

Turning an Idea into a Successful Business: The Teaching Case Study of Innofresh*

Karnjana Songwathana** and Sarunya Sanglimsuwan***

Abstract

Innofresh is a food processing small and medium-sized enterprise (SME) in Thailand following 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 sauce, cold sauce, frozen sauce such as mayonnaise, sandwich spread, salad cream, syrup product, bakery filling, seafood sauce and cocktail sauce. Innofresh has now gained recognition for supplying products to big multinational companies such as CP, Makro, Witwood Food Products, Newly Weds Foods, Inc., and Griffith Laboratories. Flexibility and standardization are big advantages of Innofresh in expanding its market to meet continuous rise in demand. With strong established customers along with high quality of product, Innofresh’s sales have grown at least 20% over the past three years, and tend to continue to increase in the future. This case study provides a very good start to the discussion both internal and external factors such as Porter’s five force analysis, SWOT analysis. The main concept for discussion questions and

* This case study was compiled from interview, and is intended to be used as a basis for class discussion.

** Instructor, Faculty of Economics, Bangkok University.
119 Rama 4 Road, Klong-Toey, Bangkok 10110, THAILAND.
E-mail: karnjana.s@bu.ac.th

*** Ph.D. Candidate, The College of Research Methodology and Cognitive Science, Burapha University.
169 Long-Hard Bangsaen Road, Mueang District, Chonburi 20130, THAILAND.
E-mail: nongya@yahoo.com

answers provide a broad overview of how external or internal factors affect the performance of food business and industry.

Keywords: Processed Food Industry, Thai Small and Medium-sized Enterprise, Success Business Factors, Thai Business

เปลี่ยนความคิดเป็นความสำเร็จของธุรกิจ: กรณีศึกษาสำหรับการเรียนการสอนจากบริษัทอินโนเฟรช*

กาญจนา ส่งวัฒนา** และ ศรัญญา แสงลิมสุวรรณ***

บทคัดย่อ

บริษัทอินโนเฟรช คือ บริษัทธุรกิจแปรรูปอาหารขนาดเล็กและขนาดกลางในประเทศไทยที่มีหลักการบริหารที่น่าสนใจจากการใช้หลักความยืดหยุ่นขององค์กรร่วมกับความสามารถในการผลิตตามความต้องการของลูกค้า ภายใต้วิสัยทัศน์ขององค์กรที่ว่า เป็นองค์กรเล็กพอที่จะมีความยืดหยุ่นแต่เป็นองค์กรขนาดใหญ่พอที่จะรองรับต่อทุกมาตรฐาน บริษัทอินโนเฟรชเริ่มต้นในปี พ.ศ. 2546 และมีการเติบโตอย่างมีนัยสำคัญจนกลายเป็นหนึ่งในผู้ประกอบการขนาดเล็กและขนาดกลางไทยชั้นนำในการผลิตซอสร้อน ซอสเย็น และซอสแช่แข็ง เช่น มายองเนส, ครีมแซนด์วิช ครีมสลัด ผลิตภัณฑ์น้ำเชื่อม แยมสำหรับเบเกอรี่ ซอสอาหารทะเลและซอสค็อกเทล ปัจจุบันบริษัทอินโนเฟรชได้รับการยอมรับในการผลิตสินค้าให้กับบริษัทข้ามชาติขนาดใหญ่ เช่น ซีพี แมคโคร 7-11 นิสิตยวีร์ และกริฟฟิ ทั้งนี้ความยืดหยุ่นและมีมาตรฐานระดับสากลของบริษัทอินโนเฟรชนั้นเป็นความได้เปรียบหลักของบริษัทในการขยายตลาดเพื่อตอบสนองความต้องการที่เพิ่มขึ้นอย่างต่อเนื่อง จากการรักษาสัมพันธ์อันดีกับลูกค้าและคุณภาพสินค้าที่ดีส่งผลให้บริษัทอินโนเฟรชมีการเติบโตอย่างน้อย 20 % ในช่วงสามปีที่ผ่านมาและมีแนวโน้มการเติบโตที่เพิ่มขึ้นอย่างต่อเนื่องในอนาคต กรณีศึกษานี้เป็นจุดเริ่มต้นที่ดีสำหรับการศึกษาวเคราะห์ทั้งปัจจัยภายในและภายนอก เช่น แบบจำลองแรงผลักดัน

