

Think Ahead

**ACCA**

# STRATEGIC BUSINESS LEADER (S2)

**PRE-SEEN INFORMATION**

**Applicable for Specimen 1**

# Contents

1.	Introduction.....	2
2.	The meal kit industry .....	2
	Overview.....	2
	Market overview .....	2
	Meal kit options .....	3
	Meal kit subscription process .....	4
	Key drivers in the growth of the meal kit market.....	4
	Industry challenges and developments .....	5
	Innovations.....	5
	Key performance indicators (KPI).....	6
	Industry regulatory body .....	6
3.	Menu-Craft overview .....	7
	Background .....	7
	Board structure.....	8
	Board committees .....	8
	Operations.....	8
	Distribution.....	9
	Extract from MC’s latest risk report.....	10
4.	Website extracts.....	11
5.	Key performance information.....	12

# 1. Introduction

Menu-Craft (MC) is a meal kit business operating in the country of Ayeland, which has a population of nearly 40 million people. MC was established 15 years ago and has since grown to become the second largest meal kit business operating in Ayeland (based on customer numbers and revenue).

## 2. The meal kit industry

### Overview

A meal kit service is a convenient and time-saving solution to cook a healthy and nutritious home-made meal. This service delivers pre-proportioned ingredients and step-by-step recipe instructions directly to the customer's home in a meal kit box. Most meal kit businesses operate on a subscription basis. Customers subscribe to a delivery of pre-prepared recipe ingredients which make up a meal, which they can select from a wide range of options available on the meal kit business' website or mobile app.

A meal kit box will normally contain the following:

- a. Produce which needs to be kept chilled such as meat, dairy and fish. These are kept in a chill box which contains an ice pack which keeps the produce fresh during delivery.
- b. Long-life produce, such as tinned products, rice, pasta and dried herbs and spices selected and mixed specifically for the selected recipe.
- c. Fresh and short-life produce, such as fruits, vegetables and bread.
- d. A recipe card which provides step by step written and pictorial instructions on how to prepare the meal, using all the pre-measured ingredients contained in the meal kit box.

### Market overview

At the end of 20X4, the global meal kit industry was worth over \$25 billion and is predicted to grow to over \$75 billion in the next decade.

The first meal kit business, Fresheey, was established 17 years ago in the neighbouring country of Gamma. Within three years of Fresheey's establishment and driven by the success of the Fresheey business model, many more meal kit businesses began operating across the world. Some of the most successful businesses, including Fresheey, have gone on to become global businesses operating on multiple continents.

