final report

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NCMC development and implementation of retail veal category growth strategies

Executive summary

Northern Co-operative Meat Company (NCMC) are a producer co-operative whose main business is member service kills. A secondary arm of their business is veal production and sales which they are looking to re-invigorate in the Australian market with their branded Richmond Valley Veal product range. NCMC have entered into a partnership with a supermarket and have established a good sales arm to their veal initiative. They are also currently working with producers to strengthen their supply arm.

The alliance between NCMC and the retailer presents an opportunity for the Australian veal industry to take a new and fresh approach to the positioning of veal with Australian consumers. A successful five-year program would see an increase in the consumption of veal per capita. To achieve the full opportunity, NCMC will need to

- ensure optimum alignment on the supply side to grow production,
- improve market signals to assist producers in better meeting market specifications, and
- develop new models for growing production to supply at suitable times of year and with a focus on increasing total supply chain profitability.

This project assisted by preparing demand forecasts to give a clear, forward definition of supply required per month.

Richmond Valley Veal

Prior to this program, sales of veal had been declining year on year due to lack of investment in the category and the product range. NCMC aimed to increase the volume and value of veal consumption in Australia through a series of activities that ran in parallel to this project. Upon launch of the Richmond Valley products in September 2016, there was a period of large markdowns and waste. This was not entirely unexpected as a similar peak in markdowns & waste occurred for house-branded products in the previous Christmas/New Year period (December 2015 to January 2016 period). It was agreed with the retailer to maintain fixed per unit and per pack pricing from launch through to end of first quarter 2017.

The Richmond Valley category started showing improvement in January-February 2017, with growing sales and reducing markdowns and waste. The category continued to make good progress in increasing veal sales throughout the first half of 2017. The product and consumer insights that were gained provided an important base for future development of the category considering the predicted increase in livestock supply (from end of 2017 into 2018). A short-term approach was also developed, in discussion with the retailer, to further reduce markdowns and waste to an estimated 4%. As part of an overall category development strategy, in store visits were undertaken to connect to and inform in store meat manager, observe in store product appearance and specification, and begin to understand how to engage with consumers.

NCMC Systems

This project looked to analyse the development of value optimisation tools, mixed with product development and refinement to increase carcase utilisation and individual carcase value. It focused on broader issues which are relevant to the whole of NCMC's veal production, customers and

markets. This began with an analysis of NCMC's existing systems as well as gaps that existed where other tools or enhancements may profit NCMC.

NCMC are fully committed to putting in place information systems which track the supply and demand channels enabling better management of their whole supply chain. NCMC Foods is NCMC's sales department responsible for finding markets for veal, offal from service kills and some other beef products. While considering NCMC's whole supply chain, this project is particularly focused on NCMC Foods and the systems that support their supply and sales channels.

NCMC has an Enterprise Resource Planning (ERP) System, which is part of a vision to consolidate all data from procurement to kill floor to sales. NCMC have invested significant time and money into this end-to-end system and while operational, consensus within NCMC Sales is that it has failed in many areas and still does not offer as much as what the previous system, Thorsys, offered. That said, NCMC are well advanced in having a fully customisable system which captures data from all areas of the business into one place and thereby achieving an end to-end data story of their whole supply chain. NCMC are committed to making the ERP work.

While the ERP provides the businesses operational functions, there is not the capability within NCMC to enhance decision support functions that will optimise the supply chain value. This decision support side of this project has been to identify how best to leverage NCMC's existing infrastructure and ongoing operational investments with support tools to support whole of chain decision making. From this, the following set of recommendations have been compiled.

Recommendation Summary

The first of the following recommendations lists changes specific to the ERP which are being undertaken by the cooperative to support the NCMC sales team.

The recommendations to integrate independent decision making are as follows:

- The ERP is primarily focused on production whereas the set of recommendations are primarily decision support tools which require higher processing power and would logically sit outside of a production system
- Given the ERP team's core mandate is operational, decision support is out of scope of operations
- Since NCMC Foods is effectively a customer of NCMC and these tools are for them alone, it is more appropriate to build this outside of NCMC's core production system which gives opportunity to support other cooperative producer members.
- One of NCMC and NCMC Food's key requirements is efficient, decision reporting
- (Recommendation 4). While effective for simple accounting, there are a number of inhibiting factors in the current system:
- Procurement information is not stored in any detailed format within NCMC systems
- (Recommendation 3) rendering cost of sales information incomplete
- Stock pricing is manual. Recommendation 2 addresses this by automating this process (with checks and balances in place) using information in NCMC systems as well as other industry available data.
- Tracking product cuts (income) to individual procurement costs is not a linear task and does require a level of optimisation (Recommendation 4).

