



Building 'our' productivity

Understanding sustainable collective productivity in New Zealand firms



NEWSLETTER 1: NOVEMBER 2009

CEOs Talk About Firm-Level Productivity

Productivity is the difference between staying in business and not staying in business. (CEO f&bR)

The **Building Our Productivity** team has been researching firm-level productivity since July 2008. After developing background case studies on 45 potential subject firms, first-round interviews with 15 CEOs (or senior managers) were undertaken.

We are now well underway with the second phase of in-depth interviews with food & beverage (f&b) firms and we would like to share some (but by no means all) of the interesting insights which have emerged from our research so far.

Despite the range of firms in our sample, many of these themes are common across the board and so in this newsletter we will endeavour to let the CEOs and managers speak for themselves.

THE FIRMS WE INTERVIEWED ...

OUR INTERVIEW SAMPLE represents a cross section all four major food & beverage export sectors as defined by NZT&E (meat, horticulture, dairy and other).

FIRM OWNERSHIP TYPE includes entirely family/private owned, public companies listed on the New Zealand stock exchange, and part- to wholly-owned by off-shore organisations.

SIZE OF FIRMS ranges from 3 to 500 employees (not including seasonal labour), with a median size of 77 employees.

REVENUE ranges from \$250,000 to \$600,000,000, with a median value of \$26,500,000.

PERCENTAGE OF SALES DERIVED FROM EXPORT ranges from 0-99%, and averages at 46%.

Productivity is....

Our firms generally take a holistic approach to considering productivity rather than focusing specifically on labour performance or measures of outputs relative to inputs. For most, increasing productivity underpins their ability to operate successfully through enabling growth, improving performance and creating a source of sustained competitive advantage over competitors. Having said that, productivity measurement is critical to many of the firms' operations with the target being to constantly increase efficiency and effectiveness.



Productivity means sustainable growth and improvements in performance. It underpins our ability to meet our customers' needs.

CEO f&b : Interview 11

In a low margin commoditised industry if you're not productive you're not going to be in business anyway. We're constantly looking at other ways to be productive.

SM f&b: Interview 4

We've got costing spreadsheets and costing models that have been developed. We have a daily costing model which is relatively accurate. We have a weekly costing model which is a bit more accurate and then we have formal monthly accounts which are more accurate than the weekly. So our main tool is our weekly management accounts. We're capturing as much data there as possible, volume throughput, cost efficiencies and overheads are all captured in there on a weekly basis. The daily is used as an alarm signal.

CEO f&b : Interview 14

I think [increasing productivity] is about understanding where the bottlenecks are. So we grow everything, ramp or scale up the production line to take out the bottlenecks so that the variable that becomes a bottleneck is something that we can either put more people into or more time into or more speed into.

SM f&b: Interview 13

Productive Communication

The CEOs are very firm that measuring productivity is of no use if results are not communicated with staff and utilised to make improvements to their businesses. In almost all cases, daily and weekly productivity measures were fed to operational staff through their line management. When asked if they used the term 'productivity' with their employees, many said no, especially when it came to the front line staff. For these organisations the terms used to discuss productivity-related issues reflected specific aspects of performance (such as days away for absenteeism.)

“Every day I send out the daily report which talks about the previous day's sales and how we're progressing during the month. And to me that's productivity as well because it's part of the communications and people are informed and there's not necessarily any surprises.”

CEO f&b: Interview 11

[We use] a graphical representation of “this is how much product we would expect you to make today”, when we are talking about the factory floor. “Productivity” is used with team leaders and shift leaders because they have an understanding of what it means, more time is spent explaining why we need to do it, and what the results of it are and how it benefits the business. But for the guy on the floor really all that he or she wants to know is “what are your expectations of me for today”.

CEO f&b: Interview 9

Waste Not Want Not

When it comes to waste, the emphasis is on reducing and reusing. For organizations where traceability is key, reducing waste and finding new usages for waste products appears to take precedence. For some this has become an area in which innovative technologies are used. For other organizations, the emphasis is placed on increasing efficiency by reducing waste and re-working products, and even on reframing the notion of waste as being something from which value has yet to be extracted.

“We started doing some tests on the composition of [the waste] and found it high in NPK's, nitrogen, potassium and phosphates and so now we are looking at it as creating fertilizer. The initial tests have been very good.”

CEO f&b: Interview 7

Wastage, the amount of ingredients that goes in at one end, versus what actually comes out in a volume and pack at the other end. The rest is counted as spillage and we track that and try to reduce it.

SM f&b: Interview 4

We try not to use the word 'waste'. Now we say RRM – remaining raw materials! Again that is part of our culture change to suggest a positive 'everything has value' rather than the negative that comes from the word 'waste'.

CEO f&b: Interview 11

Out-Sourcing – How Far To Go?

