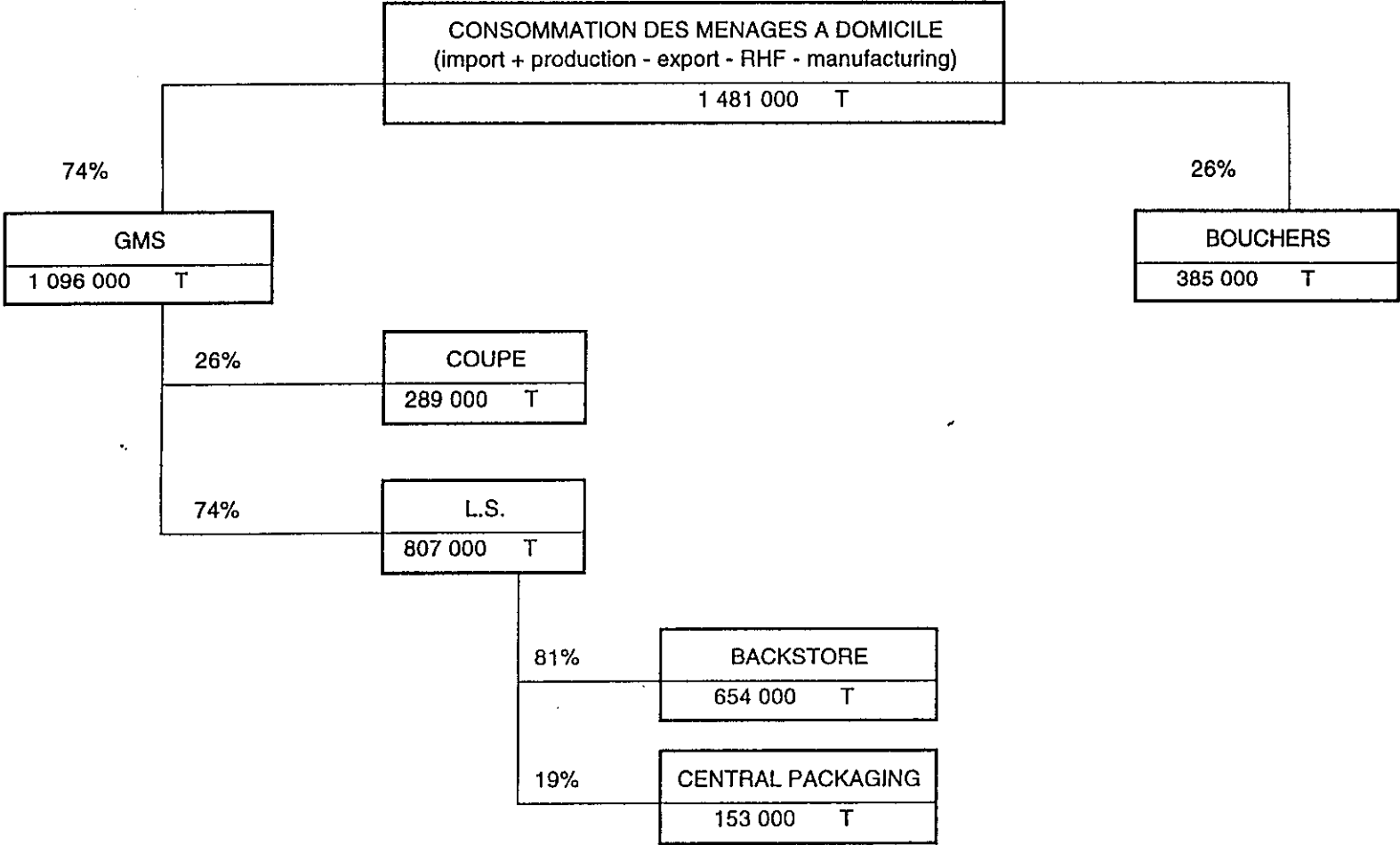
CRYOVAC
GRACE Packaging

SUMMARY

Australian's visit - 26.06.96

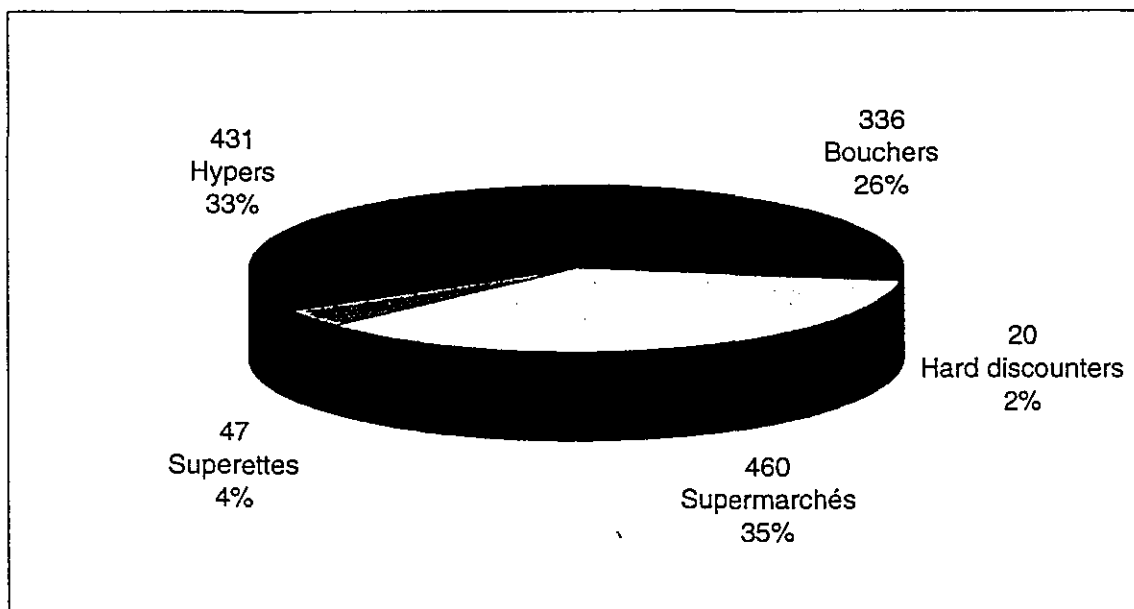
1. Meat distribution in France
2. Evolution of the number of stores
3. Hypermarket and supermarket : evolution by chain
4. European Retail Meat Consumer Units Analysis
5. French consumer unit market by product and process
6. Identification of the Case Ready System

