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CONFERENCE PAPER

MANAGING CHANGE AND MAKING THINGS HAPPEN[1]

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This paper is a case study of a family business which has succeeded through innovation, and has not been afraid to venture into other countries in Europe to secure competitive advantage and to raise quality. A high value is placed on managerial excellence, and the willingness to learn from mistakes.

Key words Change, innovation, growth, Spain, Czech Republic, Europe, vegetables

In this paper I have been asked to talk about the development of our business since 1952 (when my father bought 120 hectares in the Fens) through to the present day. Despite some jumps (and bumps) along the way, progress has been continuous over that period, and today we farm 12,000 hectares in the UK, Czech Republic and Spain, turning over nearly £300m and employing over 4,000 people.

The drive and ambition came originally from my father. He has two values that he constantly repeats:

> **"***The customer is always right***"** (not a commonly held value amongst UK farmers during the second half of the 20th Century!)

and

> **"***Do unto others as you would be done unto***".**

Both very simple and uncannily similar to the Tesco values.

Fundamental to our success has been the development of our marketing skills and our relationship with supermarkets. We focus on customers who can develop and who are profitable and forward-thinking. We try to understand their needs and wants and are single-minded about providing them.

Getting in and investing ahead of the curve has been our obsession; it has consumed a large amount of money but has driven long-term growth. Only a 'family business' playing the 'long game' would contemplate doing what we do at times

I'm going to give you five marketing-led examples of where we invested ahead of the curve:

- Firstly, Father started washing and packing celery back in 1957, yet it wasn't until 1961 that M&S started buying from us.

1. This paper was originally presented at The Oxford Farming Conference, January 2011, and is reprinted by kind permission of the author and the Conference Secretariat.

- Then, in the early 1970s, he invested in cold storage for onions so he could supply year-round – something that was unheard of in the UK! It was phenomenally profitable for nearly 20 years.

- In 1987, we bought a prepared-salad business that supplied McDonald's and started supplying bag salads to supermarkets. It was two years before the business took off. However, in 1990, we sold a majority stake in that business for a substantial profit, exiting it completely in 1996.

- Then, in 2004, we got into prepared salads in the Czech Republic and only now are we starting to make profits.

- Finally, in 1985 we started to grow salads in Spain for the UK markets in the winter, thinking customers would want one supplier year-round. Fifteen years later, the supermarkets wanted exactly that, and we had cracked Spain!

I'm going to use Spain as a case study because, although we've had much success there, we have also made many mistakes.

The coastal strip of Murcia (where our farms are based) is the *only* place in Europe with a climate that can reliably produce salads and broccoli in the winter – so we potentially have 500 million customers. However, land and water are very expensive, labour is highly unionised and the draconian labour laws in Spain make change extremely costly. Also, the competition is ferocious. The past 25 years have been like the First World War; we have 'ground out' our position and poured tens of millions of pounds into it.

We started in 1985 with 30 hectares in the wrong place and with the wrong soils. By 1992, we had grown to 100 hectares, and by 2001 to 2,000 hectares. A year later, we bought a major competitor, Pascual Hermanos, for €41m, which doubled our cropping area to 4,000 hectares, and added tomatoes, citrus and 1,200 hectares of land. To succeed in Spain, you have to take advantage of the different micro-climates – from sea level to 600 metres – and only the Aguilas Valley can reliably produce salads in the depth of winter. We took a huge risk in buying Pascual Hermanos but, as a result, became the biggest land owners in the most important salad growing valley in Europe.

Within a few years, the price of land and property in Spain started rising very quickly and that's when the problems set in. The immense *value* of the property was extremely damaging to the 'business of farming', as nobody looked any more at the losses they were suffering by growing more and more lettuce and broccoli. The unions got very difficult and when we tried to shut and sell our tomato packhouse we had to spend €7m closing it down.

At the start of the recession in 2007, every farm in Murcia lost money – we lost over €10m. But the worst was to come when the property bubble burst. The sale of the tomato packhouse site and of land we had lined up for development fell through, just after we had bought another farm at the top of the market. We found ourselves €23m short of our business plan as we went into 2008. The banks stopped, yes, completely *stopped*, all lending against property in Spain – just as we needed the money!

We managed to refinance Spain from the UK, with the use of a personal guarantee from myself. So why do that? Well, if we are serious about being the leading farming company in our chosen products, we have to back our vision and our judgement. The positive thing about the property crash is that we are able now to attack the key issues of farming – making the operations more efficient and profitable – back to reality!

In *Good to Great* (a book I'd highly recommend)[2], Jim Collins talks about the main drivers of success. 'Good leadership' and 'Getting the right team of people' are obviously important. So too is 'Confronting the brutal facts'. In our case, these are that: 'the supermarkets are *powerful'*, 'the market *does* change' and 'currencies *do* move'.

