In this issue of Olam Insights for 2019, we explore how Operational Excellence underpins Olam’s ethos of continuous improvement that will support our journey to become the world’s most differentiated and valuable food and agri-business by 2040.
Building Operational Excellence as a core competency
By Martial Genthon, President, Manufacturing, Innovation and Procurement (Non-Commodity)

Olam plays a pivotal role in the agricultural and food supply chains to source various raw materials and transform them to provide food, feed and fibre to the world. As consumer preferences are rapidly evolving with greater emphasis on food safety, health and environmental impact, our refreshed Strategic Plan for 2019-2024 launched early this year to meet this changing consumer landscape has translated into clear, immediate imperatives for our Company and for every one of our 74,500-strong team.

Fundamentally, our business depends on providing safe and reliable products, food and non-food, for our customers. This in turn depends on the safety of our producers, suppliers and workers, who need to operate safely and optimally to drive towards our strategic goals.

Today, 38% of Olam’s capital is invested in midstream and downstream operations, from which we derive more than half of our EBITDA – 56% in 2018. Our Strategic Plan envisages that we will further ramp up investment in midstream and downstream, particularly in value-added ingredients, to 50% of total invested capital.

As we do so, midstream and downstream operations will collectively become part of Olam’s new core, even as supply chain and trading remain the backbone of our Company’s operations. Ensuring a zero incident workplace across nearly 70 countries where we operate and driving performance in these midstream and downstream operations becomes ever more critical to enable us to deliver on our Strategic Plan, and in the long term ensure the consistency and better predictability of results – all this has to happen as we deliver the goods to our customers.

A recent study by A.T. Kearney showed that 46% of companies failed or under-delivered on their strategies and in 79% of these cases, the failure was due to execution related challenges. A strategy only becomes a winning one when execution is perfected. Therefore Olam needs to successfully develop Operational Excellence as a core competency across the Group.

Olam’s Manufacturing Operations, Innovation and Procurement (Non-Commodity) team is set up to meet these challenges. But we are more than what our name implies. We have in place a multi-year transformation journey to achieve Operational Excellence and contribute towards our Strategic Plan target of US$200 million in cost savings. This applies to safety and health, quality, sustainability, business unit growth in innovation, sales and operational planning, asset productivity and cost efficiency.

Our journey towards Operational Excellence over the past two years has focused on manufacturing, innovation and non-commodity procurement – all of which impact our ability to command product premiums and bring down our costs, while improving customer service and productivity, digital-readiness and capability building. In addition to our US$200 million target, our aim is to delight customers with improved service and quality as we transform ourselves from an integrated agri-player to a differentiated global food and agri-business – one that focuses on innovative solutions to meet the changing consumer preferences.

Operational Excellence, as inspired by the Olam Way and defined in our Olam 2.0 business model, has three key components: Performance Management and Compliance, Culture and Organisational Behaviours, and Practices and Tools.

In the first component, our role is to identify business value drivers, cascade strategy to action, establish performance management, deliver on value (cost savings, service levels, innovation, etc) and strengthen compliance and risk management. We can only claim success if we can measure it, so the team has drawn up a set of ‘metrics that matter’ that can give us a shared methodology and language while giving each business the flexibility to define and refine their own as required to deliver on their targets.

In the second component, we focus on promoting and inculcating the right culture and organisational behaviours, such as inspirational leadership and Founder’s Mentality™.

Finally, we need a problem-solving tool kit as well as advanced practices to support the rollout of Operational Excellence, and over the longer term continue to empower Olam to create value for all. We have therefore charted a detailed multi-year strategic roadmap that aligns with our business value drivers and defines key outcome areas for the current year and beyond, to generate positive results year after year.

Operational Excellence is well underway in Olam. As of today Performance Management has been rolled out to over 70 manufacturing facilities and more than 15 origins, meaning that they have identified their business value drivers and key metrics and are using our tools to review their monthly performance.

Take for instance, our wheat milling business in Nigeria. Our aim is to become the most efficient miller in Africa. That means there has been greater focus on cost efficiency – to balance low costs with high quality to support the growth in local consumption of wheat and wheat-based products.