* กรณีศึกษานี้ได้รวบรวมจากการสัมภาษณ์และมีจุดมุ่งหมายที่จะนำมาใช้เป็นพื้นฐานสำหรับการอภิปรายในชั้นเรียน

** อาจารย์ประจำคณะเศรษฐศาสตร์ มหาวิทยาลัยกรุงเทพ

119 ถนนพระราม 4 เขตคลองเตย กรุงเทพมหานคร 10110

เมล: karnjana.s@bu.ac.th

*** นิสิตปริญญาเอก วิทยาลัยวิทยาการวิจัยและวิทยาการปัญญา มหาวิทยาลัยบูรพา

169 ถนนลงหาดบางแสน อำเภอมือเมือง จังหวัดชลบุรี 20130

เมล: nongya@yahoo.com

5 ประการของ Porter การวิเคราะห์จุดแข็ง จุดอ่อน โอกาส และอุปสรรค โดยคำถามสำหรับการวิเคราะห์และคำตอบจะให้ภาพรวมกว้าง ๆ เกี่ยวกับปัจจัยภายใน และปัจจัยภายนอกที่สำคัญที่ส่งผลกระทบต่อธุรกิจอุตสาหกรรมอาหาร

คำสำคัญ: อุตสาหกรรมอาหารแปรรูป วิสาหกิจขนาดเล็กและกลางของไทย ปัจจัยความสำเร็จทางธุรกิจ กรณีศึกษาสำหรับการสอนเกี่ยวกับธุรกิจไทย

Thai Food Industry

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-added products, Thailand has become one of the world's largest producers and exporters of processed foods. Thailand's food processing industry began to develop in the 1960s as the Royal Thai government encouraged technology transfer. The industry grew rapidly in the 1980s with increased market demand and advanced technologies imported from the United States and Europe. With Thai government supports and industry initiatives, Thailand food processing sector has been heavily export-oriented since 1990. There are currently over 10,000 food and beverage processing factories which employ roughly 800,000 people and generate annual earnings of US\$25 billion. Revenues of the Thai food industry account for 23 percent of gross domestic product (GDP). Most of these food processing factories, which are small and medium-sized companies, serve mostly the domestic market, while medium and large-sized companies tend to produce higher-valued products for the domestic and export markets. While Thai processed food is gaining popularity overseas; the domestic demand for processed food continues to grow due to changes in lifestyles. Demand for food products is shifting from unprocessed food found in fresh markets to processed food available in modern grocery retailing. Modern food retailing (hypermarkets, supermarkets and convenience stores) accounts for around 70 percent of total retail sales.

Innofresh: Company History

Dr. Siriporn Pipatsattayanuwong Chua is the founder and managing director of Innofresh, a leading food processing company in Thailand that manufactures a variety of products as Original Design Manufacturer (ODM) for major international and domestic companies. Born and raised in the family of egg business in Nakhonnayok province, Dr. Siriporn developed early passion for starting own business. Before starting Innofresh, she earned a Ph.D. in food science and had experienced at Kewpie Company (Thailand) and Unilever Company (Thailand). After few years of working with the leading food companies, she was convinced by her father to start her own company, Innofresh, in 2003.

At first, she wanted to expand her family egg business into valued-added processing. Pasteurized egg was the first product that came to her mind; however, after doing market researches and receiving her father's advices, she found that pasteurized egg market was not attractive. Mayonnaise was the second product that came to her because she had experiences with Unilever Company (Thailand) and knew that Unilever Company (Thailand) was always looking for local food producers for supplying mayonnaise for their company.

Dr. Siriporn started her plant in Nakhonnayok Province with a land area of 6 rais which is equivalent to approximately 2.4 acres. The plant area she acquired was a former watermelon seeds plant and storage facility. The old factory was a challenging issue because the building was designed for a specific purpose. However, the old factory also presented an advantage. This building has had very solid foundation as it was mainly used for trucks loading.

When she designed the main manufacturing process, she asked a favor from her friends who have experienced with a condiment industry. With their advices, she decided to set up her plant with two different production lines: cold sauce and hot sauce processing line. The cold sauce procession line is used to produce cold emulsified sauces such as mayonnaise, salad cream, salad dressing, and sandwich spreads. Basically, cold emulsified sauces are made by blending egg yolks and oil, then flavored with varying combination of vinegar, mustard, herbs and spices. Hence, the heating process is not required in this cold sauce processing line. The example of products from the cold sauce processing line is shown in Figure 1.

