INNOFRESH Company

Brand: Fresh O and OEM

Thailand has a rapidly growing food processing sector and is the only net food exporter in Asia. Thanks to its rich agricultural resources and government incentives, which have encouraged diversification into more value-add products, Thailand has become one of the world's largest producers and exporters of processed foods.

There are over 10,000 food and beverage processing factories consisting of small, medium and large-scale plants. Most of these factories, which are small to medium size, serve mostly the domestic market, while medium to large food processors tend to produce higher-valued products for the domestic and export markets. Its food and beverage processing industry is made up of over 10,000 companies and fifty percent of production is sold outside of the country.

Moreover, competition in the food retail market is intense and modern retailers (hypermarkets, supermarkets and convenience stores) account for around 70 percent of total retail sales. The food consumption is forecast to increase 36 percent to US$50.86 billion by 2015, driven by the increasing spread of mass grocery retail, which is making higher priced goods available to a wider consumer base.

Dr. Siriporn Pipatsattayanuwong Chua, a woman from Nakhonnayok province who have a PhD in food science, knowledge in egg supply and experience as a trainee with QP Company and a valuable staff in Unilever, was convinced from her father who believed in their culture or tradition being to start company on their own rather than working as a salary man and decided to established her own company, Innofresh in 2003.

Based on her family business, a poultry farm, she was considering on producing pasteurized eggs at first, however with proper understanding of the market and advice from her father, she had concluded that it did not have an attractive market to go through with it. Mayonnaise become the next product in her mind because she knew that Unilever probably want the domestic producer for supplying the mayonnaise for their company

Then, she started the company having only 6rais of land which is equivalent to approximately 2.4acres, and 1 building in NaKhonnayok Province. The space they have was used to be where a company produced watermelon seeds hence having an advantage on the building having a solid foundation as it was used for trucks loading in seeds.

However one disadvantage they face is that the building design is not very suitable for her company business. When she started to build the processing line, she asked a favor from her friend who worked in a condiment industry. With their advice and recommendation, she set up the two different processing lines: cold and hot line.

The cold processing line is used to produce a cold sauce, the oil in water emulsion products such as mayonnaise, salad cream and dressing, and sandwich spreads. The heating process is not required in this line. The example of products from the cold processing line is shown in a picture

1. The hot processing line is used to produce hot sauce, liquid to viscous products such as bakery filling, squash product, syrup products, topping, savory sauce and marinades. With the hot line, she equipped the boiler and several equipment used for high temperature which is not required for mayonnaise processing and was created more budgeting cost. Later on, she felt so fortunate to equip this line. The example of products from the hot processing line is shown in a picture 2. Later on, the blast freezer was also equipped to freeze sauce product at -40 to -60ºC for the low acid sauce, soup and cream soups.

Picture 1 the example of Innofresh products from the cold processing line

Picture 2 the example of Innofresh products from the hot processing line

The company had started with only 3 members, which consisted of the owner, one food scientist and a student. The registered capital was 10 million baht or about 340,000 dollars (30 baht = 1 dollars, exchanged rate at March, 2013). At 2012, the company expand their site area to 12 rais (approximately to 4.7 acres). The factory building is expanded to 2 processing houses, 1 warehouse building, and 1 utility house. The employee is 270 persons.

Picture 3: The number of employee and the Production value in Metric Tons

INNOFRESH Beginning

After the company and the processing line were set up. Innofresh started to produce the mayonnaise in several formulas since Thai consumer and the others have different preference. Thai consumers prefer sweet mayonnaise and more yellow while the others prefer a bit sour mayonnaise and more white. Unfortunately, her plans to become the regional supplier for Unilever ended up a failure due to Unilever taking over a local well known product factory called the Teacher Sansem which was well known for producing homemade salad cream. BESTFOOD which is a brand under Unilever took over the Teacher Sansem brand, in which disallowed her to become the supplier for them.

As a new SME (small and medium enterprise), she had to make a name for herself in the market. Trade shows was her first step and her main option to get into the market and attaining new connections by meeting potential buyers in person. Through this, she was able to gain three customers, who were CP (Charoen Phokphand), The Mall Group and Makro.

CP was planning to sell couple of choices of different sauces into 7-11 which consists of chili sauce, tomato sauce and mayonnaise, however for them to do this required a supplier for mayonnaise as they were unable to produce mayonnaise on their own. There she was able to take on this opportunity to become CPs supplier for mayonnaise. Later on she was not only supplying the mayonnaise but she also started to produce and supply salad creams and sandwich spread for the CP industrial foods.

The Mall group was also one of the companies that were looking to her for supply. With The Malls reputation, people think about them having high volume in sale, however the reputation leads them to the wrong perception in having these high volumes in sale. Instead she supplies to them only the Salad creams for their salad bars.