DISTRIBUTION FRM EN FRANCE
1995 - EN TPF



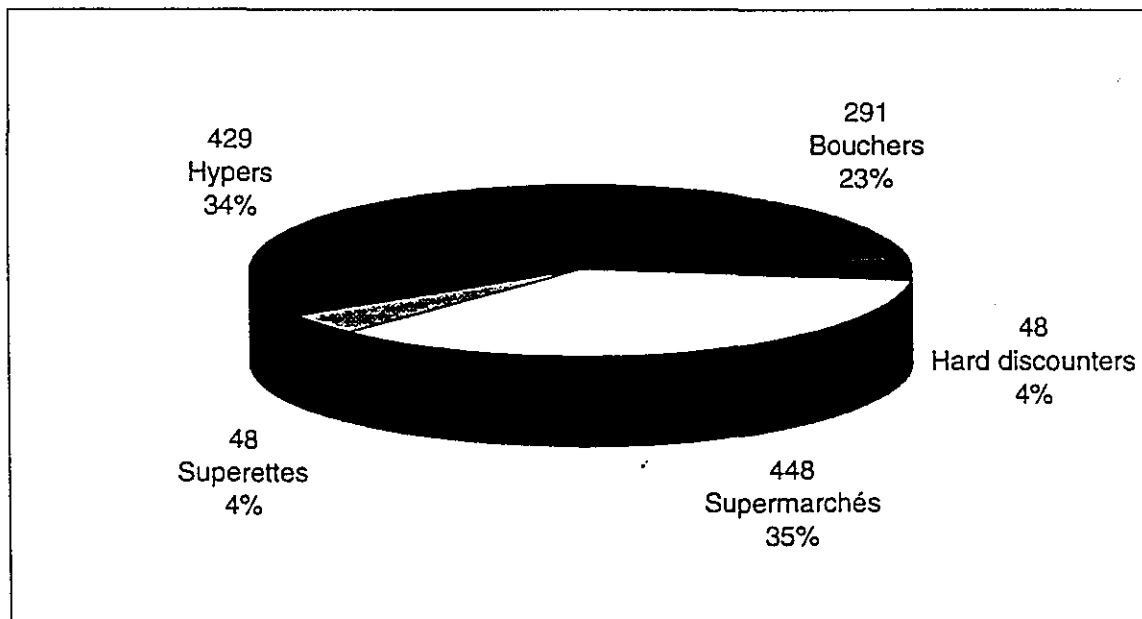
Source : Enquête industriels - 95

STRUCTURE DE LA DISTRIBUTION FRM*
FRANCE 1995 - en 000 TPF



TOTAL = 1295

STRUCTURE DE LA DISTRIBUTION FRM*
FRANCE 2001 - en 000 TPF



TOTAL = 1266

* Tous produits/toutes espèces hors abats/caissettes

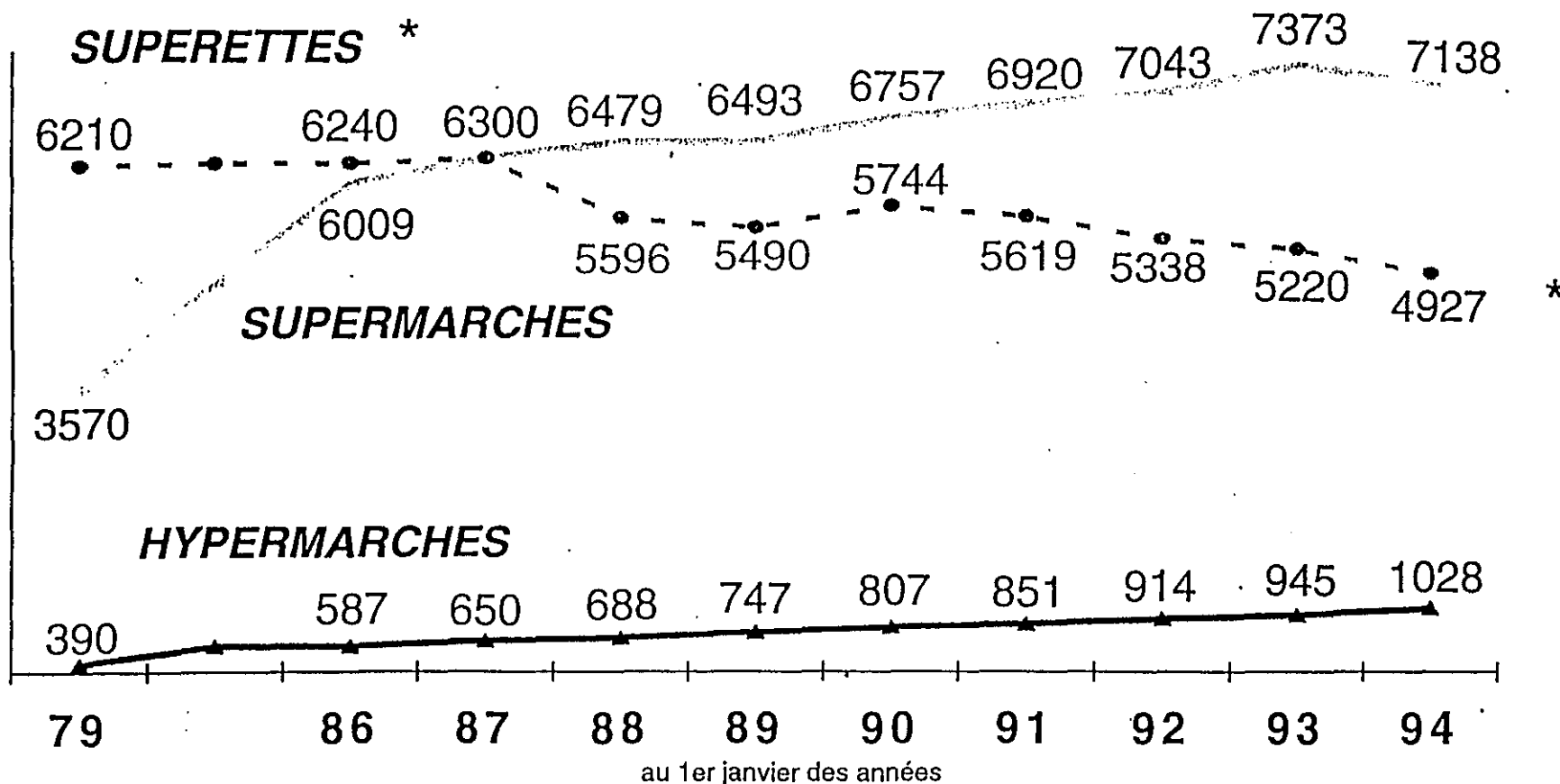
SECODIP



HYPER, SUPER, SUPERETTES

Evolution du nombre de POINTS de VENTE

Source LSA



* Source SECODIP après réestimation des indépendants



HYPERMARCHES

Structure et évolution de l'univers par enseigne

Evolution en nombre de points de vente : source IFLS-LSA N° 1 380-13/01/1994

Au 1er janvier	NOMBRE DE POINTS DE VENTE				SURFACE MOYENNE M ²		