The hot sauce processing line is used to produce hot sauce which is liquid-to-viscous products such as bakery filling, squash product, syrup products, topping, savory sauce and marinades. The boiler and several equipments used for high temperature are necessary for setting up the hot sauce processing line. The example of products from the hot production line is shown in Figure 2. Later on, the blast freezer production line was also equipped to produce freeze sauce product at -40 to -60°C for the low acid sauce, soup and cream soups.



Figure 1: Innofresh Products from the Cold Sauce Processing Line
(Innofresh, 2014)



Figure 2: Innofresh Products from the Hot Sauce Processing Line
(Innofresh, 2014)

The company started with only 3 members, which consisted of an owner, a food scientist and a student. The registered capital was 10 million baht or about 340,000 dollars. The expansion of production capacity from 2003-2014 is shown in Table 1. The company currently has a total area of 12 Rais (approximately 4.7 acres) containing 3 factory buildings, a warehouse and a utility house. It has 350 employees and production capacity of 12,000 metric tons per year.

Table 1: The Number of Employees and Production Capacity

Year	2003	2004	2005	2006	2007	2008
Employee (Person)	3	28	50	100	120	140
Production (Metric Ton)	10	340	1,000	2,000	2,600	3,300
Year	2009	2010	2011	2012	2013	2014
Employee (Person)	160	190	240	270	300	350
Production (Metric Ton)	4,000	5,400	7,300	9,800	10,000	12,000

Note: Adapted from Innofresh (2014), Reprinted with permission.

The Beginning of Innofresh

After the processing lines were ready, Innofresh started to produce mayonnaise in several formulas since mayonnaise may range in texture, color and taste in different countries. Hence, different customers may perceive mayonnaise in different way. Thai consumers prefer sweet and yellowish mayonnaise; whereas North America consumers prefer a bit sour and white mayonnaise.

In this situation, the company needed to understand customers' distinctive perceptions. The development of the strong relationship with customers was a significant. However, her business goal to become the regional supplier for Unilever Company (Thailand) did not go as planned. Unilever Company (Thailand) decided to take over a well-known and popular local brand, Teacher Sansern instead.

As other SME (small and medium-sized enterprise), customers are the lifeblood of business. Finding new customers is a key when starting up the business. Business networking events and trade shows were her first gateway to promote her business, meet new customers and connect with other businesses that may be willing to refer her business to their customers. After several trade shows, she was able to gain three main customers, who were CP (Charoen Phokphand) Group, The Mall Group and Makro.

CP Group is Thailand's largest private company operated in agribusiness, food, retail, and distribution. During that time, CP was planning to sell a variety of condiment bundle consisted of chili sauce, tomato sauce and mayonnaise to 7-Eleven, which is the leading convenience stores under

their operations. Hence, she was able to take on this opportunity to become CP Group supplier for mayonnaise. Later on, she did not only supply mayonnaise but also salad creams and sandwich spread.

The Mall Group is one of Thailand's largest mall operators. During that time, The Mall Group was looking for supplier for salad cream. From the outsiders' view, most people think that sale volumes through modern trade channel are higher than through general trade channel; however this perception has been proven wrong by the amount of sale volume. Retail sale volume for salad cream at The Mall Group was not high as she expected.

Makro is an international brand of warehouse club. During that time Makro wanted her to produce mayonnaise under Makro brand; ARO and SAFE PAK. ARO is Makro brand range for hotels, restaurants and caterers. In addition, ARO price must be able to beat other value ranges on the market with good quality. Hence mayonnaise under ARO brand has 30% lower in price compared to BESTFOODS, the leading mayonnaise brand. The other Makro brand is SAVEPAK, which is lower in both price and quality. Hence, mayonnaise under SAVEPAK brand has 20% lower in price compared to ARO.

One of the most apparent problems faced at the beginning was that most Thai consumers could not really tell the difference between mayonnaise and salad cream. Most customers sometimes misunderstood and ordered the wrong one; hence raising product awareness is an important marketing strategy. To do this proper marketing strategy was the key success factor for her business.