Makro wanted her to produce two different brands for them. ARO which is a brand with low cost and good quality which uses more oil and egg and has 30% difference in price as compared to the leading brand which is BESTFOODS. The other brand is SAFE PAK which is lower in both price and quality using more start and liquid as compared to ARO and different of 20% in the price.

One of the main difficulties that were faced at the beginning was that, most of the end consumers could not really tell the difference between Mayonnaise and Salad Cream. Therefore in order for her to change the misunderstandings of the consumers, she had to educate them and create awareness. To do this proper marketing was the key factor for her to be able to succeed.

Product Expansion

After gaining some recognition for supplying to the big players in the market such as CP, The Mall and Makro, several traders started to get in touch with her about her production and supply. One of which was in the Bakeries market, who suggested her to produce bakery fillings for their bakery goods. Since Innofresh equipped the hot processing line at the beginning, it is simple to

produce the new products with new brand Fresh O. With the word of mouth and independent selling, her brand is being spread. The bakery filling brands that are currently in the market are Queen, Best Food and Fresh O (her brand). At present Innofresh produce cold sauce 7,000 metric tons per years and hot sauce 8,000 metric tons per years. The market of hot sauce seems to be greater year by year.

The market strategy of Dr. Siriporn Pipatsattayanuwong Chua is letting the traders be her seller. When she first entered the market without any market connections and customers it was a very difficult situation for her. All the potential customers were more interested in well known producers and the company portfolio. Even while differentiating themselves from other producers, the buyers felt it might be a little bit risky to go with the company who just entered the market without experience, limited funds and knowledge and no proper strategy.

Now that she has passed this phase, she is now able to expand her business and provide the customers with their needs and wants with their products. She felt that starting off with the independent sellers is an advantage because of the market information she can gain and have a competitive advantage over her competitors. Therefore, she is not selling her product independently. Customer has to buy her product via trader only. When the trader grows, the company will grow. The traders will be the one who in charge with all logistic to customer.

Since the demand of Innofresh product has significantly risen, she has expanded her production line in 2010, 2011, and she added frozen sauce line in 2012 this line includes products for seafood sauce, cocktail sauce and for frozen product. Now her company is producing approximately 200 products, 40% regular and 60% made to order. Under the Fresh-O brand 20% is produced and OEM of 80% OEM product is for MAKRO and TOPS (low volumes) as she mentioned modern trade doesn’t look good as it seems.

She started OEM for food service providing for KFC and 7/11, and production for industrial goods which is exported. Countries such as those in the EU need food certification which needs to be renewed on a regular basis. This gives her a competitive advantage as the complications that come with getting the certification such as GMP/HACCP, HALAL and BRC (as shown in picture 4), which many competitors are unable to do.

Picture 3: Standrads and Certification of INNOFRESH

Quality Control and Measures

Food quality and food safety is concerned in the food company. The physical, chemical and microbiological properties of Innofresh product are determined. The physical properties such as viscosity are measure by Boswick and Brookfield. The chemical properties such as acidity, salinity, and total soluble solid are measured by several instrument. The microbiological properties such as total plate count, *E.coli* , and coliform are also measured

Laws and Regulations

To apply for produce into Thailand have to apply for approval in 2 steps: approval of the premise such as Food Manufacturing License or Food Production License and approval of and approval of the product such as apply for Food record/Food declaration. If the head office of manufacturing premise is located in Bangkok Metropolitan area, application form shall be filed to Food Control Division, Food and Drug Administration but if head office of manufacturing premise is located in provincial area such as NaKornnayok, application form can also be filed to that particular provincial public health offices. Therefore, Innofresh also has to apply for all the requirement for the Thailand regulation as follows:

Product Registration: - An analysis of the product as well as details of the process and ingredients are required for the registration process. Furthermore, the standard of these food products has to meet the standards specified in the Ministerial Notifications.

Labeling: - In general, food products are required to bear labels containing information in the Thai language such as the name, main ingredients, name and address of manufacturer, and other particulars of the food according to the Notification of the Ministry of Public Health No.194 (B.E.2544) on Label.

Manufacturing License: - The plant layout is to be submitted for approval. The plant inspection by a food inspector is required before the manufacturing license is issued. The license is to be renewed every three years.

Advertisement: - An advertisement is one of the important measures for educating consumers in order to make them knowledgeable about particular food items. Therefore, food advertisements must be correct and fair to all concerned. Pre-advertising clearance of a request for food advertisement will be done by a committee, which consists of representatives from agencies concerned. Apart from the pre-advertising control, there is also a follow-up activity to randomly monitor all food advertisements in order to deal with violations of the law.

Government Support

Thailand's Board of Investment (BOI) considers the entire value chain of agriculture and agricultural products ranging from cultivation, production and services to the manufacture of

farm machinery and food processing machinery as priority activities which enjoy many compelling tax and non-tax incentives.

Tax incentives include: corporate income tax holidays of up to 8 years; reduction of or exemption from import duties on machinery and raw materials; and other zone dependent incentives such as 50% reduction of corporate income tax for another 5years, double deduction of public utility and transportation costs from taxable income for up to 10 years, and additional 25% deduction of infrastructure investment costs.