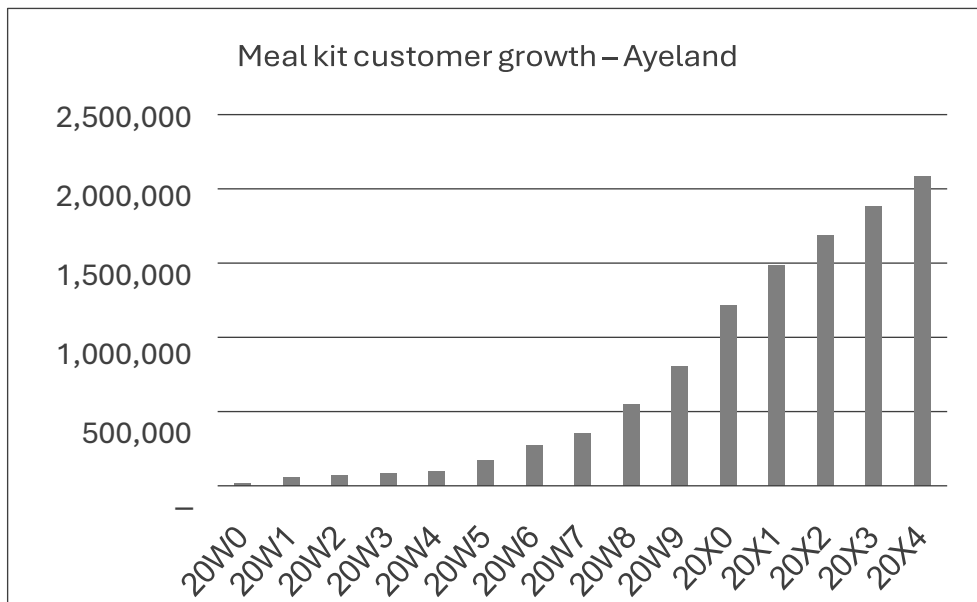
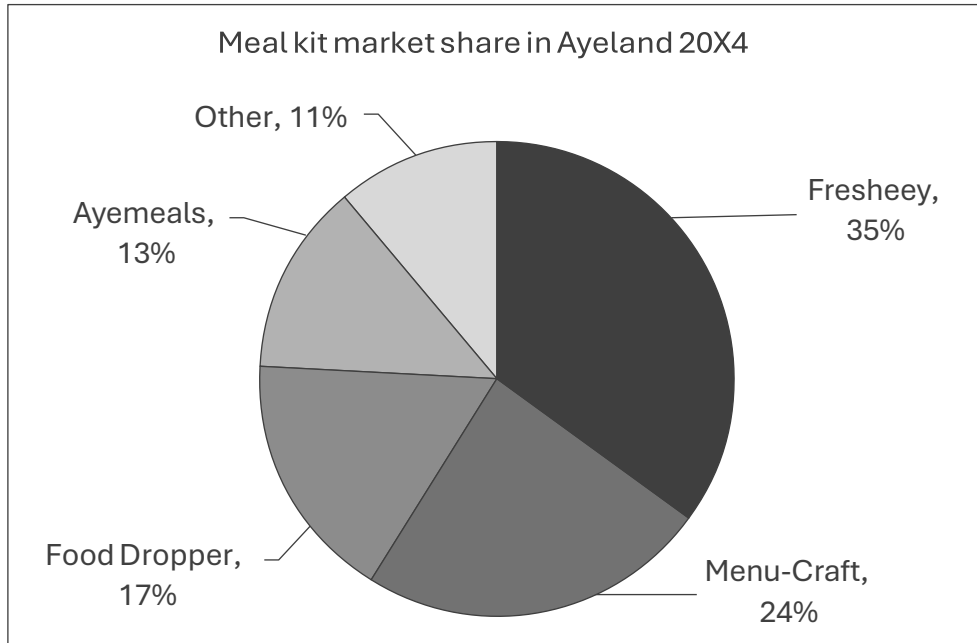
Meal kits have proved to be popular as they offer customers a convenient and reasonably priced alternative to physically shopping for separate meal ingredients. They also limit the amount of food waste for the customer, as ingredients for each recipe are carefully measured by the meal kit provider, avoiding the need for customers to purchase big packs of an ingredient when only a small amount is required in a recipe.

Menu-Craft (MC) was the first meal kit business established in Ayeland, a country with a well-developed economy and where nearly 75% of its population live and work in its urban towns and cities. Busy work and family lives and the desire to eat quick and easy-to-prepare home cooked nutritious meals (rather than takeaways or unhealthy convenience foods) has driven the popularity of meal kits in Ayeland. Meal kits have proved to be particularly popular with young professionals and families.

There are currently four main businesses which produce and sell meal kits in Ayeland. Fresheey is the only global business, whilst the other three (MC, Food Dropper and Ayemeals) operate only in

Ayeland. There are also several smaller meal kit businesses which either operate regionally or offer a bespoke service focused on specific dietary requirements, for example, offering a fully vegan range of recipes.

Fresheey is MC’s largest competitor, entering the Ayeland market within one year of MC being established. However, despite Fresheey being an internationally known brand, MC has managed to maintain a strong competitive position and has established itself as a well-respected local brand throughout Ayeland.