Recommendation 1: ERP Quick Fixes within NCMC operational plans are required as part of ongoing business operations including Speed, Customer Part Cross Reference, Editable Offal product list, New Product codes report / dashboard, Valuation price automatically populated.

Recommendation 2: Pricing Estimates

Recommendation 3: Procurement Management tools

Recommendation 4: Key KPI – Performance Reporting and Yields

Recommendation 5: Production planning tools

Recommendation 6: Retail SCAN Report Analysis

Recommendation 7: Alerts and analysis

Recommendation 3: Procurement Management tools

Table of contents

1   Introduction

A collaborative relationship has been developed between the Northern Co-operative Meat Company (NCMC) and a Supermarket to grow the Veal category in the retailer's meat departments across the whole of Australia, using a staged state-by-state development approach. The supermarket previously managed the category with NCMC and other companies supplying product on an order by order basis. Due to a limited investment in the category, sales have been declining per store over the past 2 to 3 years along with a reduction in the number of stores that carry veal as a category.

The collaboration presents an opportunity for the Australian veal industry to take a new and fresh approach to the positioning of Veal with Australian consumers. A successful five-year program would see an increase in the consumption of veal per capita. To achieve the full opportunity, NCMC will need to:

> • ensure optimum alignment on the supply side to grow production,

> • improve market signals to assist producers in better meeting market specifications, and

> • develop new models for growing production to supply at suitable times of year and with a focus on increasing total supply chain profitability.

NCMC's position as a producer cooperative provides a unique opportunity to directly improve the return producers get from investment in processing-initiated supply chain activities. This initiative could represent entirely new demand for veal production, requiring expansion of livestock production within NCMC's existing networks as well as development of new supply relationships and new veal production enterprises to achieve the demand requirements.

The purpose of this project is to support the development and implementation of strategies that will help align the demand and supply sides to generate greater value for the veal category and for the whole value chain. This includes several sector specific initiatives, designed to progressively develop the value chain in logical sequence.

The ability to adapt and negotiate acceptable supply solutions along the chain outside the traditional seasonal supply channels is a critical component of this supply chain. It is important for demand and supply side to have a clear idea of what is possible, what the options could look like and what the cost and reliability of the various solutions are. With clarity comes opportunity for better transfer of information along the supply chain and back to the producer to encourage on farm production practices that add improved value to the producer sector. This project is focused on the demand side but in collaboration with NCMC's management of supply side to ensure the demand side activities integrate with NCMC's supply side initiatives and constraints. The following Figure 1 outlines the areas of the NCMC value chain that will require capability to enhance whole of chain decisions. The legend indicates the parts of the chain focused on in this project.

1.1   Milestone 1 & 2 Summary

 Milestone 1 analysed sales data for the Richmond Valley products from launch in September 2016 until February 2017 and compared this with retailer branded product for the same period in 2015-2016. Strategies for improving stock keeping units (SKUs) performance were developed.

1.1.1   Objectives

The project objectives are to:

1. Analyse retail sales data to understand the following:
    *   Across the range of SKUs the price points and range in product mix for different demographic regions
    *   Investigate trends in consumption over time and potential causes of shrink and store deletions that could be reversed.
    *   Link consumer research on branding and positioning with penetration and AWOP to understand category management opportunities to grow margin.
    *   Work with the retailer to attain and review scan data to support red-meat category profit maintenance activities in the light of raw material shortages and declining market share for both beef and veal.
    *   Work with the retailer to attain supply of some alternative species pricing and consumption data to support pricing, promotional and growth strategies. (Only partial data was shared in the project)
    *   Price elasticities by SKU and cross price elasticities if data is available to identify promotional opportunities. (Required data from previous step)

2. Review demand side data to identify opportunities and threats for the category. Link to NCMC's existing and future work on supply side opportunities for growth or alignment of seasonal supply to demand.

3. Develop strategies for category growth based on these findings

4. Develop the implementation strategy for retail product preparation including:

    *   Range of product SKUs considering new products to be developed
    *   Type of equipment required to produce in short- and longer-term considering volumes
    *   Weigh up the alternative to investment in processing at NCMC versus co-packing through existing external facilities.

5. Refine opportunities for growth or better alignment of seasonal supply to demand

6. Refine and detail strategies for growth based on these findings

1.1.2   Methodology

Data analysis - was undertaken using weekly scan data, from the retailer, for the veal products was used for analysis.