	1992	1993	1994	Evolution % 1994/1993	1992	1993	1994
TOTAL	914	945	1028	+ 9	5 413	5 570	5 551
CENTRE LECLERC	261	298	352	+ 18	3 807	4 029	4 062
CARREFOUR	77	109	111	+ 2	9 328	9 267	9 477
CASINO (1)	86	97	112	+ 15	6 183	6 511	6 098
MAMMOUTH	70	86	89	+ 13	5 587	5 798	5 958
AUCHAN	47	49	49	=	9 676	9 800	10 138
CORA (2)	47	49	63	+ 29	7 510	8 285	7 253
CONTINENT	60	65	68	+ 5	6 072	6 140	6 383
INTERMARCHÉ	46	49	59	+ 20	2 932	2 980	3 056
HYPER U	22	26	27	+ 4	2 953	3 047	3 200
AUTRES HYPERS	198	117	98	- 16	3 459	3 370	3 418

(1) y compris RALLYE - L'UNIVERS-SODIM

(2) y compris MATCH et affiliés Hyper-sélection



SUPERMARCHES *

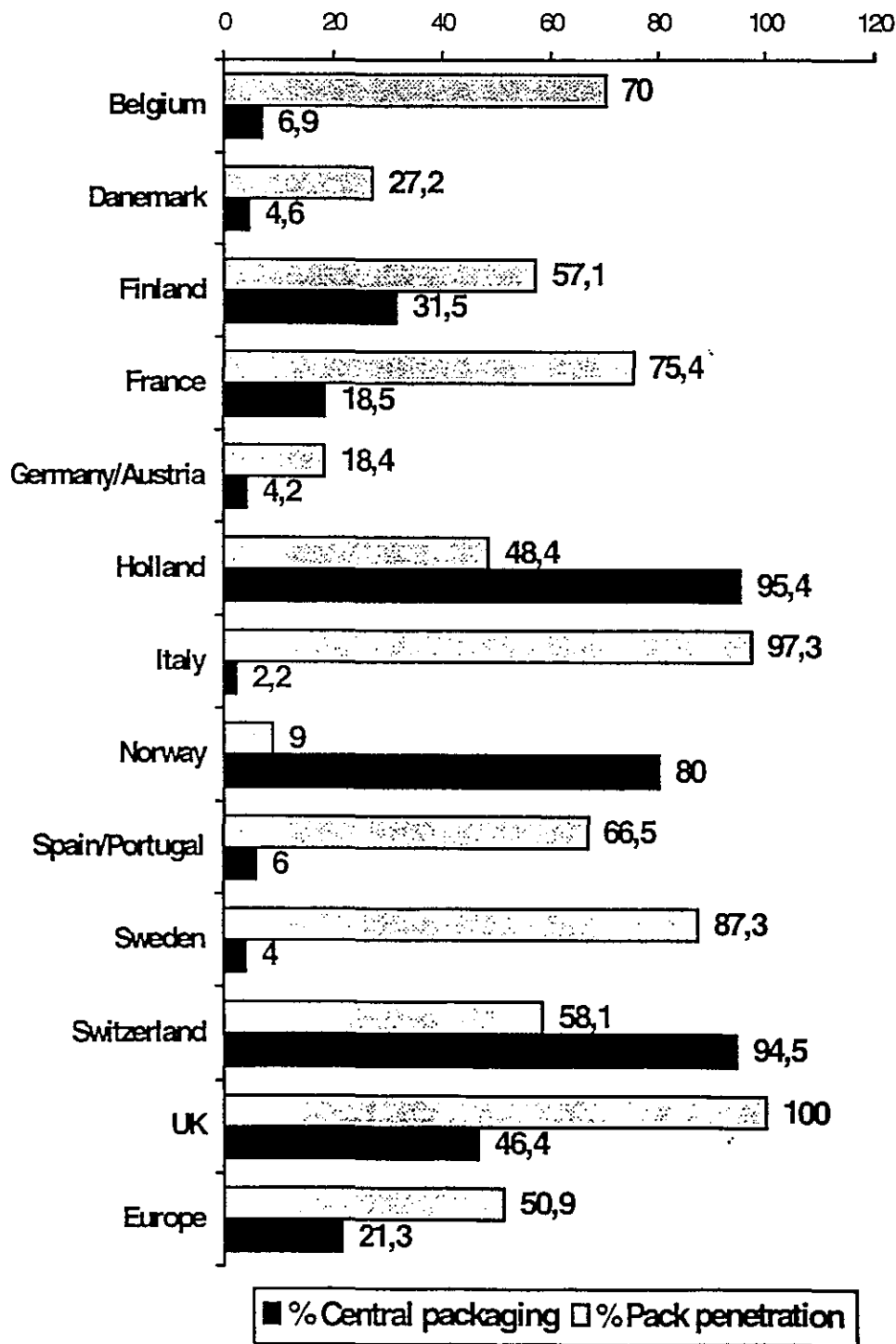
Structure et évolution de l'univers par enseigne