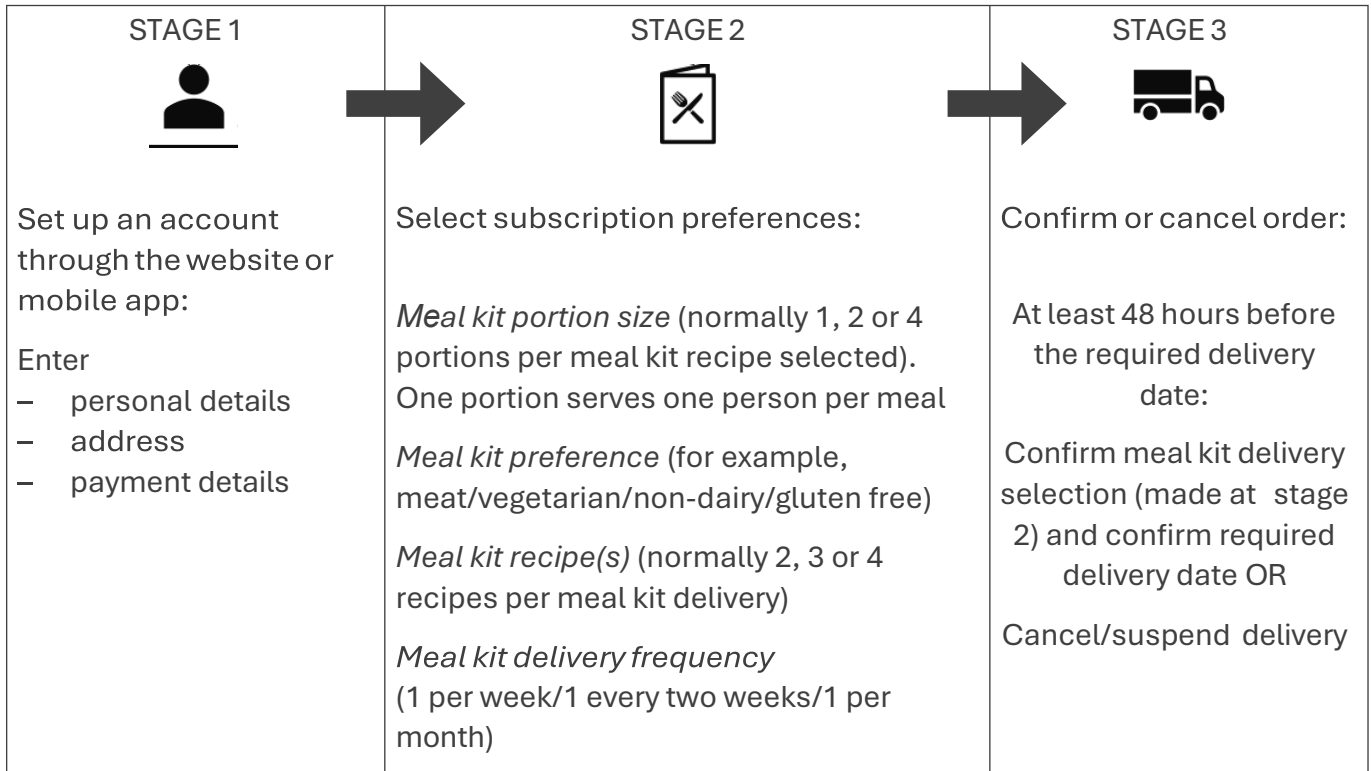


### Meal kit options

Meal kit customers in Ayeland are increasingly looking for meal options which suit their dietary requirements. This has led to meal kit businesses offering a wide range of meal kit menu choices to align with individual dietary needs, preferences and tastes. This includes vegetarian (no meat or fish) and vegan (no meat, fish or dairy) diets, gluten free diets (which exclude foods which contain the protein gluten, like wheat and rye products), and low fat or low carbohydrate diets.

## Meal kit subscription process

Below is a description of the process of subscribing to a meal kit service through a meal kit business’ app or website. The subscription process allows customers a large degree of flexibility in the size, type and frequency of the meal kit boxes they wish to purchase. Subscriptions can be cancelled at any time by the customer.



## Key drivers in the growth of the meal kit market

Convenience/time saving	By delivering pre-proportioned ingredients and step-by-step recipes, meal kits eliminate the need for customers to plan and shop for ingredients. This is particularly important for time-constrained business professionals and families.
Quality	Most meal kit customers expect their meals to be made from fresh, high-quality ingredients, which many meal kit businesses achieve through partnering with local farmers and suppliers. This ensures the freshest produce is included in the meal kits.
Menu variety and customisation	Meal kit businesses offer a diverse menu selection which attracts and retains customers who are looking for a range of recipes from many worldwide cuisines and recipes which match their dietary preferences and requirements.
Cost effectiveness	It is essential for meal kit businesses to strike the correct balance between offering value for money and maintaining a reasonable price point for their meal kits. Customers are likely to remain loyal if they perceive meal kits to be cost effective compared to dining out or having to shop for the ingredients in a variety of grocery stores.

