



Leaner Times Spurring Food Companies To Reduce Waste

Food Processing Expert Weighs In

Slashing labor costs may be one of the fastest ways for some companies to boost their bottom lines during an economic downturn.

“Not so in the food processing industry,” says David Gustovich, executive vice president and head of USC’s food and beverage practice.

“Controlling material costs drives the greatest financial impact in any food processing company,” he maintains.

Cost structures in the industry can vary widely, depending on the type of product. It is not unusual, for example, for material costs to run as high as 75 percent of the cost of the finished product. Labor cost, on the other hand, is much lower, running between six and seventeen percent.

“A lot of consulting firms get into trouble because they go after labor cost improvement before anything else,” Gustovich explains. “You can quickly post a twenty-five or thirty percent improvement in labor cost performance,

but it won’t be anywhere near the level of improvement you can get from a two or three percentage point movement in material yields, simply because the base is so much bigger.”

“Controlling material costs delivers the greatest financial impact in any food processing company.”

Add to material cost savings the opportunities to increase throughput, improve maintenance and sanitation, reduce freight and warehouse costs and improve fixed asset utilization, and a company can

significantly strengthen its bottom line in a relatively short time.

USC has more than thirty years of experience in saving food processing companies millions and millions of dollars through such efforts. But a recent project from one of the nation’s largest food companies tested the limits of even USC’s abilities.

The assignment: Identify and drive out \$40 million in costs in less than four months at thirteen food processing sites across the U.S. And do it while maintaining – if not enhancing – product quality, food safety, customer service and performance levels.

“We started with a pilot facility and asked the company to dedicate some of their own staff people to work with our team,” explains Gustovich. “We taught them our tools and techniques and, at the same time, had their people teach us their techniques and processes. That allowed us to work collectively to quickly identify root causes and drive out costs,

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which we then duplicated across the board.”

The firm ultimately identified some \$70 million in cost savings – more than \$64 million of which were implemented within the allotted time frame. USC’s success on this project led to a number of other engagements and won high praise from the client’s senior vice president:

“We found the project organization to be superlative and achievement of results exceeding our expectations. We would strongly recommend USC Consulting Group to other manufacturing oriented corporations.”

“One of the things that makes USC such a great resource,” says Gustovich, “is that we have solid, experienced people who are not afraid to step up to a challenge. We may be a little smaller than some of the big boys, but some of the big boys who were competing for that engagement weren’t able to put together an approach or deliver the results the way we did.”

Another big industry issue is process management.

“The food processing industry’s greatest enemy is process variation,” says Gustovich. “It ultimately leads to waste, and waste costs companies a lot of money.”

He believes that process erosion creeps into food processing in tiny increments that go largely undetected. Most companies don’t see process variation occurring because of the aggregate measurements they use, he says. Sometimes those measurements aren’t sensitive enough. They don’t give management the level of detail they need to identify where variations may be taking place.

And the trend toward automation, he claims, makes process variation even harder to spot because it often lulls companies into a false sense of security. They believe that automation will reduce process variation, as well as help drive down costs, and so are less diligent than they need to be.

Tips For Waste Reduction

- *Improve the elements over which you have the greatest control.*
- *Document, document, document.*
- *Measure it if you expect to manage it.*
- *Base hard decisions on hard numbers.*
- *Adhere strictly to set procedures and processes.*
- *Review parameters, targets and metrics frequently.*

“This doesn’t mean that the equipment or the technology is bad,” he says. “Typically, we find that the rules, parameters, settings, user’s lack of understanding

of the machine’s capability, or several of these factors are at fault.”

He cites an example from a USC engagement at a highly automated canning facility. The company asked USC to help increase capacity from 60,000 cases a day to 90,000 – a fifty percent improvement. The client’s initial plan was to add equipment and square footage at huge expense to reach that goal. When USC questioned the need for such an investment, the client explained that they had been averaging 65 percent utilization of their assets for the past five years. They felt that they were truly optimizing the existing process, given the types of products they were running, the ages and types of the equipment.

On investigation, USC learned that one \$20 million piece of equipment was designed, according to the manufacturer’s specifications, to deliver 1,550 filled and sealed cans per minute. The client was concerned that this was not a reliable standard; 975 cans per minute was their theoretical optimum. In reality, the line was running at 650 to 700 cans per minute.