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Martial Genthon, President, Manufacturing, Innovation and Procurement (Non-Commodity)
The metrics that matter in this case are extraction rates, overall equipment effectiveness and productivity by output per staff. We then break this down into phases to standardise business processes, redefine roles and key performance areas. Once done we embark on continuous improvement (target setting, workshops, project execution and tracking) and build organisation culture, making Operational Excellence a repeatable process in everyone’s agenda. I am pleased to report that Operational Excellence has enabled the business unit to deliver US$12 million in cost savings in 2018.

Recently, we successfully completed the acquisition of one of Nigeria’s largest flour and pasta manufacturers Dangote Flour Mills. The continual practice and constant strive to perfect the processes in our existing mills will serve us well as we work to integrate and extract the best out of these newly acquired flour mills.

We are making good progress in other key areas too, besides Performance Management – Safety, Non-commodity Procurement and Manufacturing Finance – as the rest of our team will elaborate.

We are equally focused on innovation and digitalisation, defining their baselines and key metrics to derive outcomes and measure success. For example, in digitalisation, our digital blueprint is defined by purpose, scope, objectives and roadmap aligned with business value drivers that feeds into our Operational Master Plan to execute, follow-up and fine tune more than 20 initiatives both specific to our businesses and to our operations.

Our mission does not stop at manufacturing operations. We are rolling out Operations Excellence now known Group wide as ‘2.0X’ across Olam’s entire food and agri-value chain, which means also covering upstream and the backbone operations in supply chain and trading.

As with any discipline, Operational Excellence does not end as soon as we have delivered results – we are continuously learning and looking for upgrades to enable our business to perform better, faster and smarter.


About the author: MARTIAL GENTHON

Martial Genthon is President and Global Head of Manufacturing, Innovation and Procurement (Non-Commodity) at Olam International. Martial has over 25 years of experience in the agriculture and food sectors, and spent more than two decades at Nestlé managing across its entire value chain and driving transformational strategies for its agri-business and operations in the Americas, China, and Europe. Prior to joining Olam, Martial was Chief Technical Officer Operations at Nestlé USA and Nestlé Canada. He served on its executive leadership team managing all food and beverages manufacturing facilities under a single organisation.
Safety and health – First and foremost
By Shankar Rao, Senior Vice President and Global Head of Safety and Health

Safety and health are fundamental to life – ensuring that we meet or exceed best practices in safety and health are non-negotiable at Olam. It is of paramount importance that we keep our people safe and healthy at work and similarly, our products safe and healthy for all.

This is especially crucial considering the scale of our operations, with more than 500 facilities comprising plantations, factories, warehouses and offices across more than 60 countries, and some 74,500 employees including seasonal and contract employees. A consistent, measurable, iterative safety framework – an application of Operational Excellence – has to be a priority.

Our efforts in the past were largely focused on our midstream facilities – larger manufacturing plants by improving safety performance and sharpening best-in-class practices. We are now casting our net wider to our upstream and supply chain (primary processing and warehousing) parts of our business.

To that end, we launched ‘An Even Safer Olam’ safety campaign this year to embed a ‘Zero Harm Culture’ across the Group, with a primary aim to protect our people through Leadership and Commitment, Structure and Process and Actions.

For Leadership and Commitment, support from senior management is key to achieving our safety goals. We are setting up a Group Safety Committee with members from the Olam Executive Committee, chaired by the Group CEO, to provide overall prioritisation, guidance and governance on An Even Safer Olam, our umbrella safety programme. Our Group CEO reviews investigations of all serious incidents with line management to understand the causes, implement actions to prevent recurrence and hold people accountable.

In terms of Structure – we have a safety organisation in place at global, regional and local levels to advance a Zero Harm Culture. This team of specialists provides the requisite expert advice to line management.

For Process and Actions, we conduct monthly reviews and publish safety performance details across business units.

“Zero incidents is the only acceptable objective. An Even Safer Olam is a process through which employees embrace a Zero Harm Culture and are empowered with responsibility for their personal safety, and that of their fellow colleagues and contractors.”