However, despite its growing popularity, the meal kit industry still accounts for a very small proportion (less than 1.5%) of the overall food sales market globally. Therefore, meal kit businesses recognise that there is still a significant opportunity to develop and grow the meal kit market.

## Industry challenges and developments

### Intense competition

There are already several meal kit businesses operating in Ayeland and one of these, Fresheey, is a large internationally renowned business with large corporate backing. Also, the ‘heat and eat’ market is popular with customers in Ayeland. Heat and eat meals are different from meal kit boxes, in that they are fully prepared meals which require the customer to heat up in the oven or microwave. There is no need for the customer to undertake any preparation of ingredients. Many supermarkets offer a wide range of heat and eat products.

In addition, supermarkets have recognised the threat posed by online meal kit businesses and some supermarkets have recently started offering their own lines of meal kit options in-store and online.

### Customer retention

Customer attraction and acquisition has been relatively straightforward for many meal kit businesses, with wide marketing and social media coverage through their online channels. However, customer retention has proved difficult for most businesses, with many customers switching frequently to obtain new customer discounts and offers from competitors, and other customers finding a subscription service either too expensive or too restrictive. Customer churn in the meal kit industry is high, with less than 25% of subscriptions lasting more than six months.

### Logistical complexities

With the need to offer a wide variety of meal kits and delivery options and the promise of the freshest range of ingredients, many meal kit businesses partner with hundreds of different ingredient suppliers. This requires significant investment in supplier management information systems and continuous supplier relationship management to ensure that the freshest ingredients are available to fulfil customer orders when demanded.

Similarly, co-ordination of customer deliveries is complex and requires significant investment in sophisticated logistics software and strong relationships with third-party logistics suppliers.

### Food safety and increasing regulations

Meal kits include a wide variety of perishable food including meat, fish, eggs, and dairy products such as milk, cream and cheeses. Many of these products, without suitable packaging, storage and refrigeration, are subject to potential cross-contamination (whereby harmful bacteria from one substance are transferred to another substance) and bacterial growth, which could lead to serious illnesses. In some countries across the world, meal kits have been linked to outbreaks of illnesses and food poisoning. As a result, food standards regulators are becoming increasingly focused on meal kit providers, setting out best practice documentation and increasing regulatory standards and guidance directly related to how meal kit businesses store, package and deliver their raw ingredients and final meal kit boxes.

## Innovations

- The food production industry, including the meal kit sector, is increasingly turning to robotics in food processing and manufacture and in the packaging of final products.
- Data analytics are being used more frequently in the industry to predict recipe demand and supply availability. Meal kit businesses receive millions of comments and ratings from customers daily through their websites and through social media channels. Analysis and evaluation of this data helps them to identify the best and worst performing recipes. This is

shared with recipe development teams and procurement teams to incorporate the most recent feedback into the development or improvement of recipes. Procurement teams can use such information to work closely with suppliers.

- Due to the competition in the meal kit market, some businesses are looking towards new and unique delivery partnerships to attract more customers to the meal kit experience. This includes partnerships with large retailers, such as supermarkets to sell their meal kit boxes in store and collaborations with high profile celebrities and celebrity chefs to develop new and exciting recipes.

### Key performance indicators (KPI)

Revenue	The amount of money generated from the sale of meal kit boxes.
Active customers	The number of uniquely identified customers who have received at least one meal kit box within the last three months.
Meals delivered	The number of individual serves/portions delivered within a given period.
Orders per customer	The number of orders in a given period divided by the number of active customers in the same period.
Average order value	Total revenue divided by the total number of orders in a given period.
Food waste	Food waste in tonnes produced by the meal kit business' own production facility which is disposed in landfills or incinerated.  This measure does NOT include any unused/surplus food which has been donated to food charities or used in animal feed.
Carbon emissions	CO <sub>2</sub> tonnes produced by the meal kit business operations. This includes both production, non-production and distribution related emissions.

### Industry regulatory body

The Ayeland Food Standards Agency (AFSA) is the government agency responsible for food safety and food hygiene in Ayeland. It works with a wide range of food-related businesses throughout Ayeland to ensure that all food safety regulations and standards are met.