Store visits - were made to 30 retail stores, across Sydney, Melbourne and Adelaide. Information was collected regarding store and product quality, presentation and layout. In specific stores, the in store butcher or meat manager gave feedback on the category, product range, drivers of sales and insights from consumers regarding their queries, buying behaviour and demographics.

1.2 Milestone 3 & 4 Summary

Milestones 1 and 2 focused on supporting the NCMC's Veal Strategy. The focus of Milestone 3 and 4 was identifying gaps in system and operational capability and gathering of business requirements to build capability for enhance decision support and greater supply chain value.

1.2.1 Objectives

7. Build static sales models to support veal business growth including:

- Promotional planning across SKUs
- Optimising category profit for each season/quarter
- Identify product mix gaps and areas for new product development to improve carcase utilisation and margin.

8. Detail design requirements for optimisation software to support the following:

- Cut optimisation
- Forward pricing planning based on market projections
- Supply requirements
- Scenario modelling of various supply and demand options
- Dashboard style reports showing actual performance against set key performance indicators (KPIs).

1.2.2 Methodology

Business requirements gathering occurred from April to October. The first stage focused mainly around understanding process flows for the NCMC Foods sales and procurement teams as well as gaining an understanding of core NCMC systems from Accounts/IT. A set of process maps were drawn up following this in preparation for the second stage which focused on reviewing process maps with sales team and gaining an understanding of the processes from the kill floor to the freezer/chiller.

This work, along with earlier customer facing work have helped form the basis of the confidential report which also considers NCMC's system, capabilities and the opportunities to grow the veal category and increase value.

2 Veal Strategy

2.1 Category progress

The Richmond Valley veal category has continued to make good growth in sale since February which has increased the demand for veal livestock. It should be noted in the market research section below that growth in veal sales is focused on displacing pork and chicken in many cases (Fig. 2).

Fig. 2. $/product placement for 2017
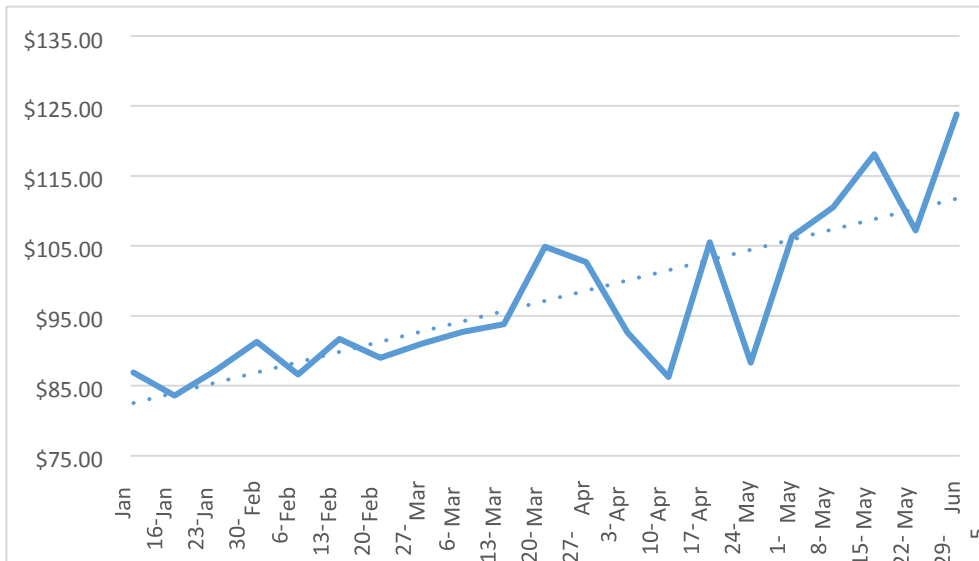
2.2 Summary of findings from store visits

2.2.1 Comparison with other products

- Pricing slightly higher than mid-range beef
- Pricing similar to or less than top-range beef (e.g. Angus eye fillet) and specialty products (e.g. organic beef mince)
- Similar or better quality than equivalent beef products.

2.2.2 Barriers

- Consumers knowing what to use veal for and how to cook with it (apart from schnitzel)
- Replenishment was identified as an issue for certain stores – for discussion with the retailer
- Older stores with low income demographic
- Poor performing products from these stores was removed in April-June.
- Olga's brand crumbed schnitzel in South Australia (strong 'Buy SA' promotion in retail stores will always have Richmond Valley crumbed schnitzel product on the back foot)
- No star rating or fat % positioning for mince.