Shankar Rao, Senior Vice President and Global Head of Safety and Health
and countries to improve transparency. Further, we regularly conduct safety training programmes and address hot spots that may occur.

Embedding a Zero Harm Culture is a continuing process but rigorous implementation is bringing clear progress. A case in point is our Cocoa processing plant and tomato paste plant in Ghana where there has been a firm hold of the safety culture. The plants accomplished 11 and eight years respectively without a lost time injury. This has a multiplier effect on motivating employees and keeping them engaged, as they are rightly proud of this achievement. However, we need to be reminded that even a zero lost time injury record can be broken overnight if we let our guard down.

Zero incidents is the only acceptable objective. An Even Safer Olam is a process through which employees embrace a Zero Harm Culture and are empowered with responsibility for their personal safety, and that of their fellow colleagues and contractors. We must continue to deliberately choose behaviours that reduce risk, not inconvenience. Taking greater risk does not mean greater returns and in safety the reverse is always true!

Addressing safety, like any culture change, takes time but it must be a continuing, relentless pursuit. Making safety a natural part of our way of working, changing attitudes and perspectives on safety is imperative – much of our value is driven by human capital and keeping our people safe is non-negotiable.

**Umbrella Safety Programme – An Even Safer Olam: The three key pillars of the campaign comprises Leadership and Commitment, Structure and Process and Actions.**

- **What does management do to lead people to “An Even Safer Olam”?**
  - Group CEO review of all serious incidents

- **What actions does Olam take on a regular basis to improve safety performance?**
  - Monthly review of safety performance programmes to address hot spots

- **What are the organisation structures that enable the pursuit of Zero Harm Culture?**
  - 100% of safety resources in place across all facilities

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**About the author: SHANKAR RAO**

Shankar Rao is Senior Vice President and Global Head of Safety and Health at Olam International. He joined Olam in 2010 in Vietnam where he was responsible for developing its soluble coffee operations. During his three-year stint, he stabilised the operations business while expanding its production capacity. He moved to Singapore in 2013 to take on his current role. Prior to joining Olam, Shankar worked for Unilever in India for 23 years across various food and personal care business units. Shankar is a Chemical Engineer by training from the Indian Institute of Science, Bangalore.
As we aspire to become a differentiated, customer-focused global food and agribusiness, we recognise that Olam must be the brand that every customer trusts to deliver safe and reliable products and services.

It is for this reason that Operational Excellence is ever more important as we transform from an agricultural products supplier to also becoming a food ingredients company. The basic premise of Operational Excellence as applied in our global manufacturing is Performance Management – getting the required standards and consistent, predictable results that we want, to the extent that everyone on the ground knows what to do and what to focus on to deliver on the promises we make to our customers.

Performance Management – what it means in Olam

Our mandate on Performance Management comes with clearly defined ‘metrics that matter’. Essentially, these are value drivers mapped across seven domains – Safety and Health; Quality; Sustainability; Sales and Operations Planning; Innovation; Asset Productivity and Cost Efficiency; and Financial metrics – all of which help to deliver the required business results.

Each domain goes beyond Key Performance Indicators (KPIs). Operational Excellence also delves into operating performance indicators – Process Performance Indicators (PPIs) and Activity Performance Indicators (APIs), which measure the adherence of process goals and manufacturing activities to a given standard. Also, the role of Operational Excellence is to build competencies, develop methodology and basic problem solving tools, etc.

Once the hierarchy of KPIs, PPIs and APIs has been defined for a business, we draw up an Operations Master Plan, which details the measures and directions to be taken to reach these goals, new management routines to be implemented and a value stream analysis to determine

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Jose Consorte, Vice President, Operational Excellence in Manufacturing
the problem areas that need to be fixed. This also leads us to identifying specific opportunities and value-adding activities that support our goals. Finally and importantly, we create dashboards for capturing data across each domain.

We have identified 20 pilot projects covering more than 70 manufacturing facilities and 14 products to implement Operational Excellence in 2019. These were selected on the basis of business priority, ingredient manufacturing focus and state of readiness in leadership and operations.