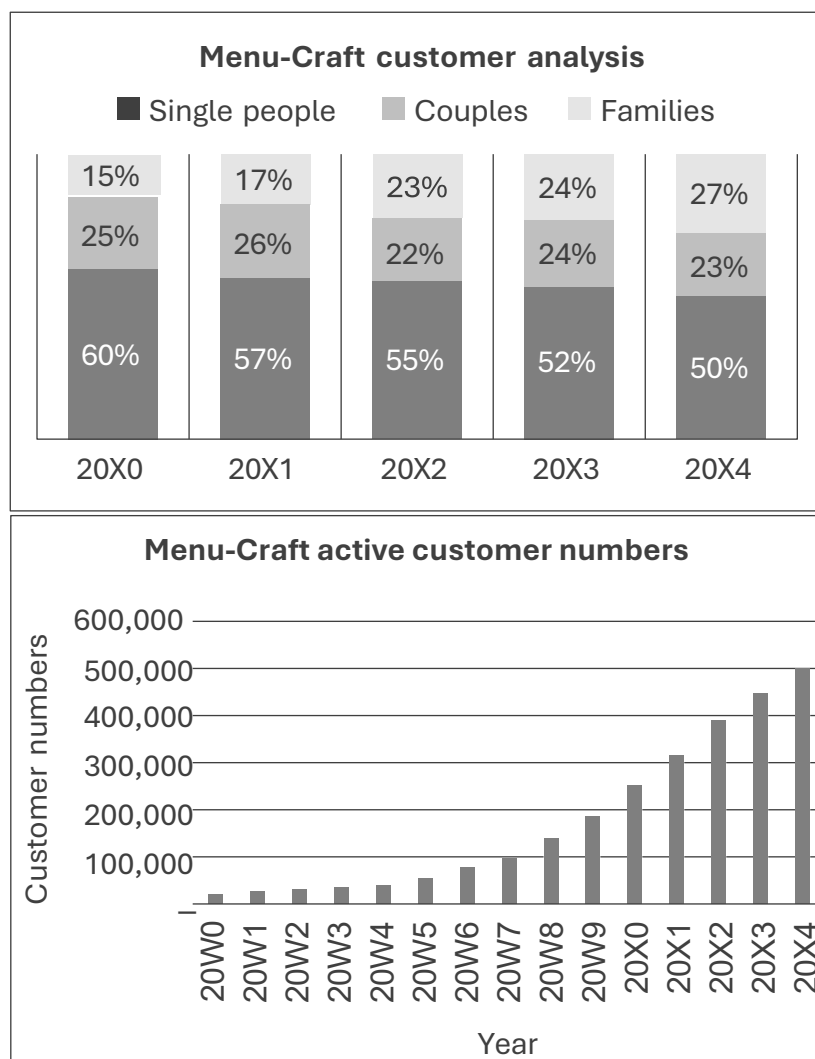
### 3. Menu-Craft overview

#### Background

Menu-Craft (MC) is a meal kit business founded 15 years ago in the capital city of the country of Ayeland, by two experienced local chefs. They had seen the success of the meal kit business model in other countries and were confident that with their local knowledge of Ayeland’s food industry and importantly, the high-quality local produce of Ayeland, they could offer something different. MC has established its strategic position as a high-quality meal kit business, differentiating itself by focusing on Ayeland-based recipes which use, wherever possible, locally sourced ingredients.

