

final report

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Abstract

This is a final report summarising the key R&D activities undertaken by Thomas Foods International (TFI) – in particular their planned growth plans for China. The intent was for TFI to share with Meat & Livestock Australia (MLA) key insights into aligning a sales and marketing growth strategy with an innovation plan for then wider lessons that could be shared with industry from an innovation perspective.

Key market statistics relevant to the period of R&D collaboration:

China's March 2021 meat imports surpass 1 million tons, China imported 1.02 million tons of meat in March, Customs data showed last week, the highest monthly volume since at least January 2020, as the world's biggest meat buyer continued to stock up to fill shortages at home.

Imports for the first three months of 2021 reached 2.63 million tons, up 20.8% versus the same period of last year, the data also showed.

China's gross domestic product (GDP) grew 18.3% year-on-year during the first quarter of 2021, reported the National Statistical Office (ONE).

China's economy is expected to return to the potential growth track after the end of the epidemic.

In the face of China's huge growth market, we will not be limited to the following aspects to understand what the "next step" is:

attractive cities; market access and regulatory issues; value chain design; cold chain logistics; foresight themes; and smart technology platforms.

The above criteria builds on a framework MLA developed as part of Rural R&D for Profit Insights2Innovation program (V.RDP.1000 -

https://www.agriculture.gov.au/sites/default/files/documents/14-01-034_market-and-consumer-insights-drive-food-value-chain-innovation.pdf)

Executive summary

The scope of the TFI China innovation strategy will include initiatives in the following key areas:

- Aligning product and packaging design to targeted customer needs leading to high value products
- Developing and implementing new business models including e-commerce strategies in-order to capitalise on the evolving Chinese e-commerce platforms.
- Continuously investigate idea generation and feedback processes with a specific focus on innovative product, processes, packaging and value chain concepts.
- Developing design led research capability across the value chain to support the use of tools and transfer of knowledge.

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1 Background

1.1 Steady growth of consumer demand and slower growth in the future

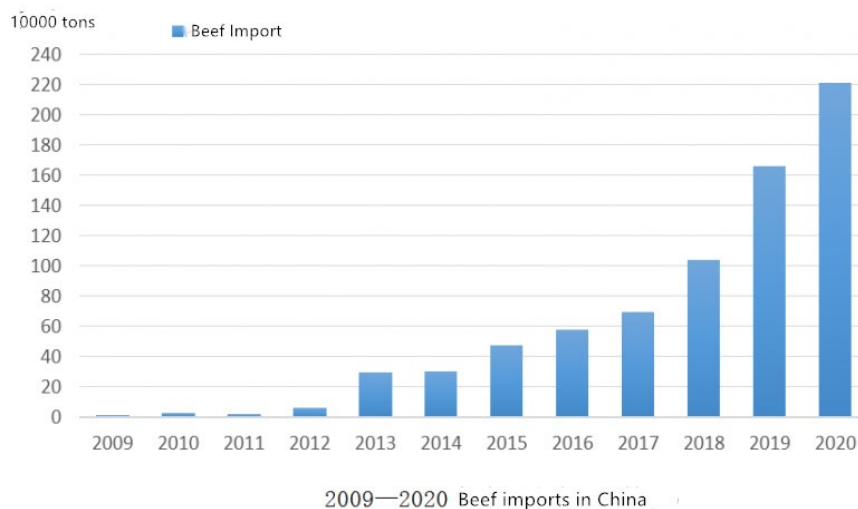
The improvement of residents' income level, the upgrading of consumption structure and the advancement of urbanization will drive the growth of beef consumption demand. The beef market is gradually subdivided and diversified. With the rapid development of cold chain logistics industry, the market sales of cold fresh meat will increase to a certain extent, and the consumer market of deep processed meat products such as cuisine, leisure and health care will gradually expand. The demand for beef in the domestic market is increasing. Looking forward to the later stage, the proportion of elderly people aged 60 and above will reach about 25% by 2030, the total population will show a downward trend after reaching the peak, the potential energy of population growth will weaken, the consumption of red meat is expected to decline, and the growth rate of beef consumption is slower than that in the earlier stage.

1.2 The gap between supply and demand is normal, and the growth rate of import is slowing down

As the domestic supply continues to be tight, the breeding cost continues to be higher than that of foreign countries, the price difference between domestic and foreign countries still exists, and the beef will still maintain the net import pattern in the future. From the perspective of global supply and demand, beef imports come from many countries, and foreign price advantage is obvious. Beef imports continue to grow, but the import growth rate gradually slows down. In the next 10 years, the annual growth rate of beef import is expected to be 4.1%.