Evolution en nombre de points de vente : source IFLS-LSA N° 1 380-13/01/1994

Au 1er janvier	NOMBRE DE POINTS DE VENTE				SURFACE MOYENNE M2		
	1992	1993	1994	Evolution % 1994/1993	1992	1993	1994
TOTAL	7 043	7 373	7 138	- 3	986	988	1 007
INTERMARCHE	1 461	1 564	1 547	- 1	1 249	1 262	1 283
SUPERU	492	490	483	+ 1	1 253	1 310	1 332
CHAMPION	437	451	466	+ 3	1 230	1 256	1 279
CASINO RALLYE	457	480	470	- 2	1 021	1 094	1 085
STOC + MAJOR	296	315	325	+ 3	1 061	1 072	1 192
GENTRE LECLERC	268	227	174	- 23	1 611	1 631	1 680
SUMA+ATAC+SUPER PAKBO	230	247	213	- 14	1 065	1 082	1 155
SHOPI	326	393	457	+ 16	506	502	512
FRANPRIX	272	307	276	- 10	612	605	642
MATCH	140	131	132	+ 1	1 178	1 232	1 268

* HORS HARD DISCOUNTERS

European Retail FRM CU analysis 1995



Source : panels and internal market survey

CRYOVAC
GRACE Packaging

FRESH RED MEAT

Case Ready

Identification of case ready systems

SHELF LIFE

SHORT
(up to 5 days)

MEDIUM
(from 6 to 10 days)

LONG
(above 10 days)

CRYOVAC PROCESS

MRX
MAX
SSD
SES

BDF 550

LID 150

BULK PACK

MULTIFLEX LAMINATES

DARFRESH

SHRINK BAGS

MULTIFLEX VSP

POUCHES

PEELABLE DARFRESH *

COMPETING PROCESS

PVC STRETCH
OTHERS BREATHABLE
FILMS

LID LAMINATES

THF MAP

BULK PVC

THF POLYPROPYLENE

VSP

SHRINK BAGS

POUCHES

* Under development

CRYOVAC
GRACE Packaging

APPENDIX E
WR GRACE CANADA PRESENTATION PAPER

**CRYOVAC
PEELABLE VSP**

**CASE READY
FRESH RED MEAT**

THE RETAILERS' POINT OF VIEW

1. HE WANTS REDUCED STORE LABOR
2. REDUCE MEAT DEPT. FLOOR SPACE
3. UTILIZE BUTCHERS MORE FOR MERCHANDISING
4. REDUCE CASE MAINTENANCE THROUGH LONGER CASE LIFE
5. ORDERS CLOSER TO DEMAND
6. WILL EXPECT CONSUMER FRIENDLY PACKAGING PERHAPS WITH PREFERENCE TO HIS TRADITIONAL IN-STORE LOOK
7. WANTS TO BE ON THE LEADING EDGE OF PACKAGING TECHNOLOGY
8. WILL DEMAND CONSISTENTLY HIGH QUALITY PRODUCT
9. WILL WANT TO CAPITALIZE ON PACKAGE GRAPHICS WHEREVER POSSIBLE
10. WILL APPRECIATE PACKAGING WHICH MINIMIZES PURGE AND IS "LEAK-PROOF"

TRENDS

CENTRAL PREPACK

REDUCED STORE LABOR

CENTRAL QUALITY CONTROL

SHELF LIFE EXTENSION

EXPANDED GEOGRAPHY

ECONOMIES OF SCALE

NEW TECHNOLOGY

PEELABLE VSP ADVANTAGES

- ◆ **DISTRIBUTION SHELF LIFE 14 DAYS
(+ 3 DAYS PEELED)**
- ◆ **EXCELLENT BLOOM REGENERATION**
- ◆ **EXCELLENT FREEZER PACKAGE**
- ◆ **NEAT-DRY PACKAGE**
- ◆ **CONSISTENT QUALITY**

BENEFITS OF PEELABLE VSP

1. ECONOMIC

- ◆ DECREASED SHRINK • LESS THAN 2%
- ◆ DIMINISHED OUT OF STOCKS
- ◆ REDUCED LABOUR COST
- ◆ INCREASED VARIETY
- ◆ GREATER MERCHANDISING

BENEFITS OF PEELABLE VSP

2. CONSUMER ACCEPTANCE

- ◆ **HISTORY HAS DEMONSTRATED
WIDESPREAD CONSUMER
ACCEPTANCE
(SAFEWAY, KROGER, H.E. BUTTS)**
- ◆ **INDEPENDENT RESEARCH
CONFIRMS CONSUMER
ACCEPTANCE**