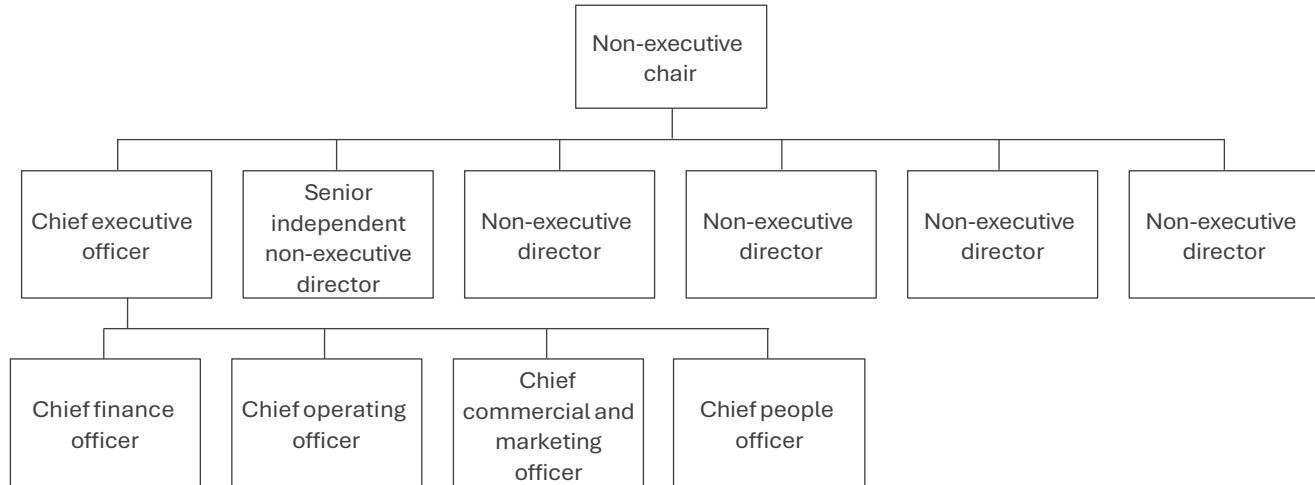
MC employs talented and highly qualified chefs to design its recipes, using seasonally available ingredients wherever possible. Each week, MC offers its customers up to 30 recipes to choose from, based on carefully analysed data relating to ingredient availability and customers’ menu preferences.

In its first two years, MC offered only a limited range of recipes to customers within Ayeland’s capital city. MC grew steadily over the next five years, largely funded by Ayeland venture capitalists. As the popularity of meal kits has taken off globally in the last decade, MC has also experienced a significant growth in customer numbers in Ayeland, driven by a growing urban population and increased usage of internet technologies to attract and communicate with a wide range of customers. MC has one of the highest customer retention rates in the industry.



MC was listed three years ago on the Ayeland stock market. Its two original founders still hold key positions on the board; one is the chief executive officer, and one is the chief commercial and marketing officer, and each holds 10% of MC’s shares. The remaining 80% of shares are owned by a wide range of investors.

## Board structure



## Board committees

- Audit and risk committee
- Nominations committee
- Remunerations committee

## Operations

### Ingredients suppliers

MC uses over 600 suppliers, most of which are located in Ayeland. A significant majority of MC’s customers select traditional Ayeland-based recipes regularly. As a nation, Ayeland’s people are proud of its local traditions and traditional recipes, and the population is loyal and supportive of local producers and their products.

Quality and sustainability are important criteria for MC when selecting suppliers, and each supplier undergoes a detailed assessment before their ingredients are used in MC’s meal kit recipes. MC’s preference is to work with best-in-class suppliers who hold certifications for safety and quality. MC also encourages and supports its suppliers in biodiversity and sustainability activities. Many of the farmers who supply to MC also use organic farming methods, whereby they do not use any synthetic pesticides or fertilisers to produce their food.

To help maximise efficiency and minimise waste, MC uses algorithms which predict recipes ordered by customers and therefore MC’s demand for each week, meaning it can order the right amount of ingredients from suppliers to reduce waste. Less than 1% (in terms of weight) of all purchased ingredients do not make it to customers in the meal kit production process. The majority of edible, unused ingredients are donated to local charitable organisations. Unused ingredients not fit for human consumption are used for animal feed. Only inedible waste is sent to landfill or is incinerated.

Some ingredients such as dried herbs and spices, rice, pasta, and tinned ingredients can be stored for longer periods and therefore these are often purchased in bulk and stored in a warehouse located next to MC’s production factory. Fresh ingredients, such as fruit and vegetables and ingredients which must be chilled, such as meat and dairy products, are delivered within 24–48 hours of when needed, determined by the orders placed by customers. These items are delivered directly to the

fresh food storage area of MC's production factory, where they are stored until they are used in the meal kit orders. This area is temperature-controlled and is where fresh and chilled products are delivered and stored for a short space of time before moving to the production line, where meal kit boxes are put together.