2.2.3 Product quality and presentation

(See Fig. 3).

2.2.4 Options for consideration

- Communication and marketing strategy to get people to widen their thoughts, and their confidence, of meal solutions for veal.
- The main aim is to educate consumers to get them to try new veal products outside sizzle steak, which they are already used to and make veal look like an easy meal.

Fig 3. All SKUs in retail display cabinet

3   Redefining the veal category-findings and proposed next steps

3.1   Objectives

The purpose of the Richmond Valley veal brand and the longer-term strategy is to grow the veal category volume and value (state volume and value).

3.2   Background

- Initial research showed there is a lack of awareness of veal.
- Users stick to the one or two cuts they know how to cook.
- Lack of confidence to cook veal stops non-users trying it.
- Lack of confidence to cook also stops users from trying new cuts.
- Veal is perceived as a "special' meat.
- This adds to lack of preparation confidence.
- Limited mix of cuts and no shelf presence also perpetuates the "special meat" image.
- This limits the weekly meal options veal provides.

3.3   Value proposition

Veal needs to be re-positioned as – "the lighter side of beef"

Providing all the health benefits of beef but appealing to the reluctant beef eater and light user of beef. Growth will come from:

- Providing cuts for more meal occasions
- Attracting non-users of veal – predominately poultry buyers
- Attracting reluctant users of beef – those who eat beef because they feel they have to but would rather not. There is an opportunity to increase their consumption of red-meat (veal).

3.4   Challenges to address

Change in consumer perception required makes this a difficult strategy. Just putting the new product out on shelf will not turn the category around from decline, let alone grow it.

- Even light users of veal require "launch of a NEW product" approach if they are to be engaged. Specific development activities are required to do this.

Maintaining shelf presence while managing mark-downs is a balancing act and needs a support strategy

- Need to balance average pricing

- Unfamiliar with new cuts of meat. How to keep on shelf while appealing to new users? • Coupled with this is the current short supply challenge

3.5 Drivers

The veal category needs shelf presence and options for mid-week consumption

- A mix of cuts is required that supports both objectives

3.6 Insights required

- To do this several things need to be better understood about Australian consumers to target products that will meet their needs, presented and marketed in ways that will connect with them effectively.
- Consumers still have the same meal occasions each week. They are unaware of the supply issues (except for price changes between species that will have an impact).
- Understanding consumer propensity to buy new products can still be achieved during this interim period. When supply does improve it needs to be clear how to engage consumers effectively with the right product mix in each region and season, supported by appropriate marketing or sales support. Part of this next 6-month strategy is to build this understanding and test the market research invested in to date.

3.7 Strategies

Several smart strategies are required to bridge the current short supply while still gaining understanding of the consumer's needs to support future growth when supply increases.

Proposed activities:

- Maintaining shelf presence
- Keep all product SKU's but allocate to different stores. This allows different cuts to be tested.
- Reduce the number of SKUs in each store to minimise markdowns and dumps. Consolidate based on analysis of the data. Alternative product pricing may be required to support adoption.
- Address lack of cooking confidence – product mix that supports initially

Select store product mix to meet all meal occasions that address growth opportunities. This will impact on the range carried in each store.

4 System Recommendations

4.1 The ERP Prioritised Requirements

The capabilities required to extract information from sales data covered in section 2 and couple with livestock data to improve decisions proposed in section 3 at both the livestock and consumer ends of the chain are reliant on an underlying software framework.

The following set of recommendations have been broken up into 2 areas:

- The ERP prioritised requirements – these changes are currently possible within The ERP's functionality and available data and are already being updated as part of NCMC's ongoing business operations.
- Other Requirements - the data or functionality does not currently exist within The ERP. These could be added within the decision support tools.

4.2   Other Requirements

- Livestock procurement/Supplier feedback

- Stockyards
- Boning room
- Sales-Domestic and export (Beef/veal, offal/meat)
- Reporting and accounting

5   Process flow overview

A detailed mapping of NCMC processes was undertaken to determine existing capability, value of new capability and how best to integrate decision support with operational systems. The following recommendations resulting from a detailed set of process flow mapped during the project.

Recommendation 1: The ERP development within NCMC existing operational plans

Recommendation 2: Pricing Estimates

Recommendation 3: Procurement Management tools

Recommendation 4: Key KPI – Performance Reporting and Yields

Recommendation 5: Production planning

Recommendation 6: Retailer SCAN Report Analytics

Recommendation 7: Alerts and analysis