Collins also stresses the importance of 'discipline'. Lack of discipline and administration can be a real weakness in farming, but we are, in some ways, very good on control and have an enormous amount of detailed analysis of every activity. One of the key factors of our success has been our complete refusal to adopt gross margin accounting. When I came home from Newcastle University in 1976, we adopted fully absorbed costings and net profit accounting for every activity and every single cost, including a charge for family time.

Most of the bankrupt businesses we have acquired over the past 23 years did not have a clue what each activity was making or losing. They knew the *gross* profit but not the *real* profit.

So wherein lie our strengths? In the south level of the Fens we have a range of soils, an excellent supply of water and the driest climate in the UK. These factors give us a competitive advantage in lettuce, celery and onions; they do *not* give us a competitive advantage in broccoli, certainly not over the Lincolnshire silt or Scotland. It took us 20 years and a few million pounds to work that out!

In the 70s and 80s, it was onions and potatoes that provided the money for investment. In the last 20 years, it's been celery and lettuce. Along with our core activity of Fenland farming, we have a number of complementary and synergistic businesses. These include our Czech Republic operation which supplies customers in the summer, most notably Tesco Central Europe (which our Spanish operation supplies in the winter). Another example is our farming business in Warwickshire, which produces salad onions, part of the same supermarket category as radishes, beetroot and celery.

Now, what about technology? To quote Jim Collins again, 'technology, by itself, is never a primary root cause of success'. It does, however, assist in providing the competitive points of difference through cost control and by improving our products.

My father has been a great innovator. He developed new ideas and machinery and had them built in our own workshop right up until a few years ago. He won awards in the 1970s for developing straw planting to prevent wind erosion, and ten years ago his rubber-tracked innovation for planting

2. Collins, J (2001). *Good To Great: Why Some Companies Make the Leap... and Others Don't.* Random House Business.

salads provided annual savings of £0.5m. Similarly, in the 1980s, my brother, Peter, introduced land levelling and water table control for sub irrigation, saving cost and winning environmental awards.

We pushed the packing of salads to the field in the 1980s and 'invented' just-in-time and LEAN with this innovation. The salads are packed, labelled and date-coded on rigs in the field in Spain and are then, via cold chain, delivered directly to supermarket depots in the UK.

With our beetroot business, the whole success is built on our technical ability to develop new and better tastes, whether through control of the cooking and marinating process or through the development of exciting new (or old) tastes and recipes. We bought a loss-making beetroot business with £600,000 of sales in 1990. My sister, Annabel, ran this business and, by using a Mrs. Beaton's malt vinegar recipe, transformed it by focussing on taste and quality. In 2000, sales were £3m and now, through further growth, new product development, the acquisition of three competitors and a brand new £15m factory, we have a business with £20m sales, with a wide range of delicious premium products. If you haven't *yet* got the message: *beetroot is one of the most healthy foods you can eat and it's now the best tasting as well!*

Seed varietal development is still a key factor for our business and we work with the seed breeders to find new varieties that can give us a competitive edge. There's always the threat of a competitor gaining an advantage with a variety we cannot buy. Some USA farming companies have their own breeding programmes but we have stuck with developing partnerships with seed breeders in the UK and abroad. This could turn out to be a mistake – it's a difficult decision. The big seed breeders have the scope, expertise and focus and we hope that, as the biggest grower, they will bring their best new varieties to us.

Looking at the business as a whole, there have been a number of turning points or breakthroughs that have helped us jump forward. Mostly, though, it's been a steady, cumulative process of persevering, investing, improving visual quality and taste, cutting costs and acquiring new businesses. Jim Collins likens this phenomenon to a 'giant heavy flywheel' which "builds momentum, eventually hitting a point of breakthrough".

Business academic, Larry Greiner, describes the 'five phases of growth'[3]and I can very closely identify with these, as our business has gone through several 'revolutionary' periods of substantial organisational turmoil and change. These bumpy periods always involve profit (or lack of it) and usually involve people, management and structures. For instance, centralised structures can lead to demands for de-centralisation and then for the reverse a few years later! For me personally, it has meant changing and adapting my role, which has often been difficult and painful. It has meant parting company with people whom I like and who have contributed a lot – it's tough.

For some people, an inability to delegate can be a problem, but not for me - it's easy to find people who are better at managing than I am! Another big

3. Growth through **creativity**, growth through **direction**, growth through **delegation**, growth through **coordination and monitoring**, growth through **collaboration**. See 12 Manage, *Growth Phases model (Greiner)* http://www.12manage.com/methods_greiner.html [Accessed 21/4/11]

enemy is 'complacency'. During the smooth 'evolutionary' growth phases, big decisions need to be made to help mitigate the 'revolutionary' bumpy patch which might be just around the corner.