Despite the small sample, the firms cover the range of potential out-sourcing strategies from management of the entire value chain process (no out-sourcing) to sub-contracting of all processes bar branding and marketing (almost complete out-sourcing). The latter would be viewed as small firms when the traditional measure of employee numbers is used, but are far more substantial in scope when the

network of suppliers and distributors is taken into account. The highly out-sourced firms tend to have specialist marketing and relationship skills in order to make this approach viable while the enhanced direct control offered by the pasture to plate approach was more attractive to others whose particular skills were in managing production and distribution efficiencies and effectiveness. Key to the success of any out-sourcing model was a clear understanding of where the firm added value and how they could exploit that unique advantage by replicating the model in parallel product lines.

“We're almost a virtual company in some respects, in that a lot of our expertise has been around brand development and brand ownership, being able to bring products to the shelf without actually investing in infrastructure such as manufacturing capability. What you find is that most manufacturers have down time in their manufacturing week and they're screaming out to get efficiencies of scale in their plants to keep their overall costs down. We pick up on other people's downtime to create a productivity upside for us, which in a roundabout way increases the productivity of other players within the industry. [We're] quite vulnerable in [some] respects because whilst your manufacturer has a relationship with you he can also be your competitor, he's got his own products. So it is rather a special type of relationship and it does take some different thinking to be able to cut through into that space.”

CEO f&b: Interview 3


Because we are vertical: we grow it, harvest it, pack it, ship it, we think about the whole chain all the time... Generally, we don't get involved in anything that we can't put some scale into. That means having a position with a product that [enables] us to become a key player. If you can't scale it up, you can't industrialise it and then you're going to be forever competing against the one-man bands.

SM f&b: Interview 13



To Brand AND Not to Brand

Most companies balance the production of a premium line of branded goods with the need to secure cash flow by manufacturing bulk, unbranded or private label goods. While many view this as necessary, particularly those supplying supermarkets, the strategy is a cause of tension for CEO's because of the lower margins and decreased profitability associated with unbranded lines. In general their longer-term strategies were to increase the proportion of sales from branded product by developing stronger relationships with the ultimate customer rather than the bulk supply distributor.

 We were getting very busy doing a lot of contract work, but of course [that was affecting our gross profit]. We've realised [since] that when it slows down, funnily enough contract work still just sort of ticks over, [but] we actually changed our mix around until now it would be down to about 25 to 30% .

CEO f&b: Interview 5

To be able to send away three containers of bulk [product] is excellent for the cash flow, it means we don't have to invest in the [packaging] and we get the cash flow, so we need a balanced portfolio of markets.


CEO f&b interview 7

There's a big drive globally for house brands which manufacturers typically just resist, low margin and high volume, it doesn't really turn me on. At the moment probably 30% of our business is unbranded, strategically I don't want it to get any more than that.

CEO- f&b interview 12

Smoothing Supply

Many companies face issues related to supply uncertainties, either through seasonality or price spikes due to poor yields and increasing demand. To manage supply issues, companies use strategies that include managing growing or production facilities in different climatic regions in both the North and South Island as well as in different countries, extending as far as possible into shoulder seasons, and using scientific research to assist in reducing time to harvest and increasing control of size/volume.

 Our costs could all of a sudden spike through the roof because the one place where they grow the majority of [a main ingredient] has a bad summer and so there's a shortage and the price goes up. We're constantly refining our product formulations to ensure that our costs aren't blowing out, that's a big part of productivity for us.

SMf&b: Interview 4

Our cost structure is based around a peak, and that peak is only about six weeks long, so the first thing we do is we reward [our producers] significantly for producing more at the shoulders, extending their season, and in doing so we get to use [plant] that would have been sitting idle otherwise. It's our excess capacity management.

CEO f&b: Interview 8

The next thing we did was we cracked year round supply. There's normally a seasonality and you would have it much more compact, but we cracked that using a range of complex strategies, based upon a lot of research, hard work and trial and error.


CEO f&b: Interview 11

We've got a flexible workplace agreement where we have annualised people's hours so they are effectively salaried, but paid weekly. We have step-ups and step-downs to reflect the hours that they do, and that allows us effectively bank forward overtime. Keeping that team of people fifty two weeks a year rather than having a seasonal workforce means we can lock in their knowledge, behaviours and skills.

CEO f&b : Interview 8

Intelligent Innovation

Pursuing innovation takes many forms with both product and process innovations at the forefront of drives to increase productivity. Process innovations include movement toward greater automation and systems management, while stage-gate management processes were commonly used in product innovation. In general, effective innovation is driven and managed by top management and for some, the investment in managing the innovation process incurs considerable cost. An interesting characteristic found in some firms was the intensive use of international databases to monitor product trends to inform innovation processes. Despite the expense, the CEOs valued highly the insights they gained from these sources.

