Innofresh Case Teaching Note

Case Study Abstract

Innofresh is a small and medium-sized enterprise (SME) in the food processing sector of Thailand which follows an interesting combination of flexibility and customizability under the concept of 'small enough to be flexible, big enough to fit standard'. The company started in 2003 and has significantly grown to become one of the top leading Thai SMEs in producing hot and cold sauces. The company has continuously received gains in profit since 2005 up until now except for 2007 when there was the subprime or hamburger economic crisis.

The core of *Innofresh*'s strategy was flexibility which the company has achieved through two full processing lines for both hot sauce and cold sauce since the company has started. Hence, *Innofresh* can produce several different varieties of products. In addition to various products, *Innofresh* has also ensured product quality, complying with several international food and health safety standards, such as GMP/HACCP, HALAL, British Retail Consortium (BRC), specifically, BRC issue 5 and BRC issue 6. With its adherence to these international food and health safety standards, *Innofresh* has been able to serve not only Thai customers but also international customers as well, which make has further enhanced the company's potential has differentiated itself from other food processing SMEs in Thailand. At the beginning, *Innofresh* started to produce only mayonnaise products since the owner's family has their own egg farm and are able to supply eggs, which is the main ingredient of mayonnaise. *Innofresh* started to supply mayonnaise and salad cream mainly to three big customers: Charoen Phokphand (CP) (a 7-eleven convenient store franchise), The Mall Group (one large retail store in Thailand), and Makro (a big wholesale and retail store). After products were launched on the shelf, many traders directly contacted *Innofresh* to produce several products. One of main traders asked whether *Innofresh* could produce bakery fillings which were high in demand in Thailand. That was the start of *Innofresh* initiating its a hot sauce production line for making bakery fillings. Moving into the growth phase, *Innofresh* has expanded its production line in 2010 and 2011. Recently, the company has added a frozen sauce line in order to keep up with customer's demands for seafood sauce and cocktail sauce. *Innofresh* has now gained recognition for supplying products to big multinational companies like CP, Witwood Food Products, Newly

Weds Foods, Inc., and Griffith Laboratories. Product lines of *Innofresh* cover products from three main product lines: 1) cold sauce line such as mayonnaise, sandwich spread, and salad cream; 2) products from hot its sauce line such as bakery filling, syrup product, topping, savory sauce, and marinades; and 3) products from blast freezer such as soups, low acid sauces, and cream soups. *Innofresh* also offers several types of package possibilities from bags to small sachets, cups, bottles and jars. Flexibility and standardization are two big advantages of *Innofresh* in expanding its market base to meet a continuous rise in demand. With established customers along with good product quality, *Innofresh*'s sale has grown at least 20% during the past three years, and is forecasted to continuously increase in the future. Considering some threats, *Innofresh* currently faces concerns of future expansion since the factory location has just been mandated to be a green zone, where laws and regulations on expanding industries have become stricter and could be an obstacle for expanding the number of *Innofresh*'s factories in the future.

Case Objectives and Use

The content, writing style, and length of this case study should be relatively easy for any undergraduate or graduate student to read and understand. The case is written in a style that gives a situational overview but intentionally avoids guiding students through any analytical framework or specific application questions. The instructor can prepare class discussions based on a wide range of student ability.

This case study can be used as an industry analysis case since the case study provides a very good start to discuss the external environment in the food industry such as international health and safety standards, economic crises, and laws and regulations on setting up a factory. Hence, all of these external factors can significantly affect the food industry sector. The instructor can ask students to analyze impacts of external factors on food industry. Consequently, the faculty member can also continually encourage students to analyze internal factors and propose strategies that can help the company keep stable under changing macroeconomic factors.

Besides industry analysis, this case study can be used for analyzing at the business level. This case study is very well suited to discuss Porter's Five Force Analysis in order to determine business competitiveness. The instructor can ask students to use external factors that were analyzed earlier and add to that Porter's five forces in order to determine the competition from external sources. Next, the faculty can ask students to discuss internal factors that can be used to build company competitiveness. In addition, the instructor can ask students to analyze a company's SWOT, which evaluates a company's strengths, weaknesses, opportunities, and threats. Students could also be encouraged to relate their understanding of the source of current core competencies and later discuss on potential strategies that will help the company achieve even higher competencies.

At the end, the instructor can ask students to discuss the prospects and problems that *Innofresh* could encounter in the future. Students could be encouraged to propose strategies that the company could use to minimize potential problems.

Teaching Plan:

The instructor may choose to assign the case to groups of 5-7 students to discuss and present on different topics, for example, external factors, internal factors, Porter's five force analysis, and SWOT analysis. The main discussion must utilize questions and their associated answers to paint a broad overview for class discussion. Students could discuss about how external or internal factors affect a company, and also identify the strengths and directions of each factor. In addition, the instructors can encourage students to assess the strengths of company and propose strategies to maintain sustained profits in food industry.

Discussion Questions:

1. Analyze the industry environment of *Innofresh*
2. Analyze the internal environment of *Innofresh*. What current strategies has *Innofresh* employed to expand its market?
3. Discuss *Innofresh*'s competitive advantage. Is *Innofresh*'s competitive advantage sustainable?

