

Rural R&D for Profit Program: Insights 2 Innovation Case Study Report

Business: **The Northern Co-operative Meat Company, Casino, New South Wales**

The Northern Co-operative Meat Company (NCMC) is Australia's largest meat processing co-operative, proudly 100% member owned. The focus of NCMC is to run a sustainable and profitable business to return funds back to beef and pork producers/shareholders.

NCMC are a sustainable, profitable and diversified end-to-end meat processing business. This is achieved through the combination of their approach to quality; fast, flexible and responsive service offerings; the scale of the operation; and value-adding services.

Participant: **Simon Stahl**, Chief Executive Officer, NCMC

Project Summary

NCMC is currently exploring two projects pursuing opportunities for growth into the China market. The first is to export products into China and value add in-market. This is a two phase project that involves firstly finding a joint venture partner and secondly, establishing a value-adding facility producing retail-ready packaged goods.

Their second project is to establish a local office in China that is focussed on building relationships to build market presence and strengthen continuity of market access.

Project Background

Chinese imports of Australian beef have grown very rapidly over the last five years, and there is appetite for much more. As a plant with chilled beef export access to China, NCMC see a lot of scope for export growth to feed this growing demand. As an export market, China has a competitive advantage due to the shorter distance to market than the United States where much of this product is currently destined.

Retail-ready production is currently a small part of the NCMC business but having an in-market retail ready operation in China would provide logistical benefits in exporting primal cuts and then having the high-labour component of retail-ready production carried out locally in China where labour is less expensive.

This in-market processing would also support consumer-focused production that is responsive to local consumer feedback.

Having an in-market business partner as well as an office presence in Shanghai will also help protect chilled beef market access in this high-risk trading environment.

Identification and development of new innovation opportunities

The move away from trading beef towards a joint venture partnership, long-term brand building and business development is a significant shift for the business. There has been some reluctance to enter the Chinese market on a large scale due to the inherent risks of the market, but the considered and cautious supply chain approach taken by NCMC positions the business for success in a growing market.

Strengthened in-market presence offers a differentiated service to Chinese customers as well as extending the value chain to shelf-ready product and obtaining the less expensive value adding advantage that China can offer with labour intensive processes.

Provision of knowledge about markets and consumer preferences

At NCMC the senior management team have experience in the Chinese market and so have first-hand knowledge of the major market drivers. The China market insights provided by MLA confirmed the NCMC strategy already in place and gave them the confidence to further execute the strategy and have these plans approved at the board level. For new players in the market the information is likely to have more value, for example strategically targeting certain cities.

Identifying a joint venture partner has been a challenging process to work through that ultimately came down to a choice between a privately owned or state-owned enterprise. Understanding the 'pros and cons' of these two approaches would be helpful information to include in the market insights.

Improved through-chain connectivity facilitating the adoption of whole of chain technologies

Having an established partner and presence in the local market is a new approach will provide a number of insights and benefits across the value chain, including:

- a) Greater insight into the value proposition in Chinese market channels
- b) Visibility of, and potentially access to, trading margins between NCMC's Chinese partner and their customer or end consumer
- c) Working with state-owned government enterprise will assist NCMC's goal of protecting their supply in market. Maintaining consistent access into the China market will assist with de-risking the supply strategy and strengthening the joint venture partnership through consistent supply

Increased long term industry capability to support value chain innovation

As well as selecting a Chinese partner to drive long term business growth, long term capability in the market is supported by in-market legal representation and financial advisors. Having their own staff in China should mean NCMC become less and less reliant on these external providers as they learn about the market and become familiar with it.

NCMC have a risk management strategy in case of plant de-listing for China market access, whereby they will have staff in the market who can trade the product elsewhere.

NCMC plan to run the retail-ready operation as a service operation for other exporters wishing to brand product in market, further de-risking market access issues as well as providing wider industry benefit. Products are planned to be co-branded to recognise Australian provenance as well as the local partner.

Collaboration between key participants within the food innovation system

Working with a joint venture partner in China is a major collaboration that positions NCMC very favourably in terms of executing their strategy and achieving long-term success and business growth.

NCMC have employed three resources in the China market to support this new business model.

They have also partnered with legal representatives and financial advisors to support the business strategy.

NCMC are collaborating with MLA who can offer support in terms of arranging in-market meetings and who have contacts across the industry.