Stepping Up

After gaining some recognition from supplying to big players in Thai market such as CP Group, The Mall Group and Makro, Innofresh was contacted by several traders for producing and supplying not only mayonnaise but other new products such as bakery fillings. Fortunately, Innofresh factory equipped the hot sauce processing line at the beginning; it was simple to develop and offer new products to new market. Understanding of customers' need increased with experiences. Innofresh finally launched its own bakery filling brand called Fresh O'. Using Word-of-mouth marketing drove Fresh O' brand awareness and sales. In addition, using independent traders as distribution channel made Fresh O' brand stand out in bakery

market. The bakery filling industry is dominated by a few players which are Queen, Best Foods and Fresh O'. Nowadays, Innofresh produces cold sauce 5,000 metric tons per years and hot sauce 6,000 metric tons per years. Although, Innofresh aimed to produce only mayonnaise and cold sauce at the beginning, the market shares for hot sauce products such bakery filling, topping, savory sauce and marinade sauce has grown faster. Understand customers' need before developing new products is the hallmark of ODM (Original Design Manufacturing) food business.

Market Strategies

One of the key market strategies of Dr. Siriporn Pipatsattayanuwong Chua is to allow regional traders to become her distribution channel. Innofresh first entered Thai food industry without having business connection. As a new business, finding customers and building trust were on the priority lists. Apparently, most potential customers were more interested in well-established suppliers. After supplying mayonnaise and salad cream for big companies, Innofresh has gained more recognition as ODM food manufacturer. Moreover, Innofresh has been able to widen the range of products which also increase its competitiveness in the market. After supplying mayonnaise and salad cream, Innofresh was contacted by independent traders/sellers to develop bakery filling for bakery market. Letting independent traders/sellers became the distribution channel was a competitive advantage. Obviously, independent traders/sellers knows what customers like, how much they will spend and what they need which give company a better understanding of the current market. Besides, independent traders/sellers will introduce and advertise Innofresh products into the real market especially to wholesalers. Any customer who is interested to buy Innofresh products must buy via independent traders/sellers only. As independent traders/sellers grow, so do Innofresh products. The independent traders/sellers not only work as a seller, but also take care of the logistics.

Since the demand of Innofresh products has significantly risen, she has expanded her production line in 2010, 2011. Frozen sauce processing line for producing seafood sauce, cocktail sauce for frozen product has added since 2012. Increasing working population, increased middle class and affluent consumers, rising per capita expenditure on prepared food and change lifestyle of consumers, the demand for frozen food products in both domestic and export market is projected to grow. Hence, the market for

frozen sauce is growing along with the demand for frozen food.

At the present, Innofresh is producing a wide range of customized products including hot sauce, cold sauce, fillings, dry mix and blast frozen sauce approximately 200 different products.

20% of these products are produced under Fresh O' brand; whereas the rest 80% of product are produced as ODM and OEM products. The main domestic customers are wholesale companies and the modern trade companies, such as MAKRO group and TOPS. Innofresh keeps acquiring new customers by supplying OEM products for food service companies such as KFC; whereas Innofresh maintains a good relationship an existing customer such as 7-Eleven. Moreover, Innofresh not only focus on domestic food market but also access to international food market. Accessing international export markets require that any food processing operation requires the international food regulations and standards. Innofresh has received Good Manufacturing Practice (GMP), Hazard Analysis and Critical Control Point (HACCP) and HALAL since 2005, British Retail Consortium (BRC) certification since 2008, and BRC issue 6 since 2012. These international food safety standards are the guarantee that Innofresh can produce safe and legal products that meet quality levels expected by international customers. Since most international food standards require an international audit teams and need to be renewed on a regular basis, these international food regulations and standards impose costs on small food companies. Due to the implied compliance costs standards constitute a barrier to new entrants. This gives Innofresh a big competitive advantage; while other competitors still lack capacity and financial resource to comply with these standards.

Safer Food Better Business

When it comes to the food production, food quality and food safety are major concerns. The physical, chemical and microbiological properties of Innofresh product are determined. During production all batches are subjected to rigorous quality controls to ensure uniform taste, viscosity, pH and acidity levels. The physical properties such as viscosity are measure by Bostwick and Brookfield. Bostwick and Brookfield are the preferred choices for measuring consistency and flow rate in a variety of products. The company used Bostwick and Brookfield on any viscous material such as sauces, and salad dressings. Besides, the chemical properties such as acidity, salinity, and total soluble solid are measured by several instruments.

In addition, allergen and non-Allergen ingredients are kept separated. Strict standards for hygiene are enforced throughout the factory including sanitized overalls, boots, and head covering to prevent any contaminants entering the production chain. The microbiological properties such as total plate count, *E.coli*, and coliform are also measured for safety concern.

