

# TOPMEAT

Belgium, pseudonym

Two farmers in the highly competitive pork meat sector engaged a university professor to research and develop the composition of a superior animal feed which allowed them to sell their produce at a higher margin to specialty butchers

## Executive Summary

Considering the very low margins and fierce price competition in the agricultural pig meat industry, TOPMEAT saw an opportunity to produce higher added value products. Partnering with another farmer and assisted by a university professor, they started experimenting with high-end food sources for their livestock. They found that mixing olive oil as an ingredient in their animal food resulted in pork meat with improved taste and health benefits. The farmers started a new company to manufacture, market and distribute this product through high-end channels.



CASE N° : SD44

SECTOR: AGRICULTURE

TECH INTENSITY: LOW-MEDIUM TECH

LIFE CYCLE STAGE: RENEWAL

INNOVATION VECTORS: CUSTOMERS & MARKETING, DISTRIBUTION CHANNELS

01 PARTNERS: PSR, OTHER SME

KEYWORDS: Farmers, value capture, agriculture, marketing innovation, product differentiation, food industry

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## BACKGROUND

The TOPMEAT (pseudonym) farm was run by the current owner's father when he started out helping him in 1995. Now that they were a father and son team, they were able to increase capacity from 200 to 400 sows. After his father's retirement, capacity was gradually scaled up to over 1 200 sows with the help of several full-time employees.

TOPMEAT aims to increase their livestock to 2 000 sows in the next few years and introduce multi-site production. Multi-site production means splitting the piglets from the rest of the population to reduce the potential spread and reintroduction of diseases. One of the main benefits of continued growth is improved economies of scale, not only, for example, in transport efficiency, but also with regard to working schedules. Small farms are very vulnerable to staff becoming sick or any unexpected setbacks, while larger farms are able to absorb such risks more easily.

## INNOVATION CHALLENGE & MARKET OPPORTUNITIES

The pig meat market is very competitive, with farmers having to contend even with negative margins in some years. Those based in western Europe have to compete with farmers in regions where costs are significantly cheaper. Slaughterhouses remunerate only on the basis of criteria like calorie content, fat content and weight, but not on quality (taste, the animals' diet, etc.). To differentiate from low quality pork meat, TOPMEAT and another local livestock farm wanted to create a sufficiently different quality of meat to the point where they would be able to market it at higher margins.

The trend in the meat market has been on optimization of animal weight and calorie content, with the taste often suffering as a result. The main market distributors (supermarket chains) focus on price. This has resulted in preferred races of pigs with properties, such as minimal fat content, causing certain retailers to add fat from other sources when the meat is sold to the consumer.

TOPMEAT and a local partner wanted to present the consumer with good, high quality pork meat which had been raised on vegetable oils (with proven health benefits) and was produced from a race which, although giving tasty meat, had

become unpopular because of its higher fat content. If they were able to create a different label for their meat, they could go to specialty retailers who were able to offer higher margins.

## OPEN INNOVATION TRAJECTORY

### Concept development

From the very beginning it was decided that they wanted to work with vegetable oils. The unsaturated fats in these oils would mean that the meat was healthier while having a great taste. The company experimented with several vegetable sources (eggs, several seeds, etc.) and focused on omega 3 and 6 values. To create this new product concept (a new type of high-end pork meat) the farmer initially entered into a partnership with two other farms, but early on in the project one party decided that they would rather continue on their own in the development.

The main reason for this party to split from the other two was because of an incompatibility of personalities. They were uncomfortable committing to a long-term joint collaboration without having sufficient trust among the parties. TOPMEAT therefore finished the concept development with one other farmer. Both partners contributed with their market (customer insights) and meat production expertise to sharpen the concept.

### The development process, IPR and competition strategy

They tested the meat on taste and several other variables. Since the farmers did not have sufficient knowledge and experience of nutritional and taste testing equipment and processes they formed a partnership with a university professor. The professor helped to design and set up a testing process. TOPMEAT was able to prove that out of all the food sources tested, olive oil had the best result in healthy nutritional value and taste.

The farmers started a joint company to facilitate the collaboration (so they would not need to continue billing each other) and approached their food supplier with the proposal to produce this new type of food. The new feed is considerably more expensive because of its olive oil content, and the supplier had to invest in new infrastructure to be able to meet their demands. As they were already important customers, this was

not an issue.