PACKAGE DESCRIPTION

◆ VACUUM PACKAGE

PACKAGE DESCRIPTION

◆ VACUUM PACKAGE

PLUS

◆ VACUUM SKIN PACKAGE

PACKAGE DESCRIPTION

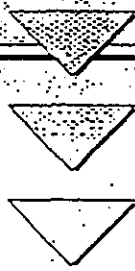
◆ VACUUM PACKAGE

PLUS

◆ VACUUM SKIN PACKAGE

PLUS

◆ PEELABLE VACUUM SKIN PACKAGE

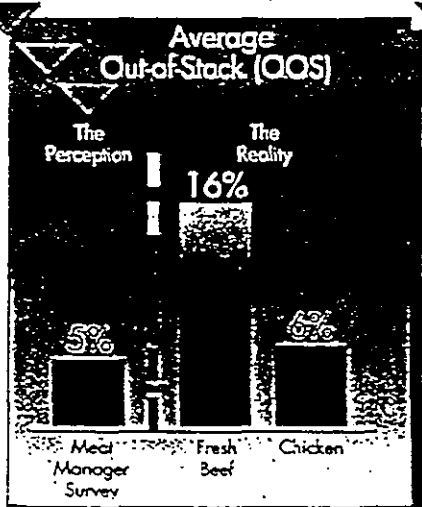


The Meat Case

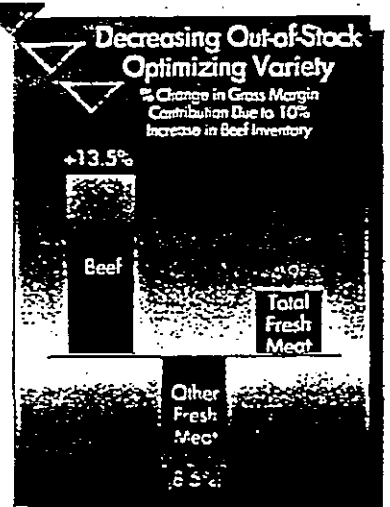
Being aware of consumer traits alone is not enough. Knowing the customer means little if that knowledge is not part of your sales and management techniques. Behind the meat case is another set of considerations to keep in mind when marketing beef.

Another study sponsored by the Beef Industry centered on supermarket meat department management. Critical issues in beef marketing were examined from your perspective: shrink and out-of-stock.

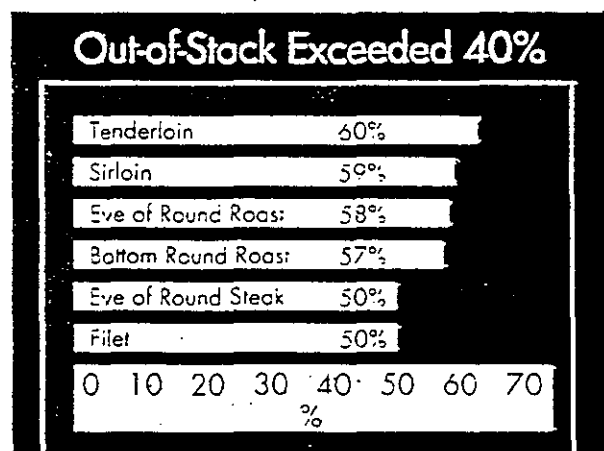
When a meat case doesn't offer what they want, most consumers will simply move on down the aisle. And in the stores studied, researchers found that meat case out-of-stocks averaged 16 percent. Those two facts can spell trouble for beef retailers.



Source: Inventory Optimization Economic Model, 1989-Booz, Allen & Hamilton Inc.



Source: Inventory Optimization Economic Model, 1989-Booz, Allen & Hamilton Inc.



NOTE: Out of stock is defined as less than two in the meat case. "One to show... One to go."



Source: Inventory Optimization Economic Model, 1989-Booz, Allen & Hamilton Inc.

The Meat Case

Beef Variety Improves Beef Sales

Add Beef Cuts to Traditional Offering

Sirloin Tip Roast
Ribeye Steak
Top Round Roast
Tenderloin Roast
Eye of Round Roast

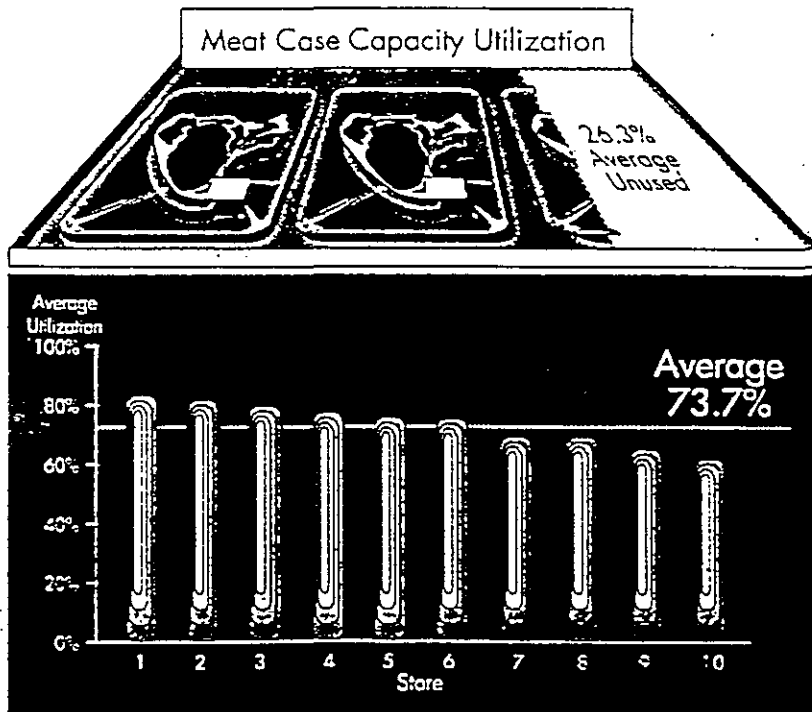
Only 4% More Beef in Stock
(Weighted by Dollar Sales)

Beef Sales Increased 11%
Some Shift from Other Meat Categories

Variety can help reduce out-of-stock sales losses by offering a wider range of choices to shoppers. From a retailing point of view, variety expands the number of consumer groups you can target from one case.

Variety does not mean you will need additional meat case space. The study found that most meat department cases were utilized at only 73 percent of their capacity. It also found that a store adding 4 percent more fresh beef variety to its case would realize a sales increase of 11 percent.