For the past seven years, I have used non-executive directors, and for the last five years a non-executive, non-family, Chairman. They have been a great help in this process and we should have done it before.

Procurement is another key component of our success. Over half of what G's Marketing sells is provided by other farmers worldwide. Also important was the formation of the growers' co-operative in 1984. G's Growers has 19 members (including our own farming operations) and its purpose is to market members' products for mutual benefit of the members. G's Marketing Limited provides the co-operative with marketing and managing services, this being reviewed annually by the growers.

The purchase or rent of key farms has been essential to our business. For example, in 1968, Father bought one of the best Fen farms for a record price, creating the platform for our onions and celery business. Prior to that, in 1955, he acquired a 180 hectare farm in Wissington Fen. We struggled there until my brother, Peter, took it on at 23 years of age in 1980. Over the next 20-odd years, he turned it into a 1500 hectare powerhouse, with land levelling, drainage and outstanding conservation and wildlife habitats.

As already mentioned, our acquisition in Aguilas Spain in 2002 solved our mid-winter supply. Four years later, we rented a 300 hectare farm in Campa Cartagena and, with the investment in a desalination plant, we cracked another weakness of producing quality celery in May. Prior to that, we had to import celery from California or grow inferior quality product in UK glasshouses.

Many of our products are very labour intensive. The traditional source of labour in the Fens dried up in the 1970s/early 1980s and we have developed purpose-built facilities for housing the 2,000 seasonal workers we need in the summer. We could not have developed our business without the student permits we managed to acquire in the early 90s. In Spain, we rely on Moroccan and Ecuadorian seasonal workers and they are readily housed in empty summer holiday accommodation on the coast.

In 23 years, we have bought 20 companies. Not all have been a success but most have added market share, notably Hasse Limited, Pascual Hermanos and Bomfords. We have paid a lot of money for some businesses, but mostly specialise in buying businesses that are in trouble.

How are decisions made? Firstly, the willingness to invest and take risk is vital and several times in our history we have bet the company on new ideas and ventures. We calculate the risk carefully. I studied Economics and Maths with Statistics both at school and in my Agriculture course at Newcastle, and that has been extremely valuable to me. Within the company, we generate ideas by allowing people freedom and a sense of ownership.

We are a fully integrated organisation and our business structure is horizontal.

Each function makes a satisfactory profit with targets based on risk, ROC, and margin on sales. They pay an economic rent for property and there is a strong, commercial interface between parts of the Group.

With this structure, local management have a high degree of autonomy and, in some cases, have shares in the business they run. On the downside, this can lead to a 'silo mentality' and lack of inter-team co-operation, but the upside of a motivated team is immense. Ideas flood in and our biggest problem is sifting out the better ones.

Our business is, of course, driven by the market and the market constantly changes – over the past few years it has been bewildering! Four years ago, the whole market was going organic. Unusually for us, we were late in and over-compensated by investing too much, only to be absolutely hammered in 2007. That year, the market shrank by up to 50% (our business plan said it would double) and we experienced the wettest summer since 1912, leading to the destruction of many of our organic crops. These factors contributed to a £5m loss on our organic business that year.

'Local' soon took over as the 'new organic' and we reacted quickly to that, launching a wide range of local products from several different growers. This movement towards 'local' produce, however, is a threat to us; we are a UK producer supplying the whole of the nation from efficient large-scale production points. We cannot afford to lose parts of our market to local producers.

As for the future, I don't worry about going broke, but I do worry about failure. I want to succeed and this is a big driver.

Without growth, the business goes backwards. Twenty-five years ago, my brother said that we need to grow at 4% to stand still, so in 15 years' time, when I'm 70, our sales will have to be over £500m. In food and farming, prices tend to *fall* rather than *rise*, so the growth will have to come from increased sales and by adding value to our products. That is going to be tough!

We have the next generation of the family coming on, plus a strong, professional management team to help achieve that. The European market is enormous and, as Central Europe gets wealthier, they will buy more fresh produce. Every time we hit another bumpy 'revolution', I say "NEVER AGAIN" – but we shall see!

About the author

John Shropshire, OBE (John.Shropshire@GS-Marketing.com), is CEO of the Shropshire Group of companies which now has sales of £300m per annum in the UK and throughout Europe. Integral to its business is its expertise in growing with its own farming operations in the UK, Czech Republic and Spain producing over 9,000 hectares of salad and vegetable crops supplying half of group sales. The remainder is sourced from 30 other committed growers world-wide. The Group employs over 4,000 people and has won several national industry awards recognising its progress in technical and product innovation, exports and environmental management. After gaining a BSc Hons in Agriculture at Newcastle University in 1976, John joined the family farming and marketing business that had been founded by his father in 1952. He is married to Trish, and they have four children, three of whom work in the business with the fourth still in full-time education.