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FOOD for THOUGHT

After some changes in the industry in recent years, Simplot has reassessed its processes to ensure continuing growth in the years to come.

Images courtesy of Simplot

Originally created by a boilermaker from Bendigo as a sustainable snack you could eat one-handed at the football, the Chiko Roll has grown into an Australian icon. In the 1960s, more than 40 million were sold each year, a remarkable figure considering the Australian population was only around 11 million at the time. Still manufactured in Australia, the Chiko Roll—among many other well-known brands—is now owned by food giant Simplot.

Simplot owns and manufactures the products of other big-name brands such as Birds Eye, Leggo's, Edgell, Lean Cuisine, and John West. CEO Terry O'Brien has been with the company for 22 years and talked to *The CEO Magazine* about how the company has used innovation and a focus on Australian manufacturing to

overcome difficulties in the food industry in recent years.

***The CEO Magazine:* What has kept you at Simplot and in the food industry for so long?**

Terry: I've been in the food industry combined over 30 years; I've been with Simplot for about 22. Prior to that, I had a stint at Cadbury Schweppes for about nine years. When I joined Simplot, it was under another name—Plumrose Australia—and I was actually headhunted. I thought, 'I'll do a couple of years there, then think about what I'll do after that', and here I am 22 years later. I have to say there's never a dull moment in fast-moving consumer goods and certainly never a dull moment in food. We have been on a significant growth trajectory over those years. When I joined Plumrose, the turnover was in the \$200-million bracket; today, Simplot is sitting on about \$1.6 billion.

I have a fair bit of experience in and around the food industry itself. My professional qualifications are in accounting and finance, and up until 2001 I was the CFO here at Simplot. But prior to that for a period of time, I was in the textiles industry, so I have had general management experience as well in another place. In more recent years, I've been heavily involved in the industry itself through the Australian Food and Grocery Council, of which I'm now the chairman.

What have been the changes in the industry in recent years, and how has Simplot adapted to them?

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conditions. We were in a groove where those cycles were expected and you managed your operation to those cycles. We also had a situation where the Australian dollar was traditionally quite low. On average, it's always been in the low 70s. That gave the Australian food industry protection from overseas influences, though during that period we all became a bit complacent.

Quite frankly, we never were pushed too hard to make really difficult decisions because we were always able to reclaim any cost increases in the market, and we also weren't being significantly pressured by overseas suppliers or imports. That doesn't mean we made a hell of a lot of money; the reality was the food business was only an adequate return, but it was a steady and stable return. So the owners have gradually over the years become mainly private families, patient investors with patient capital who just like being in the business. We were living in that sort of environment when in the last five to seven years we saw these cycles start to change and to disappear.

We came to the realisation that the downswing of the last cycle was not

going to upswing; in fact, what was happening was a structural change to the environment we were in. That was driven by a number of factors, not the least of which has been the stimulated competition at the retail level in Australia. And that was brought about largely by the fact that Wesfarmers purchased the Coles business and gave it a new purpose and a new charter, and they became aggressively competitive with Woolworths, who tended to rule the roost over the years prior. Once you stimulate competition at that level, you push down back through the supply chain. Then we had Aldi arrive in the country and create a new discount mentality. What we now have is a marketplace that is resisting that cost-plus modus operandi that we had in the past, which means of course if you can't pass the costs on, you've only got two choices: you either absorb them and see your own profits reduce or you find a way to make sure that cost doesn't happen.

What has Simplot done to ensure Australian manufacturing stays viable?

In 2012, we had two factories, both in the frozen-vegetables

sector, that were really struggling, not making any money at all, and we weren't seeing any prospect of improving price. Of course, when you haven't got a competitive price, you start to even lose volume as well. We looked at both those plants under a very big project we ran for about 18 months. There was a very real possibility that we would have closed those factories and perhaps moved them to a lower-cost environment such as New Zealand.

We thought, rather than just getting up and moving, can we do things differently and make it work and stay here. There was a big incentive to do it, because we were in fact the last frozen-vegetable manufacturer in Australia. We'd seen our competitors McCain leave not long before and take their business to New Zealand, and Heinz has moved a lot of their operations over to New Zealand as well. So we were the last man standing. And to the extent that the Australian public has expressed a desire to have Australian products, we were the only game in town to supply that, provided we could supply it at a price that didn't demand a massive premium that would change the consumer's mind.

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We had a great deal of incentive to stay, so we actually engaged every stakeholder that had anything to do with those two plants and that business to say, 'If everyone is interested in us staying here, let's work together and find how we can do that'. The two major retailers, Coles and Woolworths, both gave us significantly long-term contracts to produce their own brand products in the frozen-vegetables sector, and made no secret of the fact they were going to pay us a bit more than what they would if they were buying these products offshore, backing us so we could get our costs under control over time and backing us to get the volumes through the factories that would make our cost structures more competitive. Many of our suppliers also reduced their costs to us to assist in bringing our cost of manufacturing down.

What is Simplot's approach to innovation?

The word 'innovation' for Simplot isn't only about products but also about the way of doing things. We had to reinvent ourselves, and that meant we had to talk to our employees and say, 'These ways of working in the plants over past years just aren't applicable to today's needs, which are to be more agile and be more flexible'. A lot of those things didn't really carry a financial impost; it was more of a social impost or creating

a need for the employees to be more flexible in their own relationship with their work. It wasn't that easy for some people to take to that, but eventually the view was taken that to give a bit of ground in those areas and to have a sustainable, well-paid job in these regional areas was preferable to not allowing change to happen and have the job disappear.

It had to be negotiated over quite a long period of time; it wasn't straightforward. But ultimately the more innovative ways of doing things proved themselves quickly, and that gave people the confidence that if we make the changes suggested, then we've got a far better chance of having a sustainable, profitable business for the future than we have today. It meant a lot of change at the factory management level as well, because a lot of our factory management had been in place for a long time and a lot of them hadn't had the exposure to more flexible ways of doing things.

We employed a new supply-chain executive director, who came out of a multinational, and he brought a very refreshed attitude to how things should be done in looking to continuous improvement rather than perfecting what we'd done before. He brought people along with him. And in the cases where the people who were here couldn't step up to new ways, then they were replaced as well. To

summarise it, we have regained the management of our factories, whereas in the past we weren't actually in control and able to do the things we needed to do to succeed. A lot of that was because we didn't really know what we needed to do, and today I believe we do.

What is the future for Simplot?

A company needs to continue to grow to succeed; you can't stay stagnant. We have come through a period of stagnation, largely around this issue of the downward price pressure in the market and the time it took us to adjust ourselves to that fact. We were always used to getting growth just through pricing, but now we have to get growth through volume and activity. It takes a while to change your mindset and get everything working that way, but we're essentially there now. We're growing at around 6 per cent now, which in a market with an inflation rate below two and a retail environment that's growing quite benignly, our 6-per-cent growth is quite encouraging.

We've got it out of some innovation in the product sense, but we've also started a couple of other businesses that are related but with slightly different ways of doing things. For example, we've started an online home-delivery high-end frozen business called dish'd Food Store, so we're attracting our own consumers to our own business. And we also invested heavily in chilled products, whereas we used to be just really a frozen and shelf-stable operation. We're now growing a lot of segments within the chilled area, and that's growing quite rapidly. It's not quite as profitable as the rest of the business, but it's very much in a development stage. On top of that, the vegetable business recovery has seen quite a bit of volume increase for us, largely in private label, but also our Birds Eye brand has increased as well. We're getting growth from a number of places now, and that just makes you far more sustainable into the future. ●