Because there is more beef product, shrink will increase slightly. And there is a small decrease in other meat category sales. Yet overall, the increase in beef sales outweighs drawbacks in the other areas combined.

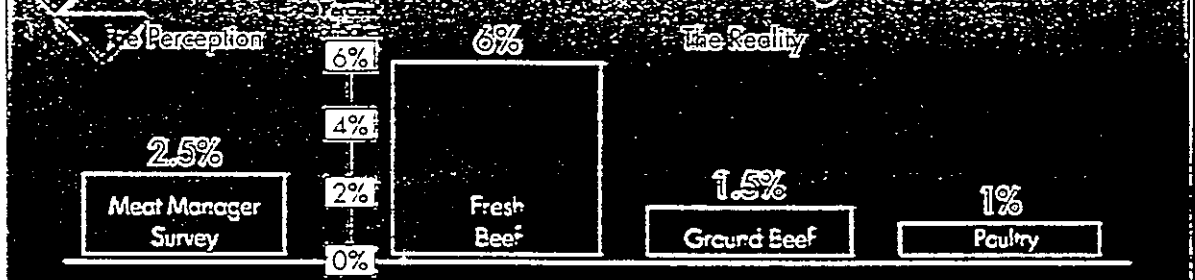


Source: Inventory Optimization Economic Model, 1989-1992, Allen & Hamilton Inc.

The Meat Case

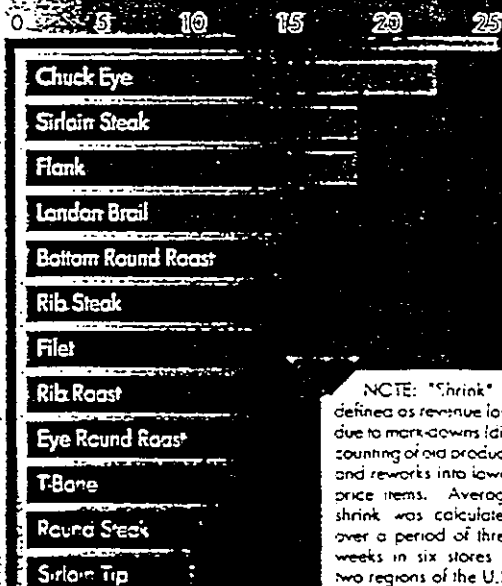
Shrink, or reworks and markdowns, also dramatically affected the revenue of stores included in the study. Managers surveyed believed their shrink was about 2-1/2 percent, when the figure actually came closer to 6 percent. High-gross margin cuts, such as tenderloin, rib-eye and sirloin, often had shrink exceeding 10 percent.

Shrink Is Worse Than Meat Managers Think



Source: Inventory Optimization Economic Model, 1989-Boaz, Allen & Hamilton Inc.

Shrink as a Percent of Sales

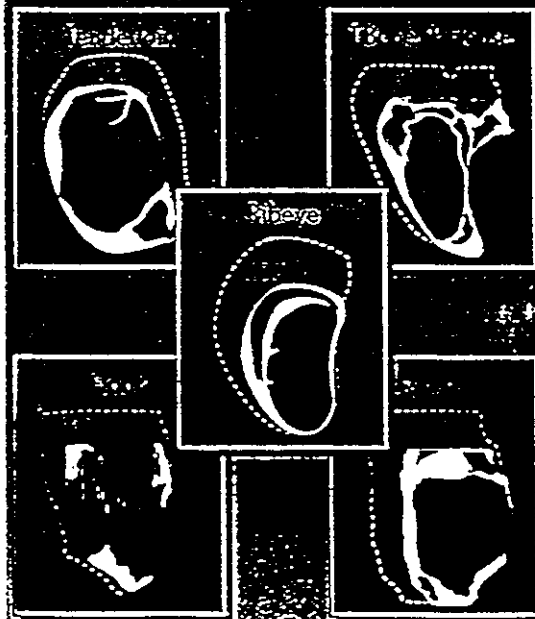


NOTE: "Shrink" is defined as revenue loss due to mark-downs (discounting of old product) and reworks into lower price items. Average shrink was calculated over a period of three weeks in six stores in two regions of the U.S.

Source: SA&H Analysis, SA&H Shrink Model

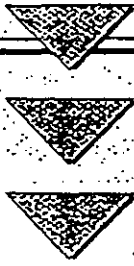
Source: Inventory Optimization Economic Model, 1989-Boaz, Allen & Hamilton Inc.

Shrink on High Gross-Margin Cuts Exceeded 10%



Source: Inventory Optimization Economic Model, 1989-Boaz, Allen & Hamilton Inc.

The Meat Case



	Typical Meat Department	"Optimized" Meat Department	Change
Total Sales per Week	\$30,000	\$30,000	\$ 0
Out of Stock/Nonoptimal	(1,380)	0	1,380
Shrink	(1,120)	(1,300)	(180)
Revenue	27,500	28,700	
Cost of Goods	22,854	22,854	
Gross Profit	\$4,646	\$5,846	\$1,200
Operating Expenses	\$4,476	\$4,476	
Net Income	\$170	\$1,370	\$1,200

* Unrealized Sales

Source: Inventory Optimization Economic Model, 1989-Booz, Allen & Hamilton Inc.

By increasing variety and reducing out-of-stocks in the meat case by 10 percent, managers were able to maximize their display space and increase their gross margin by 4.3 percent.

That's not peanuts. It can increase the gross profits of a meat department that sells \$30,000 of product a week, for example, by nearly \$65,000 a year.

Beef out-of-stocks and shrink present a tremendous opportunity to enhance beef sales and profitability.

- ☞ Beef out-of-stocks (16%) and shrink (6%) are a huge problem.
- ☞ Significant increases in sales (beef-10.6%; fresh meat-4.6%) are made possible by reducing beef out-of-stocks and providing consumers with their choice of cuts.
- ☞ The increase in dollar gross margins is even greater (beef-13.5%; fresh meat-4.9%) than the increase in sales.
- ☞ The required increase in beef inventory can be accomplished without adding meat case capacity - shelf space in the meat case is currently underutilized.