For each, we have laid out a phased roadmap in terms of expected progress and achievements. The first is the Stability phase, where there is a strong standards culture ensuring stable manufacturing performance. The next is the Reliability phase, where operating teams have achieved greater autonomy in eliminating unplanned losses and established a preventive mindset. The final Sustainability phase means that operations have reached a high-performing, flexible and agile stage, where they are creating optimised value and are able to meet or exceed changing customer demands.

We expect these pilots to reach Stability phase within 12 months and be promoted to the Reliability phase in the second year before they graduate to the Sustainability phase at the end of the third year.

While graduating from the final phase marks the end of the pilot, it does not mean the pursuit of Operational Excellence ends there. The Operations Master Plan provides for regular review and audit, whether daily, monthly or yearly depending on each domain’s requirements.

Impact on business and competency

The pilot projects carried out have directly benefited the businesses. For example, in the Cocoa business, a continuous improvement mindset is critical for sustaining the profitability of the processing business given its sensitivity to combined ratios particularly in downcycles. Cocoa’s varied assets spread over multiple origins also require a strong Performance Management function that can handle variations in delivered quality and costs of manufacturing to meet market demands. Additionally, metrics such as product development, innovation, sales and operations planning are key to driving value delivery as these directly impact product differentiation and margin enhancement.

Another positive result is Seda Solubles, our soluble coffee manufacturing plant in Spain, where we were successful in establishing within-facility Performance Management. In late 2018, we implemented new ways of working, such as in shift handovers, daily, weekly and monthly operations reviews, and saw a gradual change in the factory culture. All these helped us save costs and improve overall equipment effectiveness.

We have observed similar impacts on Edible Nuts and Packaged Foods. This bodes well as we strive to develop best-in-class manufacturing facilities to address new market segments, such as the food service segment and co-manufacturing for customers, while mitigating future risks in food safety, contamination and product liabilities.

Operational Excellence truly embodies the Olam Way in achieving manufacturing excellence and continuous improvement, and most importantly, boosting the competency, skills and motivation of our people.
Unlocking value from a global procurement strategy

By Piotr Teodorczyk, Vice President, Procurement (Non-Commodity)

Olam has today achieved significant scale and size in its manufacturing operations. Much value is embedded in this entire network – not only in terms of accumulated tangible assets, but also intangible, hidden value that can be unlocked if we take a global mindset to sourcing, procurement and resources management to achieve cost optimisation across all our supply chains.

For example, aside from commodity-based raw materials (which are the largest source of cost of goods), the single largest non-commodity cost item is marine freight. Even a single-digit percentage savings on a large cost item such as this can be a significant boost to the bottom line – this naturally becomes a prerogative to start the ball rolling on applying Operational Excellence to this area of our operations.

As a starting point, we examined the marine freight costs for five key businesses – Cotton, Coffee, Cocoa, Packaged Foods and Edible Nuts – and assessed the level of services provided by vendors versus the benefits to the business. We focused on addressable cost items and service levels via a robust process involving nearly 60 origin teams, extensive vendor engagement and game theory based negotiations. Ultimately, we secured a global service level agreement with our vendors – a collaborative optimisation approach to strategic sourcing – which has led to cost savings of high single digits.

Another great example was the procurement success we had with Packaged Foods, Grains and Edible Oils in Ghana and Nigeria for packaging. Combined, these operations run a significant spend on packaging materials which we have consolidated and optimised. We have achieved 6% cost savings in 2018 and expect savings of 7% savings this year.

Similarly, in our U.S. operations, maintenance, repair and operations, or MRO, purchases of materials such as spare parts are being consolidated from as many as 30 vendors into one vendor across plant locations, including mobile storerooms for harvesters. The same is happening in Nigeria, where we are looking to optimise the number of vendors and centralised storing of spare parts for all Olam plants.

These are examples of low hanging fruit that can be captured to optimise and derive significant cost savings while extracting greater value from improved service. Such early wins set the template for future Olam-wide strategic sourcing implementation in areas such as logistics sourcing optimisation, which is a significant cost item in Africa for our Packaged Foods business, as well as in the U.S. and Europe.