1.3 It is expected that the price will rise in the early stage and tend to be stable in the later stage

In the short run, domestic beef supply still can not meet the growth of consumer demand, coupled with long production cycle, low reproduction rate, high breeding costs and other factors to support the price. In the long run, the high price of beef tends to stabilize. In the future, the consumption demand will remain stable and the growth rate will decline, the international trade pattern will tend to be stable, and the beef price will reach a new equilibrium point in the future.



2 Project objectives

2.1 Supply Chain Innovation

To increase efficiency and decrease cost by every possible

2.2 Supply Chain Management Innovation

Find high efficiency model to increase efficiency and decrease cost

2.3 Supply Chain Finance Innovation

The new payment model helps to shorten the supply chain by finance way. To learn the customers feedback of new payment model.

2.4 Products Innovation

Suitable for various product developments of different groups of people, enrich consumer choice, and define consumers' expected lifestyle.

2.5 Packaging Innovation

High recognition of retail aesthetics, establish a healthy image of high quality, increase consumer love and interaction

2.6 Operation Innovation:

The flexible use of Internet thinking, to promote related sales.

3 Methodology

3.1 Supply Chain Innovation

Single bag packing, no waste. At present, most other companies are double-layer packaging, namely a vacuum-pumped inner bag and a printed outer bag. We are going to make single-layer bag packaging, remove the inner bag, and only use the printed outer bag to vacuum packaging. Reducing the cost also concerning about sustainable growth and social responsibility.

- o Underlining our attention to sustainability across supply chain and products we sell. Sell our green and pure ranch products; to develop semi-finished products such as beef soups and beef patties to help consumers' selection and pre-cook healthy products could also increase product value.
- o To sell these semi-finished products both online and offline.
- o To display and carry out relevant activities in offline stores. Disseminate the concept of high quality products to customers and consumers, and quickly collect feedback.
- o New media operation, Internet thinking. Sharing recipes of different people and different scenes in WeChat & Weibo, inspire and help manage everyday meal, such as children's meals, couples' meals, business meals and so on.
- o To get extended in online. Provide dietary solutions, following relevant hot information, or seek KOL to promote sales of related products.
- o We plan to unify the sizes of packaging. Previously we had three sizes, S, M, and L. Now we will only keep the M and L. On the one hand, the costs of bags for S and M are not much different. However, since there is a minimum order quantity for each printing, and our demand of size S is relatively small, so we cancel the S and use the M instead. This will also facilitate material management.
- o We also plan to unify the packaging for beef and mutton products. That is to say, the same packaging will be used for both beef and mutton products, just by adding different Chinese labels to show the difference. The advantage of this is that all bags can be stored together and printed together. We can also avoid the minimum order quantity.
- o From farms to table, we'd like to implement the modified atmosphere packaging for the chilled beef products. This product is better to be Australia Originally packaged rather than transporting to china and package. On the one hand, it could help shorten the supply chain, on the other hand, the application of modified atmosphere packaging can help extend shelf life.

3.2 Supply Chain Management Innovation

- o To set up middle office
- o Middle office controlled and organized all business operation detail data.
- o Middle office will re-distribute the wholesale and retail supply volume to increase efficiency of the inventory turnover & sales margin.
- o Middle office will re-distribute all customers ordered products based on the customers' sales performance which focus on volume, sales price and products specs.
- o Previously, the customers or TFI China office ordered their products
- o Middle office will help our customers who are global enterprises to re-distribute the exporting products volume according to customers' global sales performance and volume requirements.

3.3 Supply Chain Finance Innovation

Developed a new payment model to increase the products margin, the margin was not only come from sales margin but also was come from supply chain finance margin, and decreased the bad debt and the order cancellation risk.

- o To get the deposit after sign the contract and before produce the products with the costumers.
- o To give a payment term to local office.
- o To clear the customs by local office for the customers.

3.4 Products Innovation

- o To develop beef soup, beef patties, beef stuffing, beef balls, beef jerky and other semi-finished products and snack products.
- o To develop cooking sets for different people, scenarios, and even different regions, as well as product and recipe sets. For example, the beef rib finger cooking set can be made into Chinese braised and Korean barbecue. We put the corresponding seasoning and recipe in the product set.
- o Pricing the semi-finished products and cooking set & launch on retail and new retail sales channels.

To develop easy to cook products, such as Japanese-style beef bowl and easy to cook steak, the customers cook the products easily by microwave. The cost will be lower and the profit will higher for the easy to cook products.

3.5 Packaging Innovation

- o Retail packaging use Angus black hair for the background colour, to form the unique logo of our product packaging
- o To use the single-layer vacuum packaging bag, looks like the original packaging, could increase the sense of value, and reduce waste.
- o To use unique & consistent visual signs for our private lables which could help successfully settle in as one of the key offerings of the retailer. In packaging, product display, peripheral shopping bags and other visual signs.
- o A humorous word game on packaging. "Stomach got beef with you? Get my beef for your stomach". The first beef means "problem".