“When you’re looking at a canning line,” Gustovich muses, “it’s tough to distinguish whether cans are going by at 700 or 1500 cans a minute. You have to look beyond the obvious signs, at historical trends, for example, that might reveal why the machinery is manned at a certain level or how the process was set up.”

Through ongoing dialogue with operators, supervisors, and maintenance and sanitation personnel, USC saw that, over time, work force turnover, poor adherence to maintenance and sanitation practices, poor changeover and process control techniques, along with a number



Food And Beverage Industry Profile

Description	Number Of Plants	% Of Industry	Value Of Shipments (Billions)	% Of Industry	Annual Payroll (Billions)	% Of Industry
Meat Products	3,402	12%	\$113.9	23%	\$9.9	23%
Dairy Products	1,838	7%	\$59.0	12%	\$4.2	10%
Fruit & Vegetable Preserving & Specialty Foods	1,790	7%	\$46.9	9%	\$4.9	11%
Grain & Oilseed Milling	894	3%	\$52.1	11%	\$2.4	5%
Bakeries & Tortilla Mfg.	11,257	41%	\$43.8	9%	\$7.8	18%
All Other	8,207	30%	\$177.5	36%	\$14.6	33%
Total Industry	27,388	100%	\$493.2	100%	\$43.8	100%

Source: US Department Of Commerce (NAICS Basis), 1997

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of less significant factors, had eroded process effectiveness. Waste crept in and volume was not as high as management wanted, but the reported 65 percent utilization had become the accepted standard.

“Our job,” explains Gustovich, “is to help identify those key operating parameters and establish which ones are most critical to control, and which others, while less critical, are still important to monitor because of their impact on downstream operations. We define an optimal range of performance that will maximize a client’s investment by

giving them the best results in throughput rates, material yields, labor costs and other controllable variable costs.”

In the case of the canning facility, USC uncovered a minimum of fifty percent additional capacity in the existing operation at a cost far less than the capital expenditure that was under consideration for new machinery and additional space.

Gustovich knows that USC’s solutions sometimes appear very simple, but the firm’s experience and expertise often hide the complexities of individual projects.

“USC’s job is to make it look simple.

If we can make it simple enough for a supervisor, lead person or hourly operator to see and understand where waste occurs, where it creeps into the process, what effect it has, and how they can recover that – we’ve done our job extremely well. The simpler we make it, the greater the chances of perpetuating the improvements that will maximize their efficiency and their profits.”

This can be particularly valuable in leaner times, when resources tend to be scarce and savings need to be re-invested where they’ll do the most good.



For Some, Worsening Economy Could Make For Better Decisions

With earnings shortfalls on the rise and layoffs looming, doesn't it make good sense to rein in your company's spending and hunker down to ride out the coming recession? This was a hot topic at USC's spring Business Development Conference held April 25-26 in Tampa, Florida.

"Many otherwise astute senior executives would answer 'yes' to that question," observed George Coffey, SVP/business development, "but they would be wrong."

Why? "Because periods of economic contraction represent some of the very best opportunities to make the operational improvements or organizational changes that will prepare a company to outperform its competitors when business conditions improve.

"Many industry leaders regularly use slack times to weed out poor or marginally performing people, plants or other assets like inventory," Coffey continued. "Others continue R&D efforts to fill their product pipelines and shorten time to market. Still others maintain – or even

increase – spending levels to grow their share of market at the expense of weaker competitors. These companies know that the economy will eventually turn around and they want to be ready to capitalize on the upturn."

Even with economic indicators showing early signs of improvement, many executives are reluctant to act. USC's business development team revealed the most common excuses:

1. We haven't budgeted for outside assistance.
2. We've already got too much on our plates.
3. Our new top executive(s) need time to settle in.
4. We're already in the process of down-sizing or right-sizing.
5. We don't use consultants.

When asked how they planned to overcome these objections, the team had a ready supply of answers.

"What better way to orient a new executive or management team, or determine which personnel should be retained or let go, than by conducting a thorough organizational and process review through a third party like USC?" offered Dick Teutsch, VP/senior business development executive, Midwest region.

"One of the very best ways I know for dealing with conflicting priorities, limited resources and punishing workloads is to retain an outside resource that will be totally focused on the issue at hand instead of mired in the day-to-day activities," added Jim Littlefield, business development executive, south central region.