4. If you were in charge of *Innofresh* as a Manager, what aspects would you be concerned about and how would you try to cope and minimize concern?

Guides for Discussion Questions

1-4 To answer this question, the instructor can choose to steer the discussion toward the factors in the general environment, and then toward the competitive environment. In the general environment of the food industry sector, the discussion can address political/legal, technological, economic, and other factors. Under the legal factors, regulation for green zones has a significant role in setting up or expanding factories. At this point, the instructor can lead the discussions to essential laws and regulations that may directly affect the Thai food industry such as health and safety regulations for both local and international levels. Important international health and safety regulations such as GMP/HACCP, HALAL, British Retail Consortium (BRC), BRC issue 5, and BRC issue 6 are mandatory standards for food that export to foreign countries. Besides legal factors, the food industry is also susceptible to upturns and downturns with the trends in the economy or economic crisis. A growing economy mean greater demands for food and a slow-down in the economy means reduced demand. The case study has shown a significant drop in profits in 2007 when there was the subprime crisis. Hence, the fluctuation in profit was caused by the impact of external economic factors. These are only some pointers, and the instructor can choose to elaborate and extend the issues or make a more detailed analysis.

The instructors can make use of Porter's Five Force analysis and also introduce the students to analyzing case studies based on internal and external factors as the Five Forces Model.

Threat of new entrants: The extent of threats due to new entrants is determined by how high or low the barriers of entry in an industry are. In the food industry, laws and regulations along with

health and safety standards can increase the barriers of entry. The connection between suppliers and traders is also another threat for new entrants in the food industry. The well-established network with both suppliers like an egg farm and traders can be a significant threat to new entrants unless they have highly efficient operations. Product varieties reflecting strong product differentiation that a company offers can force the new entrants to spend heavily on weaning away customers from existing players, thus discouraging their entry. However, most products that companies produce are supplied based on customized order under other company's brand. Hence, these are not very strong barriers of entry as other entrants that can produce at lower cost can easily imitate products and become significant competitors.

Bargaining power of suppliers is high when there are only a few suppliers in the industry. If there are no easy substitutes to a supplier's products, suppliers will have more bargain power. For the food industry, there are many major suppliers for sugar, starch, and oil. Besides, *Innofresh* has a close relationship with an egg farm which belongs to the owner's family. Thus, the suppliers for *Innofresh* have relatively low levels of bargaining power.

Bargaining power of buyers is low to moderate when the buyers are not concentrated. Although the buyer does not have explicit switching costs for changing to alternative producers, the buyers have implicit switching cost in terms of the value of time when finding and testing products of new alternative producers. Since most processed food products have complied with food and quality assurance standards, buyers tend to stick with reliable existing producers in order to reduce any risk. Nevertheless, new communication technologies such as e-mail and phones can effect an increase in the buyer's bargaining power since buyers could easily contact alternative producers that can offer lower prices for similar products. Hence, the bargain power of buyers could be between low to moderate depending on the switching cost of each buyer.

Threat from substitutes is low to moderate when food products require many standards including quality assurance. In such cases, the buyers take time to search for cheaper alternatives that is reliable and can produce good quality products. Since international health and safety standard such as GMP/HACCP, HALAL, British Retail Consortium (BRC), BRC issue 5, and BRC issue 6 are required for exported products, *Innofresh* does not face significant threats from alternative substituted producers who have not passed international health and safety standards.

The intensity of rivalry among existing competitors in the food industry is moderate. Although there are many food processing companies in Thailand, there are several companies that have hot sauce and cold sauce processing lines that have also complied with international standards. Thus, there is low intensity of rivalry among existing competitors. In addition, the competition is not very fierce in the market for specialized products such as mayonnaise and bakery filling since the industry growth of these products is dramatically increasing. Moreover, the barriers for new entrant are quite high because the new company has to build networks with both suppliers and buyers. Thus, it is not easy to get into the industry.

On the internal aspect, the instructor can ask students to analyze the company's competitive advantages in business. The main advantages of *Innofresh* are flexibility and quality assurance at international levels under the concept of 'small enough to be flexible, big enough to fit standard'. In addition, the instructor can also ask students to discuss further in detail the interrelationships among the various activities in the value-chain of *Innofresh*, such as hot sauce process line, cold sauce process line, blaze freezing process line, sale channel, marketing, service, procurement, technology, general administration, and human resource management. The instructor will probably be able to engage the students in debate and encourage discussion as to

whether or not each value chain activities can lead to sustainable advantages. The instructor may also pose questions about how the interrelationships among such activities would be the source of sustainable competitive advantage.

Currently, *Innofresh* achieves competitive advantage by having a variety of products and being flexible with regard to production. All of these are results of having both hot sauce and cold sauce processing lines accredited by international health and safety standards. Besides, *Innofresh* also has achieved competitive advantage in terms of having established long-term relationships with both buyers and suppliers. *Innofresh* has a close relationship with egg farm which supplies the eggs, the main ingredient of many products. Being cost efficient in terms of inputs, *Innofresh* can produce good quality products at low cost. Hence, *Innofresh* can encourage existing buyers to continuously place their orders with *Innofresh*.