

Refrigerated & Frozen Foods®

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Stagnito Communications Inc./An MWC Company

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SOLUTIONS FOR VALUE-ADDED PROCESSORS

PART I:
Critical Functions &
Consumer Channels

Coming in October:
Consumer Trends &
Category Product Analysis

STATE of the INDUSTRY

HOW DO YOU GROW? WHERE DO YOU INVEST?



FACILITY DESIGN



R&D



LOGISTICS



PACKAGING



OPERATIONS



Food companies employ a number of approaches to stay competitive.

Culture club

Can your culture adapt to a changing market? That question is fast becoming a do-or-die reality.

By David D. Gustovich

We've all heard the clichés: "publish or perish", "sink or swim", "eat or be eaten" and others too numerous to mention.

No matter the industry origin, each was meant to sound an alarm in clear and unmistakable terms. And, those who chose to ignore them inevitably did perish, sink or get eaten . . . just as some of today's food companies will if they don't heed what the marketplace is telling them.

Mixed signals

Can the marketplace send more than one message? Some processors are trying to grow top-line sales through acquisition. Others are disposing of brands or consolidating SKUs in an attempt to regain focus and bolster profitability. Some are

choosing to build monster brands, while others are pursuing a "niche" strategy to meet consumers' more eclectic tastes.

The "to-do" list continues. Some processors are closing facilities while still more are breaking new ground in line with expansion plans. Many are reformulating -- or line-extending -- venerable brands to meet contemporary tastes for lighter and healthier fare. A few -- more resistant to change or perhaps with more at stake -- are simply repositioning old standbys to the growing number of "health conscious" consumers as more acceptable alternatives within a modern day low carbohydrate context.

Is it possible that the tea leaves are open to so many different interpretations or are we simply not reading them correctly? Is the

growing preoccupation with obesity and carbohydrates a passing fad or a prelude to a fundamental change in the way we live and eat? Is "super sizing" a thing of the past or something we can once again look forward to with a return to normalcy?

These and myriad other health-related issues -- including trans-fatty acids, nutritional labeling, and organic products -- plus pressure from Wall Street, key stakeholders and competition are just some of the factors driving the very different approaches food companies are taking in an attempt to keep up with the times.

Embracing change

What is certain is that change is inevitable. Even so, the jury is still very much out when it comes to picking the winners and losers. There are no outcomes yet . . . merely speculation over which direction, and at what pace, consumers' tastes will evolve next. It's clear, meanwhile, that those companies that eventually emerge on top

(like political candidates in a presidential election year), will have to reinvent themselves many times to build a broad enough constituency to prevail.

What is it going to take for the best to emerge from among the rest? Leaders will be those who:

- Improve top line sales
- Embrace customer-driven product development
- Reduce time to market
- Improve supply chain responsiveness
- Operate “lean” plants
- Better utilize technology

To achieve these goals, processors must embrace a concept of operational agility. This would include

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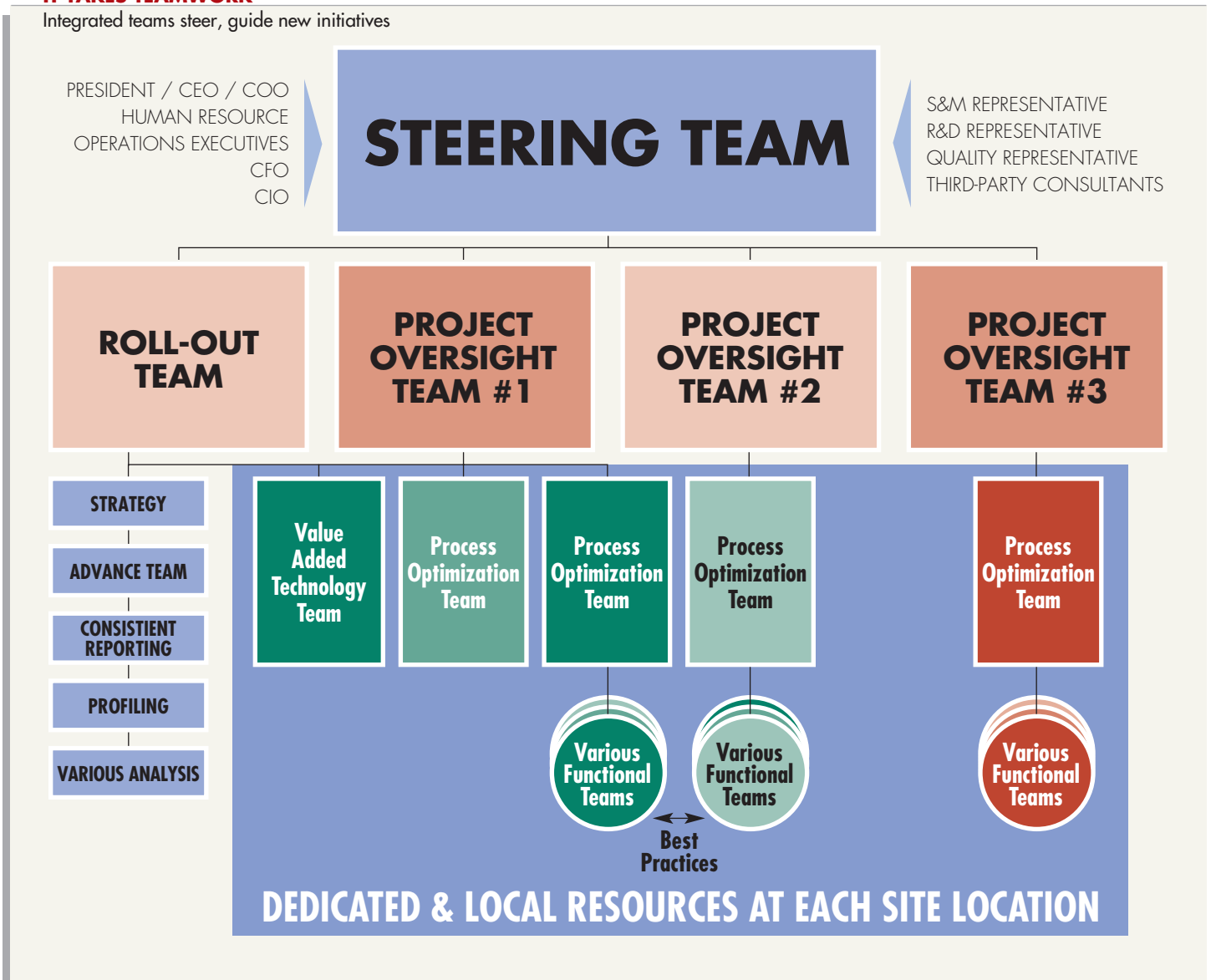
These are the attributes of an organization that provide the capacity for adaptability. Moreover, we believe that senior business leaders can develop a successful infrastruc-