Non-tax incentives include: land ownership rights for foreign investors; permission to bring in foreign experts and technicians; and work permit and visa facilitation for expatriate employees.

Therefore, Innofresh also has to pay all the tax as can be seen in Table 1.

Financial Statement

During 2006-2011, Innofresh has been doing pretty well since the net profits have been on the increase (Table1). With new product lines being introduced year after year the expenses were also on a rise, however with increase in demand following the new lines contributed in the increase in income as well as the net profit. However, in year 2007, the net profit was dramatically decreased. It was due to the expansion of the factory which cost a lot of expense.

Table 1 The Financial growth during 2006-2011

	2006	2007	2008	2009	2010	2011
Income	60,961,267.50	83,933,008.21	121,633,674.11	163,472,673.81	205,343,741.82	256,289,388.64
Expense	59,997,534.87	83,750,372.36	119,567,078.20	160,671,309.96	200,730,387.42	249,749,679.20
Financeial cost	440,496.78	825,941.18	995,813.11	1,010,152.14	2,536,051.48	3,773,194.50
Income tax	162,171.51	234,243.21	334,032.20	560,546.26	701,994.24	874,782.45
Net profit	361,064.34	-877,548.54	736,750.60	1,230,665.45	1,375,308.68	1,891,732.49

Remark: 30 baht = 1 dollar (exchanged rate at March 2013)

Business Opportunity

The competition is not very big in the market of the Mayonnaise. QP kewpie, bestfood, teacher sansern (best food), teacher sansern new brand (KSS), purefood are the current existing competitors. Having a good sale channel is also an advantage. Whenever the traders have high growth rate, her company grows along as well. Her main customers now are all multinational companies which are CP and the following three companies.

Witwood Food Products: - is a leading supplier of food coatings for chilled and frozen food companies worldwide. The company has a facility in Banbury, Oxfordshire, with 165 employees but also has subsidiaries in Australia, South East Asia and a strategic alliance in the US.

Newly Weds Foods, Inc.:- is a Chicago-based family-owned company with a global reach, making breadings, batters, seasonings, rubs, and marinades for the food processing and service industries, primarily servicing restaurant chains. Although generally taken for granted, food coatings play an important role in the food industry.

Griffith Laboratories: - is a global manufacturer of food products based in Alsip, Illinois. Founded in 1919, Griffith Laboratories is a privately held, third-generation entrepreneurial family business. Their products include seasoning blends, dry mixes, coating systems, dough blends, crumbs, flavors, sauces and food bases that are used in an extensive variety of applications from snack foods and processed meat and poultry to ready meals. Their customers include food processors, restaurant operators and grocery retailers. The company operates facilities in 20 countries around the world.

The three companies have high growth rate and lead to higher sales for her company. The growth rate during past three years is around 20%. They believe in her production which has very good quality at a low price.

Key success factors

In her opinion, the key success factor would be making brave decisions and taking risks so you will get an opportunity .

Being loyal to your customer. She is always loyal to her trader. The customer cannot buy the product that she sold for her trader directly to her company. If they want to do business with her, they need to buy a new product which is different formula. Right now, she has several traders who are competitor and be her customer because they believe that she can hold their secret and their formula.

Having a very flexible production system. The company can produce several different products, having different varieties. The production of her products uses very few raw materials which reduces her costs.

Having started with only three members, she was able to manage her employees in a way that can keep most employee. She set up the system that all her employee feel that this company

belong to them. When the company makes a profit, all employees will get bonus based on the percentage of the profit that company has already planned. Therefore, when the company makes more profit, employee will get more extra money.

Moreover, she always gives an opportunity for her staff to attend seminar and keep them up –to - date with new knowledge and new technology

She was also able to succeed in her vision, Small enough to be flexible and big enough to fit the standards. Her company has passed all health standards i.e. BRC, GMP and SGS

Threats

Since INNOFRESH is located in Nakornnayok province, the policy of its province is belong to governor. If the governor change very often, the policy changed very often so the future of the industry in this province will not continuously supported.

Now that she has expanded her production line and making full use of the location she had obtained when she started the company, due the fact that the location itself is considered a green area, with strict regulations she is unable to expand the factory.

Skilled labor is becoming a rarity these days, as all her new recruited that are qualified to be employed are required to undergo training of a minimum of four months which can be costly.

The Key consumer trends is changing rapidly such as increasing demand for pre-packaged and convenience foods or healthier snack and drink options or etc which may not well-suited with the company product.

The main competitors in the industry are Purefoods Co., Ltd., Heinze Winchance Co., Ltd., Unilever Thai Trading Co., Ltd., QP, Food Blessing Co., Ltd., Queen Products Co., Ltd., Other smaller company e.g. Sukasem (Molly), Prima Foods