 We [are increasing] our automation. It's a productivity issue, it's about packing as soon as you make [the product], not double handling.

CEO f&b: Interview 12

We have got very good technical NPD people, who come up with ideas that actually fit with the way our factory is. They don't dream [products] up, which are weird and wonderful but don't offer us any opportunity. They are very good at following the process. You give up a bit of flexibility and speed when you inject process, but what it does do is make people aware of what their decisions are impacting, we haven't had any products that once we've looked at what it's done or what margins it's getting we've gone, why did we launch that product?

CEO f&b: Interview 9

We'll be tactical, we'll analyse markets, get data on the global flows of products, what countries, what volumes, product types, and we'll look at the most valuable markets in the products with which we fit, or products that we can easily adapt to, and we'll do that. This work is done quickly and decisively. We don't have big companies doing this, gathering this research for us. We call [X company] in the States, we pay for the service with a credit card and ten minutes later we get the data.

CEO f&b: Interview 8

'Our' Skills

Almost all the companies we spoke to use production line teams and try to maximise productivity by building up the collective skill sets of their teams.

In some organisations, production staff are trained in a wide range of functions, while in others, those members who were interested were able to up-skill themselves to learn new functions.

In organisations where production is seasonal, staff churn and skill loss is a major concern, and strategies were in place to keep as many skills as possible through, for example, annualising salaries of key staff and moving into additional product lines. Sometimes teams of seasonal staff were stacked with permanent employees to ensure the right culture and workplace techniques were quickly passed on to the 'newbies'. The use of 'friendly rivalries' between production teams were also seen as useful, although in practice, many organisations found implementing friendly competition challenging to affect well.

“By [producing year-round] it allows us to have a core staff that is also year round and who really know the ropes. They can retain the culture when the seasonal staff come back. 80% of the seasonal workers come back every year and we can stack crews with a few key people who are permanents and [can pass on the culture] of how things are done here. We are team focused, very much so.

SM f&b-interview 13

We have staff that can run many of our product line, so there is a lot more interest and challenge in their roles. They are probably at a more highly skilled level than some other factories. It does lead to complexities in managing labour and staff, but I would say on the whole it's a positive thing...

CEO f&b: Interview 9

One thing that we are trying to look into at the moment is an issue when everyone is cross-functional, it is really hard to have that whole competitive rivalry which is good to have in a factory environment.

CEO f&b interview 9

[Our teams] don't really compete. They will argue that there are different circumstances as to why they were different to someone else, unless they're the top.

CEO f&b interview 11

Sharing Resilience

Being resilient to major shocks was a common theme in many of the firms, particularly those who were subject to supply uncertainties, and several strategies were in place to manage potential risks and increase organizational resilience.

In addition to using spare production capacity as indicated above, these included offering spare distribution capacity to similar (though not directly competing) product lines, having capacity sharing arrangements with similar companies to manage the shoulder periods so that neither had production facilities that were operating at half capacity, as well as 'gentleman's agreements' regarding the loaning of production capability should a major event incapacitate one player.

“Certainly, we have contingency supply arrangements with other companies, so if anyone of us gets into trouble with an [excess supply of raw ingredients] we just send [some] to each other. We did this in the past season, when another manufacturer had a big breakdown, so we've got those sorts of alliances.

CEO f&b: Interview 8

We've got a gentlemen's agreement with one of competitors that if anything happened to our factory we could talk to them about use of spare capacity and the same thing for them, if anything happened to their factory, if we've got enough spare capacity then we would help them out. It's good, you should be able to have those sorts of agreements and discussions with your competitors.

CEO f&b: Interview 9

We're the New Zealand distribution agent for [product x], produced in Australia and sold around the world. From a marketing perspective it gets pretty interesting. You start thinking about yourself quite differently as the business evolves from what was a key focus, moulding and changing with other opportunities that exist or develop. This one was serendipitous – a guy that I know rang up to ask me about something else and said, actually we're looking for a distributor. Oh really – we do that.

CEO f&b-interview 13

ABOUT THE BUILDING 'OUR' PRODUCTIVITY PROJECT ...

THIS RESEARCH PROJECT seeks to increase knowledge about productivity levels within New Zealand firms, using a case study approach to study two sectors – food and beverage and biotechnology.

FOOD AND BEVERAGE is a labour intensive 'backbone' sector of the New Zealand's economy with large revenues but a low growth rate – future growth is seen to be in increasing the value (rather than volume) of products.

THE BIOTECHNOLOGY SECTOR is newer and smaller, with a recent growth rate of between 20-50%. This sector is innovative and knowledge based, with a highly skilled workforce and strong alliances between firms and research institutes.

www.victoria.ac.nz/vms/buildingourproductivity/project.aspx