To identify similar opportunities, we are developing a ‘one-Olam’ spend cube with a dashboard that uncovers consolidated spending by category, geography and vendor, that will help us weigh the costs and effects of different sourcing strategies for each category.
We also see opportunities to unlock value in third-party manufacturing and other indirect expenses on professional services and facilities management, which is a substantial annual spend when taken collectively.

Indeed, much more can be done, such as looking at our farming expenses across Africa, energy and utilities, and the growth and maintenance capital expenditure (approximately US$2.5 billion and US$1.0 billion respectively) as identified in our latest Strategic Plan.

As we deliver on cost optimisation, we recognise that our vendors are strategic stakeholders in this process. At Olam, we are committed to collaboration to unlock mutual value, rather than one-sided “extractive” relationships. This is why we are also rolling out a Supplier Relationship Management (SRM) framework, encompassing collective KPIs and scorecards. Through mutual transparency and accountability, we foster greater responsiveness from all parties and gain access beyond pricing advantages alone to also key innovations and services. Our objective for the SRM framework is to ensure Olam becomes the customer of choice for our larger vendors.

To truly deliver Operational Excellence, we also need global procurement capability building for our teams, our operating model and the discipline around it. We have identified the key ingredients for this as being an established SAP based taxonomy and master data governance structure, a global procurement policy, a procurement learning academy and Ariba e-sourcing solutions to be put in place.

We envisage that in three years, Olam will achieve world class standards in procurement excellence that is pivotal to our continuous pursuit for new solutions and improvements.

Measuring and sustaining operational excellence

By Anna Ovchynnikova, Vice President, Manufacturing, Innovation and Procurement (Finance)

When Operational Excellence was launched in 2018, we introduced eight ‘ideation levers’ to support this process. By performing a gap analysis and measure-and-monitor progress based on operational and financial ‘metrics that matter’, we selected a robust pipeline of projects for production plants across our businesses.

This bottom-up approach sets an overall Operational Excellence plan of achieving the target of US$200 million in costs savings, which directly supports Olam in achieving the objectives of its latest Strategic Plan. This saving will improve either overall business unit profitability or aid in financing reinvestments.

To ensure actual delivery against the targets set, our function is responsible for facilitating ideation sessions and providing businesses with value delivery guidelines, a strong governance framework and digital tracking via
an online platform, culminating in a streamlined, less error-prone process for the manufacturing facilities to measure and track their own performance.

Accordingly, we instil a rigorous methodology for the manufacturing process (as detailed by Jose Consorte earlier), as well as the financial discipline behind it by changing the way we categorise manufacturing costs, putting in place a review structure, and determining the financial metrics that matter.

In terms of our manufacturing costing framework, we have redesigned and enhanced it to harmonise our manufacturing costs and product costing structure globally across all our manufacturing units. By doing so, we have improved visibility and insights about different manufacturing cost types, created a stronger ability to drive improvements in manufacturing costs, improved benchmarking, as well as enabling better informed investment decisions.

**Small improvements but material impact**

Results from the launch of our sessions focused on ideation levers have been encouraging. We noticed that any improvement in one site, no matter how miniscule it seems, can have a material impact in several places. One example of small improvements yielding concrete benefits is our almond shelling process in Australia.

Our Australian team found that the current production process, including in-shell bagging operation, sorting process and quality of raw materials, could be significantly improved to raise the quality of its almond products and the share of in-shell almonds vis-à-vis almond kernels in the production output mix. In-shell products typically fetches 20-25% price premium to almond kernels.

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Following up on recommendations from ideation sessions on yield, wastage and by-product, the team made improvements to the product flow by modifying the line configuration to substitute original 50-pound sacks with larger ‘super-sacks’ for bagging in-shells so that less of these are left behind for shelling. Storage conditions for the raw materials were also improved with increased air-circulation in bunkers to prevent moulding.

These improvements resulted in in-shell production share increasing by 50%, and therefore incremental revenues this year.

Similar improvement plans are being rolled out across the Edible Nuts business, and we eventually expect to see better yields, not just in almonds but across the board.

While achieving the US$200 million cost savings target will be our main focus until 2024, Operational Excellence is a life-long mission and the team will continue to re-imagine new areas of improvement to drive greater value sustainably.