As China begins to implement waste sorting management, reducing waste or even stopping generating waste will be a point to be considered from the perspective of food packaging.

- o Modified atmosphere packaging to be used for the chilled beef products. In the fresh industry, short shelf life has always been a major source of significant losses and waste. Therefore, we plan to design a packaging that can effectively extend the shelf life for chilled beef products in offline channels. We plan to use modified atmosphere packaging, which is to create a low-oxygen environment by filling the packaging container with CO₂ or N₂ and then sealing the package. The hypoxic environment prevents the formation of oxyhemoglobin and helps maintain the bright red color of raw meat.

- o The combination of the sizes of the bags. We will just keep the M and L size of packaging, cancel the S size. This will facilitate material management.
- o The combination of the bags for beef and mutton products. All bags can be stored together and printed together. We can also avoid the minimum order quantity.
- o We will emphasize our advantages of RAISED WITHOUT ANTIBIOTICS OR ADDED HORMONES, so that it will help to make our brand stand out from the Homogeneous market.

- o Considering that many end users don't read English, we have added the Chinese brand 托姆仕牧场 corresponding to THOMAS FARMS in the new design, to increase the popularity of our brand in China.

3.6 Operation Innovation

- o Developed an e-commerce operation partner as an operation center already;
- o The partner is a brand owner as well, so it's familiar to operate online business as a brand owner in stead of an online business operator, that means it will carefully to spend the marketing cost and concern about the ROI.
- o It will help to develop more valued e-commerce platforms, to increase the sales volume and reduce the operation cost.

4 Results

A clear innovation – strategic marketing plan was developed. This helped deliver by the end of December 2020, TFI’s annual sales volume in the retail market exceeded RMB 25 million, and the total number of consumers has exceeded 300,000.

5 Discussion

Identified were 6 key affluent segments as the primary targets for Australian beef in China. These are built around four key needs:

5.1 Provenance – safe, trusted suppliers

Consistent quality and Ability to provide high quality beef

5.2 Quality – consistent product

Freshness and natural drives meat purchases for Chinese shoppers with the following providing assurance of freshness:

- o Use-by dates
- o On-pack claims: traceability information

5.3 Taste – flavour and family favourite

Traceability information: each product is pasted with traceability QR code.

- o Each product is pasted with an independent QR code, which can scan the code to query the production date, customs declaration and inspection information, nucleic acid certificate and other traceability information.
- o Corrective action process – Corrective actions are documented and implemented as soon as practical to avoid further risk of occurrence.
- o Recall and withdrawal process management confirmed which includes the nomination and training of a crisis team, an alert contact list, sources of legal, communication plan.
- o 3rd party logistic and warehouse management – to be included as part of the audit process.

5.4 Relevance – meals that meet the household needs

Consistent quality and Ability to provide high quality beef. continuous product development and a sense of ease and convenience when shopping by providing:

- o Strong on pack claims and branding
- o Simple callouts to key consumer needs
- o Striking and engaging visuals
- o Relevant and necessary product information

6 Conclusions/recommendations

The impact of COVID-19 still exists, but after the optimization in the previous few months, we have many measures and achieved practical results. Recently, the traceability QR project has greatly enhanced consumers' trust in brands and products. It be of positive significance to the fight against COVID-19 and the birth of a more complete product traceability system in the future, we are full of confidence in it.

In the construction of traceability system, we have a clearer understanding of consumers' concerns about product safety, which also shows that our future focus on "prevention" and "consistent quality" is the right direction.

Since October 2020, China has successively detected COVID-19 on imported frozen products, which has seriously impacted consumers' confidence in imported frozen products. At the same time, the customs and warehouses in China's provinces have tightened the warehousing requirements for imported frozen products.

Therefore, our innovative actions focused more on investigating U & A of Chinese consumers and formulating countermeasures. As well as focusing on the changes of Chinese market in the epidemic situation and post epidemic era.

Although the epidemic caused some losses, it also exercised the operational ability of the team. We also boldly used some innovative means to reduce losses, increase sales, and achieved good results. These accumulations will bring more positive effects when the impact of the epidemic gradually subsides.

Next step:

Innovate to try to meet the more unique needs of Chinese consumers:

more experts in products; seek for high-end lifestyle; price sensitive; show off; plenty of choices.

7 Key messages

An innovation plan needs to clearly align with strategic market development plan. Acknowledged is the need to continue to focus on the identified four key indicators and make more innovations

- o Provenance – safe, trusted suppliers
- o Quality – consistent product
- o Taste – flavour and family favourite
- o Relevance – meals that meet the household needs

8 Bibliography

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