Laws and Regulations

The food laws and regulations governing the Thai food industry are confined to the scope of the Food Act of B.E. 2522 (1979). In order to produce food in Thailand, the company has to apply for approval in 2 steps: approval of the premise such as Food Manufacturing License or Food Production License and approval of the product such as Food Record and Food Declaration. If the head office of manufacturing premise is located in Bangkok Metropolitan area, application form shall be filed Food Control Division, Food and Drug Administration; however, if head office of manufacturing premise is located in provincial area such as Nakornnayok, application form can also be filed to particular provincial public health offices. Hence, Innofresh has to apply for all the requirement for the Thailand regulation as follows:

Product Registration: Registrations are required for specific food production. An analysis of product and 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 needs to be submitted for approval. The plant inspection by a food inspector is required before the manufacturing license is issued. The license needs 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: 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 5 years, 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: 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 has to pay all tax as shown in Table 2.

Financial Statement

During 2006-2011, Innofresh has been doing well, reaching approximately \$256 million Baht in annual income with increasing net profits as shown in Table 2. With new product lines being introduced year after year, financial cost and expenses were also on a rise. However, increase in sales from the product lines significantly contributed in the increase in income as well as the net profit. Nevertheless, the net profit was dramatically decreased in 2007 because the expansion of factory.

Table 2: Financial Growth during 2006-2011 (Innofresh, 2014)

	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
Financial 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)

Launching in International Market

The mayonnaise and salad dressing market in Thailand is dominated by a small number of sellers such as QP Kewpie, Best Foods, Best Foods with Teacher Sansern's recipe, KSS (Teacher Sansern's new brand), Purefood and her brand Fresh O'. Having a good distribution channel through independent traders/sellers is a big competitive advantage over other companies. The growth of independent traders/sellers results in the growth of Innofresh. Besides, Innofresh has expanded internationally. Innofresh's customers include multinational and foreign companies engaged in food industry such as Charoen Phokphand (CP) and the following three international companies.

Witwood Food Products: 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, United Kingdom with 165 employees but also has subsidiaries in Australia, South East Asia and a strategic alliance in the US.

Newly Weds Foods, Inc.: 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. Newly Weds Foods are located in the US, Australia, Canada, China, Israel, New Zealand, Thailand and the United Kingdom.

Griffith Laboratories: 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.

These three companies have attained a large market share in international food industry. Their high growth rates have led to high sales volume of Innofresh. The growth rate during past three years is around 20%. Producing good quality product with low price has successfully cultivated trust between Innofresh and these main three loyal customers.

Core Competencies

The important strength for Innofresh would be the role of leader. In globalization era, every company must be motivated toward change, revitalize, redesign every product to survive in this transforming business world. Since the beginning of Innofresh, Dr. Siriporn has been able to make tough decision and innovation along with the capacity to take risks for the implementation for new business strategies. Dr. Siriporn was willing to take a risk of starting a new business. She can take benefits from opportunities when some potential risks are involved. Other important competency of Innofresh is being honest, sincere and reliable. The objective of every business is to retain, maintain and promote the number of customers. Innofresh is successful to earn the confidence, trust and customer satisfaction. Dr. Siriporn has always been loyal and honest with her traders, who work as her marketing channel. Any retail customer cannot buy Fresh O' product directly from Innofresh since she is allowed traders to be the distribution channel on her behalf. Besides, as ODM and OEM food manufacturer, Innofresh must secure and protect confidential business information such as product details, specifications, formations. Having flexible processing lines that can handle the production of a wide array of products is an important strength of Innofresh. Innofresh can produce several different products with very few raw materials through hot and cold processing line. For example, with only egg yolks and oil, Innofresh can offer both salad cream and mayonnaise. Hence, Innofresh has competitive advantage on managing cost of raw materials.

In addition, the design of the managing system is another competitive advantage of Innofresh. Innofresh started with only 3 employees. With a few employees, she was able to set up the managing system that makes all employees feel a sense of belonging and identification with the company. Her managing system is to reward employees for their contribution to the company achieved profit goal. Company profit-based pay makes employees to put in more effort. It also tends to attract and retain employees hoping to earn extra reward. Moreover, Dr. Siriporn always gives an opportunity for her employees to attend seminars and keep them up-to-date with new innovation and technology.

For the past decades, Innofresh has proved its strength under the concept of “Small enough to be flexible but big enough to fit the standards”. As SME, Innofresh has much better control over customized products than a bigger company. Innofresh has the distinct advantage of being more flexible to satisfy customers’ need than a large business. Similar to big business, Innofresh has received most international food regulations and standards such as GMP/HACCP, HALAL and BRC. These international standards help Innofresh successfully access new international market.