**ECONOMICS OF PEELABLE-VSP CASE-READY SYSTEM
FOR BEEF
COMPARED TO CONVENTIONAL STORE-CUT BOXED BEEF**

**By Donald E. Farris, Professor Emeritus
Agricultural Economics
Texas A&M University**

Prepared for

**Cryovac Divison, W. R. Grace & Co. of Canada Ltd.
2365 Mississauga, Ontario L4Y 2A2 Canada**

August, 1995

S U M M A R Y

ECONOMICS OF PEELABLE-VSP CASE-READY SYSTEM COMPARED TO THE TRADITIONAL STORE-CUT BOXED BEEF

By Donald E. Farris, Professor Emeritus, TAMU

Problem and Background:

Earlier efforts to develop case-ready beef programs in the United States and Canada have not been entirely satisfactory mainly because of a combination of economics, lack of a satisfactory package, short shelf life, lack of attractive bright red color, and a bulky package.

Peelable-VSP offers the potential to solve these problems and reduce the need for skilled fresh-meat cutters in the retail meat department.

A study by Dietrich, Farris and Ward (1992) showed that economics would favor adoption of case-ready beef by retail stores that had higher labor rates for meat cutters than the central fabrication plants, if a satisfactory package were available.

The Peelable-VSP provides a vacuum that gives the product plenty of shelf life until it needs to be placed in the case. The top film is then removed and the "bloom" appears as the oxygen permeable second layer allows oxygen to contact the surface of the beef.

Economic Analysis:

This economic analysis begins at the processing plant where wholesale vacuum-packaged beef cuts are available prior to them being placed in cartons. The study estimates the cost differences involved from this point until the retail cuts are sold at the store. For simplicity, straight carcass wholesale cuts are compared between the two packaging systems. At this point, the cost of the boxed beef system and Peelable-VSP is the same. So that all costs may be compared, they are expressed in terms of retail weight.

In addition to the cost of the wholesale cuts, the retail store that buys boxed beef only incurs two items of cost prior to receiving boxed beef. The added cost of the boxed beef cartons @CD\$.077/kg of retail product and CD\$.143/kg for transportation for an average 500 mile delivery, for a total of CD\$.220/kg of retail product.

The Peelable-VSP Costs are mostly at the Central Plant

The Peelable-VSP system has encountered costs of CD\$1.083/kg above the costs of wholesale cuts by the time the retail packages reach the stores (Table 1). This latter system can avoid the expense of boxed beef cartons by purchasing wholesale cuts from a nearby establishment or purchasing carcasses and preparing wholesale cuts in the same establishment.

The initial fixed costs for a central fabrication facility are substantial, but this is a high volume business and the unit cost is not one of the major cost items over the 15-year expected life of the equipment and 30-year life of the building (Table 1).

The principal costs per retail product for the Peelable-VSP system at the fabrication plant in descending order are (1) package @ CD\$.523, (2) Labor at CD\$.163, (3) Transportation CD\$.143 and carton for the retail packages @ CD\$.132/kg. of retail product (Table 1).

Most Retail Store Costs are Labor, Shrink, and Out-of-Stocks

At the retail store, the boxed beef system encounters labor costs (in this analysis) of CD\$.721/kg. of retail product compared to CD\$.293 for Peelable-VSP as the boxed beef wholesale cuts are fabricated into the retail cuts by meat cutters and support labor at the store level (Table 2). Labor costs include the head meat cutter with a wage (plus fringe) costing CD\$25.69, but the average store wage for the meat department that fabricates its beef at store level was CD\$19.62/hr. The Peelable-VSP system meat department personnel consists of a head meat cutter and three meat clerks. This produces an average cost of CD\$15.96/hr. The result is a significant labor cost difference per unit of retail product between the two systems.

The other principle cost at the retail store for the boxed beef system after labor is store level "shrink" at CD\$.517/kg. (due to markdowns, rewraps, reworks and other unaccounted-for losses). This item is greatly reduced in the Peelable-VSP system at a cost of CD\$.172 (Table 2). These costs reflect a 6% shrink for boxed beef and a 2% shrink for Peelable-VSP.

The third highest cost item for boxed beef at the store level is out-of-stock items. A Booz-Allen & Hamilton study found that the meat departments averaged about 62% in-stocks compared to items they planned to have in stock. By increasing the in-stocks and variety from 62% to 72% the average store could increase its net contribution to fresh meat by 4.3%. This translates to an estimated advantage of CD\$.282/kg of retail product for Peelable-VSP because of its ease of frequent restocking with retail packages from refrigerated storage. To be consistent with the cost format of this study, this is shown as a "cost" to boxed beef and a zero "cost" to Peelable-VSP in Table 2.

The Case-Ready Advantage

Finally costs for boxed beef at the retail store total CD\$.707/kg; whereas, the Peelable-VSP has a cost at that level of CD\$.481. When the differences are compared for both entire systems, the case-ready advantage is estimated at CD\$0.36/kg or US\$0.12/# (Table 2).

Data for these results apply to fabrication plants in Southern Alberta and retail stores in Western Canada.

The beef industry has had a slow, but rather steady process of moving more of the slaughter and fabrication of fresh meat toward the livestock production areas. The development of a satisfactory retail package to reduce costs and increase storage life at the retail store will likely continue this process.