ture for increasing their organization’s adaptive capacity (see chart) This structure is scaleable and is designed to communicate critical performance indicators, mitigate risk, set priorities, and create critical mass at the point of execution.

Adaptive capacity refers to the ability of an organization to quickly marshal its human, physical and information assets in anticipation

IT TAKES TEAMWORK

Integrated teams steer, guide new initiatives



of -- or in response to -- rapidly changing customer needs without appearing to miss a beat. (Of course, anyone reading this knows that until you've got the basic building blocks of a successful business in place, you don't stand much of a chance of pulling this off, and even when everything is in place, very few companies are able to do it effectively.)

However, it is the astute use and dissemination of business intelligence that makes this capacity so adaptable. And that is a function of leadership. It is not simply having the resources at one's disposal but knowing how, when, where, and - importantly - why to deploy them. This is what ultimately determines who reaps the benefit and who pays the price.

Leaders set the course

Newspapers, magazines and market analysts do a good job of chronicling the food industry and its trends. Recent examples include Kraft Foods with its organizational announcements and stated objective to produce healthier products. Others include Pinnacle Foods' purchase of Aurora Foods to expand its product offering, and Heinz divesting itself of non-core business operations.

Again, it's a function of leadership to set a course for change. And perhaps there are no better examples of leadership in action - and companies in transition - than Tyson Foods Inc. and ConAgra Foods.

It was in 1997 that Chairman &

CEO Bruce Rhode launched ConAgra's companywide "Operation Over Drive" to reduce costs and reorganize the company around major market segments (foodservice, retail, etc.)

It took several years but ConAgra emerges today as a leaner company that is better positioned to respond quickly to changing market demands. Moreover, cost savings now are being reinvested in new product development, brand-building promotions and other top-line sales growth efforts.

There's a similar story from Springdale, Ark. It began in 2001, a time when Tyson was not only working to extend its poultry business but its entire portfolio through the acquisition of IBP. Soon, Tyson was indeed bigger. Behind the scenes, however, company officials and consultants were determined to reduce cost and improve enterprise-wide effectiveness.

The following year Chairman John Tyson and his senior staff announced several strategic initiatives that would carry the Springdale, Ark., company through where it is today. In effect, Tyson embraced a strategy of adaptive capacity that positioned it well to take advantage of future market uncertainties.

A more detailed picture example involves Tyson's Mexican Original business, a multi-plant producer of Mexican bakery items.

Previously, Tyson had dedicated most of Mexican Original's plant capacity to a major fast-food chain.

However, Tyson quickly found itself capacity constrained. Like many processors, it was under mounting pressure to maintain quality and reduce costs. It also faced several impending new product introductions fueled by growing consumer demands for low carbohydrate fare.

With the help of an outside consultant, Tyson adapted and adopted new procedures that allowed it to improve asset utilization, increase material yields and reduce unit costs. In fact, the results were such that Tyson not only could satisfy its current customer (and its customer's appetites for dietary alternatives), but it gained additional capacity to attract and support a second national foodservice client.

Last but not least, there was no need for additional capital expenditures.

These are just a few examples of companies whose leadership has enabled them to remake themselves to take advantage of the conditions they were facing. None of them could have succeeded without first getting their operating fundamentals in working order. Nor could they have completed their metamorphoses without a fundamental willingness to embrace change.

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