# One team, one strategy

By Sasha Planting

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On the face of it Rainbow Chicken's annual results were horrid. While revenue increased 14.4% to R6,8bn, pretax profit dropped 45% to R441m and headline earnings declined 40% to R318,8m.

However, excluding the unrealised losses on financial instruments used in the feed raw material procurement strategy — roughly R153m — the decline was a more acceptable 14.8%.

That this figure was not better in a year when the market for chicken products grew by an estimated 10% in rand value to R17,7bn was thanks to feed costs which rocketed in the 2008 and 2009 financial years (see graphic).

“There is no way to recover increases like this in the market,” says CEO Miles Dally Also as the biggest supplier of chicken to quick-service restaurants like KFC and Nando's, Rainbow can adjust its prices to these customers only twice a year — when the restaurants update their menus.

Its listed peers, Astral and Sovereign Foods, fared no better.

Astral's revenue for its six months to March was up 18% to R4,5bn, but operating profit decreased by 32% to R279m.

Sovereign Foods reported an after-tax loss of R492,000 in the year to February, down from R46m in the previous year.

What the results do not easily reflect is the significant changes that have occurred on Dally's watch.

He joined the company five years ago, after the departure of Yannick Lakhnati, who helped put Rainbow on the path to profitability. Dally had been Group MD of Robertsons Holdings.

“Five years ago we sold our products on the basis of price and stock levels,” says Dally.

The company was a commodity play with little to differentiate it.

Dally set out to improve the quality of earnings. This, he said, would be done through the development of strong brands, continual innovation and a solid relationship with the country's biggest quick-service restaurants.

The strategy required investment on multiple levels.

Rainbow reassessed its strategy. “We had to develop value-adding products that earn higher margins, are less volatile in terms of volumes, and satisfy consumer needs.”

Like the world's best consumer goods companies, Rainbow has established a formal process for product innovation and development.

Five years ago 10% of the product supplied to retailers like Pick n Pay was value-added product. Today products like chicken fingers, saucy steaklets and polony comprise 50% of the product supplied to retailers.

Reacting to customer concerns was what enabled Rainbow to become the market leader in polony in just three years. “Mothers worried about what was in polony. We created a 100% chicken product called ‘Simply Chicken' which they happily put on their children's sandwiches.”

Success is not only built on the front end of new product development and clever marketing. “If you are slaughtering four million birds a week you had better get the supply chain right too,” says Dally.

Before him, Laknahti had begun the process, focusing on agriculture and improving processing yields. Plants were closed and people retrenched.

The company has since invested R1bn in new production facilities.

Dally set about integrating the various components in the company's supply chain. Rainbow is a broiler producer that now breeds and rears its own livestock, processes the chicken and then markets and distributes fresh or frozen, value added or further processed chicken.

The old regional divisions have disappeared. “We are one team, aligned behind one strategy,” says Dally. For instance the processing director, feed director, and agricultural director all report to him. “There has to be one person that is ultimately accountable”

He is a big fan of Jim Collins's book *Good to Great*, which as the author says, is about how to turn a good organisation into one that produces sustained great results.

For Dally a key part of this is taking Rainbow's employees on the journey. “Before, Rainbow was edict driven. Now our top 300 people participate regularly in strategy formulation and development.” Ultimately he wants to drive this inclusivity deeper into the business.

The journey is not yet over. “There is much left to do, and success will come in smaller increments. We have picked the low-hanging fruit.”

Also, the economic storm clouds have not fully cleared. Maize prices are likely to remain volatile, though at lower levels, and consumer spending will remain under pressure for some time to come.

The share, at R16.44, is trading around its 12-month high.

*Source: Financial Mail*

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