TABLE 1. COST DIFFERENCE IN BOXED BEEF AND PEELABLE-VSP CASE-READY SYSTEMS, PROCESSOR LEVEL, SO. ALBERTA, CANADA 1995

ITEM	Boxed beef	Peelable-VSP (cd\$/kg.—retail weight basis)	Difference
Cattle-pack subprimals (a)	Same	Same	0
Boxed beef cartons (b)	.077	0	+.077
Fixed cost (c)			
Building-30 year life @ 5% interest	0	.017	-.017
Pkg. Equip.-15 year life @ 5% interest	0	.019	-.019
Automated fab equip. 15 yr.life @.5%	0	.030	-.030
Labor cost (\$17.15/hr.) Incl. 10% support labor (d)	0	.163	-.163
Package cost (Wtd. Ave.) Incl. 2% pkg. loss	0	.523	-.523
Cartons -- Wtd. ave. Various Sizes	0	.132	-.132
Distribution to retail Ave. 500 mi. deliv. (e)	.143	.143	0
Start-up, then maintenance 1% of sales	0	.025	-.025
Utilities 1% of sales	0	.025	-.025
Supplies	0	.006	-.006
Total difference	.220	1.083	-0.863

- a) Subprimals are the same price for both systems except for the cartons.
b) Boxed beef cartons are \$1.40 ea. & hold 40#, but are unnecessary in the central fabrication plant
c) Interest is net after taxes
d) Based on 115kg./man hr. for production labor; it is reduced to 105kg/man hr.when 10% support labor cost is included.
e) The Peelable-VSP is a 16,000# load; whereas boxed beef is a 20,000# load, resulting in a slightly lower cost per unit until the cost is converted to retail weight.

TABLE 2. COST DIFFERENCES IN STORE CUT BOXED BEEF AND CENTRAL
PACKAGED PEELABLE-VSP CASE READY RETAIL SYSTEMS, 1995.
WESTERN CANADA

Item	(Retail store level)		Difference
	Boxed Beef (CD\$/kg--retail weight)	Peelable-VSP	
Fixed Cost (a)	same	same	0
Labor cost (b)	.721	.293	.428
Package (c)	.157	.008	.149
Store Shrink (d)	.517	.172	.345
Out-of-stock (e)	.282	.000	.282
Supplies	.030	.008	.022
Totals	1.707	.481	1.226
Less Processor level difference			-.863
Case-ready advantage			.363
(In terms of US\$/pound			.120)

a) No immediate change is anticipated in the meat department facilities.

b) Boxed-beef labor at store: 27.22 kg/man hour @ \$19.62/hr. Case-ready labor at store: 54.44 kg/man hour @ \$15.96/hr. This includes all beef activities from ordering to clean-up. Wages are Union Scale and beef labor consists of 1/3 meat clerks in boxed-beef stores and 3/4 meat clerks in Peelable-VSP stores. Labor productivity was estimated from Bishop's AMI Study.

c) Five percent of the beef is packaged or repackaged at the store under the case-ready system.

d) Store shrink for boxed beef--6% (Booz-Allen, p. II-2). For Peelable-VSP--2%. These store shrink costs are based on an average beef retail price of CD\$8.61/kg.

e) Booz-Allen & Hamilton, 1989, page II-16. In-stocks increase net contribution to fresh meat is over 4% as the case-ready store is able to maintain 10% higher level of in-stocks relative to planned stocks. The value CD\$.282 is the disadvantage of the conventional store in reducing out-of-stocks.

SPECIFICATIONS AND ASSUMPTIONS COMPARING COST OF CASE-READY BEEF VERSUS STORE CUT BOXED BEEF

All data are in terms of Canadian dollars @ CDS1.37/US\$1.00 (CDS1.00 = US\$0.73) and in terms of kilograms. 1 kilogram = 2.2046 pounds.

The average retail price of straight carcass (cattle pack) beef in Canada was CDS3.90/# or CDS8.61/kg. in 1992 and approximately the same in 1994.

Central fabrication plants are assumed to have a useful life of 30 years at an interest rate of 5% (after taxes), and packaging equipment (CD6000) is assumed to have a useful life of 15 years at an interest rate of 5%. Automated fabrication equipment is budgeted the same way.

The weighted average labor cost (including fringe) in a beef fabrication plant in Southern Alberta was estimated at CDS17.15/hr. The weighted average labor cost (including fringe) in unionized retail stores fabricating retail cuts was estimated at CDS19.62/hr. Beef labor included 1/3 meat clerks. Stores in Western Canada using Peelable-VSP had an average labor cost of CDS18.00. Beef labor included 1/2 meat clerks.

Beef fabrication and packaging of Peelable-VSP was 105% packaging material per 100% case-ready production. Cost of the package for the average retail beef item was cd\$.523/ kg.

Production in automated fabrication plant is estimated to average 115 kg./hr. or 253.5 #/hr. for all employees except the clean-up crew and other support labor. This is estimated at 10% of labor costs, making the net production 105 kg /hr. The comparable production in the retail store was estimated at 27.22/kg./man hr. or 60 pounds per man hour. This is close to the estimate derived from a 1992 Food Marketing Institute survey that reported that Canadian meat departments had sales of 87 pounds of meat per labor hour. If one-half of the labor was on beef, and beef is 35% of the meat volume, then 35% of 87 equals 30.45 pounds for 1/2 hour. Therefore, the output per man hour is estimated at 60.9 pounds (or 27.62 kg.)
Source: The FMI Speaks-Detailed Tabulations, 1992, p. 87.

Bishop (1988) estimated that 5.75 meat department employees worked a combined 230 hours per week in the conventional retail store spending 122 hours or 53 percent of their time processing/traying, wrapping/pricing; whereas for a case-ready store these activities accounted for only 24.5 hours or 21.3% of the 115 hours of work exclusive of extra time for customer service. This is exactly one half of the labor requirements for the conventional retail store. He estimated a drop in shrink from 8% to 3% for case-ready fresh meats (beef, pork, lamb, and veal). The overall meat department dropped from 4.2 % to 3%. Apparently his study was based on a vacuum package with a long case shelf-life. ("A Study of the Retail Economics of Case-Ready Meats" conducted for the American Meat Institute by Willard Bishop Consulting Ltd.)

Booz-Allen and Hamilton estimated conventional beef shrink averaged at 6.01% noting a wide variation among individual cuts. Case-ready was estimated at 0.75% based on case-ready chicken and Kroger's experience with their vacuum package with a long case life.

APPENDIX F
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