Innofresh Culture and Values

Employees really matter for Innofresh. Basically, people only perform well when they are in a culture which nurtures and supports them and help them to work towards their goals. Innofresh management system makes employee feel valued and engaged with the company. The incentive for high performance employees is the way of working at Innofresh. Employees are clear about the impact of their performance and what the consequences are for their well performance; therefore everyone in Innofresh feels engaged and works hard to reach the company goal.

External Environment

Innofresh has been affected by many aspects of external environment such as government policies, economic factors, social factors, technological factors. One of important issues that affect most food manufacturer is the government policies and incentives. Responding to the ongoing “Thailand Kitchen of the World Policy” Thailand has known as a major food exporting country. This provides a great opportunity for Thai food Industry in the world market, which eventually results in an increase in Innofresh’s sales volume.

In addition, some government policies can be threat to Innofresh and other SMEs such as higher minimum wage rate. However, increasing minimum wage rate will increase earning for Thailand workforce which consequently increases in all spending including food expense. In term of economic factor, Innofresh has the opportunity to grown based on gradually rising in disposable income of world population. Food demand is expected to increase substantially as rising in income of world population. In addition, Innofresh has the opportunity to grow based on changing in lifestyle. As social factors, changes in lifestyle are rapidly leading to consumers spending less time preparing meals and choosing ready-to-eat meal. There are opportunities for Innofresh to serve as preferred suppliers for franchises and other food businesses. Besides, food technology is one of the most dynamic technologies. The new challenges from technological factors are found as the threat for Innofresh. In order to keep up with changes in technology, Innofresh has joined with Thailand Science Park to open a R&D laboratory to investigate solution to challenges within the food industry. Besides, employees at Innofresh always attend food industry seminar in order to keep up-to-date with the latest changes.

Current Challenges

Since Innofresh is located in Nakornnayok province, policies of its province are determined by a provincial governor. Governor can be very significant actors in formation of new policies. Basically, the governor's appointment continues for four years. The provincial policies tend to be changed every four years. These provincial policies include regulations and government supports such as tax incentive. Changing in provincial policies can significantly affect business in Nakornnayok. Right now, Nakornnayok province is categorized as green urban area; therefore, new industrial and manufacturing activities are not permitted in this area. With this new restrict regulation, the expansion of Innofresh plant site is not allowed in the future.

In addition, skilled labor is becoming a rarity these days. Recruitment is just the first step in the process; once the right person is in place, Innofresh provides a minimum of four month training so the new employee can do the work and start producing for the company. Training turns out to be one of the costliest investments of company.

Besides, consumer behaviors and trends are rapidly changing with the growth of digital activities and the change in population structure such

as an increasing demand for pre-packaged food and healthy snack which her company must frequently adapt to changes in trends and consumers.

Conclusion

Thailand's food processing industry has developed rapidly in the past decade and is one of the most developed in South East Asia. Thailand has more than 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. Innofresh is a food processing small and medium-sized enterprise (SME) in Thailand following an interesting combination of flexibility and customizability under the concept of 'small enough to be flexible but big enough to fit standard'. Although Innofresh has been started since 2003, it has significantly grown to become one of the top leading Thai SMEs in producing hot sauce and cold sauce. Innofresh has been able to serve not only Thai customers but also international customers, which make company have higher comparative advantage over other food processing SMEs in Thailand. In globalization era, customer trend tends to rapidly change, it is important for keeping pace with changes. Developing company structure that is flexible can be the most effective strategy to combat the changing behavior of customers and transform this change to company advantage. Innofresh case should be an inspiring story of SME business success for stimulating new start up business in Thailand. This case provides a unique "been-there-done-that" perspective and invaluable insight for an early stage startup. Besides, this Innofresh case can also provide a good teaching study for business student. Instructors may sometimes call on students a group to analyze what is going on in a case as followed.

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 overviews the situation but intentionally avoids guiding students through any analytical framework or specific application question. The instructor can prepare class discussion based on a wide range of student ability.

This case study can be used as industry analysis case since the case study provide a very good start to discuss the external environment in food industry such as international health and safety standard, economic crisis, laws and regulation on setting up factory. Hence, all of these external factors can significantly affect food industry. Instructor can ask students to analyze impacts of external factors on food industry. Consequently, instructor can continue ask students to analyze internal factors and propose strategies that can help company stable under changing in macroeconomic factors.