The major reasons to cooperate with another farmer and not develop and market this new product alone were:

1. Spreading the risk: fortunately the project was successful, but if it had not been, the costs and efforts incurred during the process would have been a shared cost;
2. Speed of development: as both parties had a full-time job in addition to this project, it would most likely have taken much longer to carry out the experiments and set up the network.

They found that by working together closely with only two parties it allowed them to have efficient discussions and make fast progress. In the farmers' opinion, large farming cooperatives (which are common, for example, in France) are inefficient and spend far too much time and resources on extensive meetings.

As both the race of the pig and adding olive oil to animal feeds were already pre-existing concepts, it was impossible to file any new IP. Only the label under which they sell their meat is registered.

The USP of the farmers' joint collaboration was high quality and healthy pork meat which had been reared on vegetable oils (with proven health benefits). TOPMEAT is targeting a high-end segment of the market. As supermarkets are primarily driven by price, their product will never be able to capture a very large market share in comparison with cheaper meats. They therefore wish to continue focusing on the high-value specialty market segment. As the number of high-end retailers is fairly limited in each region, TOPMEAT is looking to expand geographically to grow its business.

## Commercialization and follow-up

There was no need for an exclusive contract with their feed supplier. As the feed is significantly more expensive, other farmers will tend not to purchase it as they do not have immediate access to the right network of high-end distributors.

The decision to create a joint limited company was made early in the process. This facilitated matters from a legal and commercial point of view. Both parties felt that keeping it simple was a key condition for good cooperation.

Targeting the diverse high-end meat market distribution channels (mostly specialty butchers) is a challenge: it requires a lot more sales effort to approach them and set up a logistic chain compared to a large centralized customer (like a supermarket). The higher margins are worth it

though. Specific efforts (hours put in) were not measured, but TOPMEAT feels both parties contributed evenly in recruiting the supplier network. Thanks to their collaboration, they were able to recruit a significantly larger network than either party would have been able to do on their own. The recruitment of their own independent distributor network set them apart from the usual *modus operandi* in the industry. Usually the farmer only deals with either a large slaughter-house or a supermarket chain, and does not set up his own value chain.

The testing process developed during the project continues to be used to monitor the nutritional values of the meat. There is a constant quest to improve the quality and taste of the product. TOPMEAT believes it is important to continue innovating to stay ahead in the market. They are launching a second line of high-end pork meat soon, and are cooperating with food manufacturers to create additional specialty derivatives from their product, e.g. specialty sausages and processed foods.

## BUSINESS IMPACT

As a result of going out and recruiting their own distribution channel in the market, TOPMEAT achieved a much better understanding of how the market's value chain works and where most of the value is captured. The meat industry is very competitive, and the margins can vary significantly between players at every step of the chain. Selecting the right partners for every step in the process is critical.

Thanks to their open innovation collaboration, the farmers learned how to engage in new product development and run iterative cycles to reach the desired outcome.

TOPMEAT has been able to create higher margins with their product. Although this gives them a fairly comfortable position in the market for now, they believe they will have to continue to innovate in order to stay one step ahead of their competitors.

## LESSONS LEARNED

This case shows how an SME can reduce its operational risks by cooperating with other parties for the development of new projects. As a result of its open innovation collaboration, TOPMEAT was able to

- Reduce the risks: if the project had not been successful, the costs and efforts incurred during the process would have been shared.
- Speed up the development: as both parties had a full-time job in addition to this project, it would most likely have taken much longer to carry out the experiments and set up the network.
- Activate both their personal networks: together, they were able to make full use of their combined network (cooperating with a university partner and recruiting specialty distributors).

#### Main lessons learned:

1. Especially in small companies, there needs to be personal trust between the key players.
2. The fact that one of the parties decided to split from the other two at a very early stage of development was considered a good decision by all parties, as they would have all been less comfortable with the partnership otherwise.
3. Because the parties trusted each other, they did not have to waste time following up on each other's activities and arguing about how their time and effort were spent.
4. Recruiting external parties (e.g. a university) can contribute expertise to which a company would otherwise have no access. Research institutions in particular are good partners because they are not commercially driven and can provide access to a wide source of knowledge.