Ron Walker, USC president and CEO, summed up the group's feelings when he said, "An ailing economy gives some companies a convenient excuse to postpone planned or needed improvement initiatives until things get better. But those who choose to stay the course stand to reap financial rewards far beyond anything they might have saved through inaction."

Maintenance Best Practices Presentation Draws Rave Reviews

USC representatives introduced attendees at EXFOR 2001, the Canadian pulp and paper industry's annual gathering in Montreal earlier this year, to the concept and practices of "world class" maintenance to rave reviews.

John Hannan, USC regional manager; Dean Carrier, operations manager; and Paul Racher, senior project manager, teamed up to define the concept of

"world class" maintenance. They outlined the steps required for a pulp or paper mill to become "world class" and emphasized the economic and operational benefits of achieving that status.

USC also offered to benchmark attendees' mills against world class standards and anonymously against their peers. This was done by distributing a

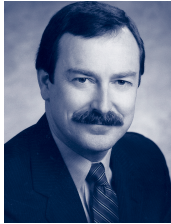
diskette, which they could complete and return to USC for evaluation.

One mill manager at the event praised USC's discourse as "the best presentation I've ever seen at a CPPA (Canadian Pulp and Paper Association) meeting." The PowerPoint presentation is available on USC's web site at www.usccg.com. For more information contact John Hannon or Dean Carrier at 905-673-2600.



Progress Report

New Executives Boost Business Development Activity



James E. Littlefield has joined USC as business development executive responsible for the Rocky Mountain region, based in Colorado. Littlefield

has nearly 25 years of sales, marketing and management experience in such industries as automotive, aerospace, chemical, finance, food processing and mining. He was most recently president and chief operating officer of Sonar Safety Systems, Inc. in Santa Fe Springs, CA.

Littlefield holds a bachelor's degree in marketing from New Hampshire College. He is active in numerous industry and civic organizations, among them the International Society of Automotive Engineers and the Chamber of Commerce's International Trade Committee.

USC Welcomes Two To Product Development Team



Richard P. Artes was formerly president of his own consulting, project management, systems implementation and education development

company, which served manufacturing industries. His achievements include successful installation of a number of business management systems, including sales forecasting, MRP II, enterprise requirements planning and supply chain management. He has more than twenty-five years of business and manufacturing management experience with such companies as Graco, Inc., Litton Microwave Company, and National Semiconductor Corporation.

Artes is a graduate of the University of Minnesota School of Business. He is APICS certified and serves as chapter president and director of certification. He has served as director of the Association for Manufacturing Excellence and is the author of *Customer Focused Forecasting*, a best practices manual.



Edward G. Enquist comes aboard with fifteen years of manufacturing, engineering and supply chain management experience.

Enquist specializes in business process re-engineering and product data management. His background includes design engineering, engineering management and business process management. He has extensive technology development expertise gained through developing medical devices and designing large-scale fluid processing systems for the electronics and pharmaceuticals industries. Enquist also has successfully deployed enterprise resource planning (ERP) systems in multi-part environments. He has helped implement a number of manufacturing strategies, among them make-to-stock, make-to-order and engineer-to-order.

Enquist graduated from North Dakota State University with a BS in mechanical engineering and has completed numerous education programs in project management, business management and finance at the University of Minnesota and the American Management Association.

Clients Give USC High Marks

In a world where consulting firms are commonly rated neutral to negative by their clients, USC receives high marks in nearly every industry, as evidenced by client satisfaction survey results for the most recent 18 month period.

Highlights Of USC Client Satisfaction Ratings

Overall Satisfaction: 96 percent of USC clients expressed overall satisfaction with the firm, with 87 percent saying they were "extremely" or "very satisfied."

Personnel: 91 percent rated USC personnel "exceptional" or "very good."

Results: 89 percent said the results USC achieved for them met or exceeded expectations.

Willingness to rehire: 92 percent would consider hiring USC for other engagements. 75 percent said they were "extremely" or "very likely" to do so.

Willingness to recommend: 87 percent said they were "very" or "somewhat willing" to recommend USC to a friend or professional colleague.

To hear more of what our clients have had to say about us, visit the Client section of our web site and click on the hyperlink titled *In Their Own Words*.





First we make it work. Then we make it last.™

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