Besides industry analysis, this case study can be used for analyzing business level. This case study is very well suited to discuss Porter Five Force Analysis in order to determine business competitiveness. Instructor can ask students to use external factors that analyze earlier to add in three of porter's five forces in order to determine the competition from external sources. Next, instructor can ask students to discuss internal factors that use for building company competitiveness. In addition, instructor can ask students to discuss company SWOT analysis, which evaluate 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 company achieve higher competencies.

At the end, instructor can ask students to discuss the prospects and problems that Innofresh would encounter in future. Student could be encouraged to propose strategies that 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 five force analysis, SWOT analysis. The main concept for discussion questions and answers provide a broad overview for the discussion in class. Students could discuss about how external or internal factors affect company, and also identify the strength and direction of each factor. In addition, the instructors can encourage students to assess the strength of company and propose strategies to make a sustained profit in food industry.

Discussion Questions

1. Analyze the effects of the external environment on Innofresh.
2. Analyze the effects of the internal environment of Innofresh.
3. Discuss Innofresh competitive advantage. Are these competitive advantages sustainable?

Guides for Discussion Questions

To answer these questions, the instructor can choose to steer the discussion toward the factors in the general environment, and then toward the competitive environment.

1. According to Cole (2006), understanding this external environment, or background, is crucial to strategic decision-makers, and has to be taken into account alongside any assessment of an organization's own internal environment. In the general environment of food industry, the discussion can address political/legal, technological, economic and other factors. Under the legal factors, regulation for green zone has a significant role in setting up or expanding factory. Besides, the instructors can lead discussion to essential law and regulation that may directly affect food industry such as health and safety regulations for both Thai and international level. Important international health and safety regulations such as GMP/HACCP, HALAL, British Retail Consortium (BRC), BRC issue 5, and BRC issue 6, are mandatory standard for food that export to foreign countries. Besides, the effects of the current government policies on Innofresh products should be discussed. Thailand Kitchen of the World Policy draws a great deal of world attention on Thai food material which can lead to an increase in Innofresh product. Besides political factors, food industry is also susceptible to upturns and downturns with the trends in the economy or economic crisis. A growing economy means greater disposable income and demand for food. A slow-down in the economy means reduced demand. The case study has shown a significant drop in profit in 2007 when there was subprime crisis. Hence, the fluctuation in profit has caused by the impact of external economic factors. In addition, busier lifestyle of consumer and their rising income levels increase demand for ready-to-eat meal which can benefit Innofresh. These are only some pointers, and the instructor can choose to elaborate, extend the issues or make a more detailed analysis.

2. The instructors can make use of Porter's Five Force analysis and also introduce the students to analysis case study based on internal and external factors as Five Force Model. According to Porter (2004) there are five forces, which are discussed below in turn, that determine industry attractiveness and profitability in long-run.

Threat of new entrants: The extent of threat due to new entrants is determined by how high or low are the barriers to entry into an industry (Johnson et al., 2008). In the food industry, laws and regulations along with health and safety standard can increase the barriers to entry. The connection with suppliers and traders are also another threat for new entrants in food industry. The well-established network with both suppliers such as egg farm and trader can be a significant threat to new entrant unless they have highly efficiently operations. Product varieties and product differentiation that company can offer force the new entrants to spend heavily on weaning away customers from the existing players, thus discouraging their entry. However, most products that company produce are supplied based on customized order under other's company brand. Hence, these are not very strong barriers entry as the other entrants that can produce at lower cost can easily imitate product and become competitors.

The height of barriers to entry has been found consistently to be the most significant predictor of industry profitability (Rothaermel, 2008).

Bargaining power of suppliers is high when there are only few suppliers in the industry. The bargaining power of suppliers can be influenced by the size of the supplier, the number of suppliers, and the availability of alternative customers (Slater & Olson, 2002). If there are no easy substitutes to supplier's products, suppliers will have more bargain power. For food industry, there are many major suppliers for sugar, starch, oil. Besides, Innofresh has closely relationship with egg farm which belongs to owner's family. Thus, the suppliers for Innofresh have relatively low level of bargaining power.