The suppliers deliver all the chilled and fresh food products pre-portioned (i.e., either one, two or four meal portions). MC works closely with most of its suppliers to minimise any packaging used and insists that wherever possible suppliers use recyclable or biodegradable packaging when they deliver to MC.

## Packaging

Packaging is an important element of a meal kit box. MC purchases all its meal kit box packaging components from one supplier based in Ayeland, which is located 20 kilometres from MC's meal kit production factory.

The supplier provides two key packaging components which make up a meal kit box:

- A chill box, made of 100% recyclable cardboard, designed to safely keep the chilled ingredients. The chill box contains an ice pack which is frozen and can be kept by the customer to be re-used at home.
- An outer box which is made of strong, durable and 100% recyclable cardboard. These boxes come in a variety of sizes to accommodate the different portion sizes and number of recipes ordered by the customer. Boxes are supplied to MC flat-packed, in order to optimise storage space, and are only formed into a box shape when they are selected for use at the start of the meal kit production process (see meal kit box production section below).

MC works closely in partnership with its packaging supplier to design and develop the latest and most environmentally friendly packaging solutions.

## Meal kit box production

MC operates from one large production factory, located in central Ayeland, where all meal kit box production takes place. At this facility, there are four separate production lines which operate 16 hours per day, seven days a week.

At the start of a production line, the production information system produces a label for each meal kit box, which contains a unique barcode. A robot reads this barcode and then selects the correct sized outer box and forms this into a box-shape. A second robot then places an empty chill box into the outer box. This then moves through several stages of the production line, where the different ingredients are added to the meal kit box. At each stage, the barcode is scanned by a human operative who selects the correct recipe items and places them in the meal kit box in the correct order. The final stage of production is a final quality check (also carried out by a human operative), to ensure that all the correct ingredients have been properly packed. The inner chill box lid is closed, and the outer box is then sealed by a human operative.

The time taken from the start of the meal kit production to despatch to the customer is normally no longer than three hours.

## Distribution

Delivery of the completed meal kit boxes to customers is carried out by a third-party logistics supplier, GoFlow, based in Ayeland. GoFlow's vehicles are all equipped with the latest refrigeration technology. MC works in close partnership with GoFlow to ensure optimisation of route planning to

minimise CO<sub>2</sub> emissions in the distribution process and to ensure deliveries are made on schedule to maximise the freshness of the meal kit contents.

### Extract from MC’s latest risk report

Competition	We operate in a highly competitive environment, where customers have many choices of what, how and where they eat. This includes direct competitors like Fresheey, and indirect competitors which include grocery stores (both online and offline offerings), restaurants and other food delivery businesses.
Legal and regulatory	<p>Our business of selling fresh food products online directly to customers means that we are subject to several laws and regulations in relation to compliance in hygiene, food safety, health and safety and data protection.</p> <p>Meal kits have been linked to food poisoning and illness, and some have been subject to recalls in other parts of the world. We are subject to rigorous external checks by the Ayeland Food Standards Agency (AFSA) every six months and our license to operate depends on this certification.</p>
Customer attraction and retention	<p>Our growth relies on attracting new customers. The intensity of competition and the alternative food choices available to customers makes this an increasing challenge.</p> <p>Customer retention is an industry-wide challenge, as customers often lose interest or are enticed to competitors through promotional offers and incentives.</p>
Data and Information	We hold personal data about all our subscription customers and our suppliers. This data is vulnerable to security incidents and breaches. As the techniques used to obtain unauthorised access or sabotage systems change frequently, we may be unable to anticipate or prevent such attacks.

## 4. Website extracts

### *Mission*

To make healthy home cooking simple, affordable, and accessible to everyone, whatever their level of cooking skills.

### *Vision*

To promote healthy and sustainable food choices so that our customers and the communities we serve can live a healthier life in a healthier world.

### *Values*

*We are committed to:*

- Promoting healthy and convenient food choices
- Supporting Ayeland's food producers in growing and making the highest quality ingredients for our recipes
- Making positive environmental decisions throughout our value chain
- Promoting sustainability for the long-term benefit of all our stakeholders, through our ESG focus on 'Planet,' 'People' and 'Governance'
- Demonstrating responsible leadership in all aspects of our business activities
- Ensuring every member of MC upholds the highest ethical standards, based on 'honesty,' 'respect' and 'accountability'

## 5. Key performance information