Bargaining power of buyers is low to moderate when the buyers are not concentrated. The bargaining power of buyer is high if the buyers are large, they are ably to switch easily to another supplier and they are few in numbers (Slater & Olson, 2002). Although the buyer does not have explicit switching cost for changing to alternative producers, the buyers have implicit switching cost in term of value of time that uses when finding and

testing product with new alternative producers. Since most processed food products have standard and quality assurance, the buyers tend to stick with the reliable existing producer in order to reduce any risk. Nevertheless, new communication technology such as e-mail, phone can affect in increasing the buyer bargaining power since the buyers could easily contact alternative producers that can offer a low price. Hence, the bargain power of buyers could be between low to moderate depending on switching cost of each buyers.

Threat from substitutes is low to moderate when food product is required many standards and quality assurances. According to Hubbard and Beamish (2011) there are several factors that influence the Threat of Substitutes, e.g. switching costs between substitute products/services and industry product (Klemperer, 1995), or buyers' addiction to buy substitutes. In such cases, the buyers take time to search for cheaper alternatives that is reliable and can produce a good quality. Since international health and safety standard such as GMP/HACCP, HALAL, British Retail Consortium (BRC), BRC issue 5, and BRC issue 6 is required for exported product, Innofresh does not face significant threat from alternative substituted producers who have not passed international health and safety standard.

The intensity of rivalry among existing competitors in the food industry is moderate. This intensity of rivalry can be influenced by industry growth rate, fixed costs/storage costs, number of firms/competitor balance, switching costs between competitors, differentiation, or exit barriers (Hubbard & Beamish, 2011; Slater & Olson, 2002; Johnson et al., 2008). Although there are many food processing companies in Thailand, there are several companies that have hot sauce and cold sauce processing line with guaranteed international standard. Thus, there is low intensity of rivalry among existing competitors. In addition, the competition is not very big in the market for specialized products such as mayonnaise and bakery filling since the industry growth in these product demands is dramatically increasing. Moreover, the barriers for new entrant are quite high because the new company has to build connection with both suppliers and buyers. Thus, it is not easy to get into the industry.

3. The instructor can ask students to analyze competitive advantage of business. A more comprehensive assessment of organization's overall or current position can be done using SWOT analysis. This is analysis of the organization's internal strengths and weakness, coupled with the opportunities

and threats that the organization faces externally (Lynch, 2006). The main advantages of Innofresh are flexibility and quality assurance at international level under the concept of 'small enough to be flexible, big enough to fit standard'. Alternatively, the instructor can ask students to discuss further in the details on interrelationships among various activities in the value-chain of Innofresh, such as hot sauce production line, cold sauce production line, blaze freezing production 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 advantages that are sustainable. 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 varieties of products and being flexibility in production. All of these are results of having both hot sauce and cold sauce processing line with international health and safety standard. Besides, Innofresh also has competitive advantage in term of having long term established relationships with both buyers and suppliers. Innofresh has closely relationship with egg farm which has supplied egg, the main ingredient, started. With cost efficient in term of input, Innofresh can produce a good quality of product with low cost. Hence, Innofresh can encourage existing buyers to continuously place order with Innofresh.

References

- Hubbard, G. & Beamish P. (2011). *Strategic Management: Thinking, Analysis, Action*. Australia: Pearson Education.
- Innofresh. (2014). *Innofresh Company Profile (Powerpoint Slides)*. Unpublished Presentation.
- Johnson, G., Scholes, K. & Whittington, R. (2008). *Exploring Corporate Strategy*. Harlow: Prentice Hall.
- Klemperer, P. (1995). Competition when Consumers Have Switching Costs: An Overview with Applications to Industrial Organization, Macroeconomics, and International Trade. *The Review of Economic Studies*. 62(4): 515-539.
- Lynch, R. (2006). *Corporate Strategy*. Harlow: Financial Times/Prentice Hall.

- Porter, M. (2004). *Competitive Strategy: Techniques for Analyzing Industries and Competitors*. London: Free Press.
- Rothaermel, F. (2008). Competitive Advantage in Technology Intensive Industries. *Advances in the Study of Entrepreneurship, Innovation & Economic Growth*. 18: 201-225.
- Royal Thai Government Gazette. (1979). Food Act of B.E. 2522. Bangkok. Ministry of Public Health.
- Royal Thai Government Gazette. (2001). MOPH Notification No. 194 B.E. 2543 Re: Labels. Bangkok. Ministry of Public Health.
- Slater, S., & Olson, E. (2002). A Fresh Look at Industry and Market Analysis. *Business Horizons*. 45(1): 15-22.