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Walmart data changes the game

How Cristiano Creminelli brings
Old World Italy alive in Utah

The antibiotic debate:
Science is no help

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2012 Knowlton Award honoree

C. Larry Pope
talks about sustainability,
unions, ethanol, profits,
plant safety and pigs



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Smithfield CEO C. Larry Pope

holds forth in characteristically notes-free and no-holds-barred fashion on unions, ethanol, exports, brands, environmentalism, how to change a corporate culture and getting his 15 cents.

His success in these areas, and more, are why he's *Meatingplace's* 2012 Knowlton Award honoree.

Smithfield CEO C. Larry Pope in his office at corporate headquarters in Smithfield, Va.

By Lisa M. Keefe, editor

C. Larry Pope is known for his extemporaneous commentary on the protein business, the politics of ethanol or his company's financial performance, peppered with home-spun homilies delivered in a tidewater Virginia drawl.

Behind the country boy persona, however, is a man with a plan — several plans, actually, for cementing his \$12.2 billion company's industry leadership in sustainability, growing internationally, transforming the company financially from a commodity-driven hog-slaughterer to a consumer demand-driven packaged meats maker, driving its charitable efforts to a higher profile, and managing around unpredictable input costs.

In a wide-ranging conversation, Pope describes the ups and downs he's encountered and how he's managed through them, for which *Meatingplace* has named him the 2012 Knowlton Award honoree for outstanding contributions to the industry in the areas of leadership, enterprise and service.

Meatingplace: The CEO's job is to meet certain performance benchmarks, but there's more to leadership than that. Describe your philosophy of executive stewardship.

POPE: The senior management — and I, in particular — realize that our primary responsibility as a publicly traded

company is to enhance shareholder value — [not] just immediately, but ... create the right fundamentals to deliver long-term, sustained shareholder value. That's what I've been striving to do here.

Meatingplace: How do you sell that distinction internally and externally to all stakeholders?

POPE: Shareholders are looking for stable cash flows. The meat business by definition has ... ups and downs. In order to improve the long-term value to shareholders, we need to limit those downturns and create more sustainable cash flows that will reward us in terms of a multiple on our earnings and propel the stock price higher.

To accomplish that can be more difficult when we're tied to commodities such as grain and live hog markets.

That being said, we've been changing some compensation plans to tie a portion of executives' compensation to long-term movement in the stock price and pay them as equity-based compensation ... tying [the] plans to individual goals [that will sustain long-term growth], not just bottom-line profits.

Meatingplace: Describe your philosophy of corporate stewardship — Smithfield's role and responsibilities for employees, the communities and countries in which you operate, and the environment as a whole.

POPE: We've had a checkered history



Smithfield Foods' CEO
C. Larry Pope

AGE: 56

ALMA MATER:
College of William and Mary,
BBA (1975), MBA (1995)

ACCOMPLISHMENTS

Made peace with the UFCW after more than a decade of toxic fighting

Took Smithfield from a commodity provider of meat (net profit margin was 1.5 percent in fiscal 2006) to a maker of branded packaged meat products to consumers (net profit margin was 4.3 percent in fiscal 2011)

Grew the company to record sales and profits: adjusted operating profit in the first fiscal quarter 2012 (ended July 31, 2011) was \$222.2 million on record quarterly sales of \$3.1 billion

Gave away more than 8 million servings of protein to needy adults and children nationwide last year

Evolved from a company with a reputation for being a serial polluter to a sustainability leader in the industry, with the only "A+" rating in the food and beverages category in the report by Claremont McKenna College's Roberts Environmental Center, given Smithfield for its 2009-10 sustainability efforts.



on the environmental front starting more than 10 years ago, and it culminated with the State of Virginia taking legal action against the company. The gentleman who was leading the [state's] Department of Environmental Quality, Dennis Treacy, is now ... our chief sustainability officer. He has done an enormously good job of changing the whole culture of Smithfield Foods from the inside.

We've published our 10th corporate social responsibility report, [and it's] larger than the financial annual report. That's how important it is [to us].

We have an animal welfare policy that we think is the model of the industry. We have a plan that has radically reduced injuries in our plants; we are now well below industry [averages] for the meat industry, and we are on a sharp move toward being below the average of all industries in America.

Finally, we feel strongly that our business has to be involved in the communities where we do business in the United States as well as overseas. Through [the] Helping Hungry Homes [program] (Smithfield's initiative to provide food through food banks, school nutrition

programs, disaster relief and community outreach programs) as well as our Learners to Leaders Program (a national alliance that helps disadvantaged individuals achieve educational goals), we fed 8.3 million servings [in fiscal 2011]. [The] Smithfield-Luter Foundation [provides scholarships to the dependent children and grandchildren of full-time and retired employees of the Smithfield family of companies and] we've made several large contributions to universities (including Christopher Newport University and the University of Virginia Health System) and public school systems where we do business.

My point of all of that is our organization realizes we've got to be good stewards of the environment, the animals we raise, the food we produce, and our people in the communities where we do business.

Meatingplace: What has it taken for you as the leader of Smithfield to change the company culture?

POPE: I think that the meat industry is sort of tagged with a [reputation] of a rough-and-tough business and ... we work people awfully hard in difficult and cold arrangements. It's an

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early morning, hard-working, get-it-done [business]. It's low margins, high volume so there's enormous amounts of pressure in this business to produce. I think we have over a number of years communicated with our employees the value of these various projects they're doing. We give out the [Environmental Excellence Awards program that recognizes environmental stewardship efforts with cash awards of \$5,000, of which \$3,000 is donated to a charity of the winning team's choice]. Since 2004, we've saved about \$211 million in operating costs.

It's not something that ... a few executives can espouse in some fancy words. You have to get it down into the plants. As an example, with our injury program, we stopped focusing on our workers' comp cost and we started focusing on our employees: Who's gotten hurt? Why are they hurt? What do we do to take care of them? What could we have done to prevent it? And then we make some action occur so the employees see ... these people really care. And I don't want to tell you that we're all the way there, but I think we've made massive amounts of progress.

Meatingplace: Among these things we've been talking about, which is the accomplishment of which you are most proud?

POPE: No. 1 is the transformation of the company toward a consumer packaged meats company. I think that we have — and I take a little bit of credit here — transformed this business in a big way from [one] that makes very small margins on commodity products toward a branded company. We've trimmed our brands from 100 down to 12. We've reorganized the operating companies

from seven down to three. We have focused on our packaged meats business and closed seven processing plants to eliminate excess capacity so we could begin to market around our brands, creating [demand].

We used to make two or three cents a pound on a package of hot dogs or bacon. Maybe six years ago we started a program, "I Want My 10 Cents." We had these little plastic Lucite cubes with a dime in them and hundreds of people got those, including all of our sales people. My position was, if you don't make 10 cents a pound on this, don't sell the meat. Just stop. Start making the brands perform. Get people to go in the store to buy *our* bacon, not just a package of bacon. I thought getting from three and four cents to 10 cents was nearly impossible [but now] ... we're at 17 cents. And we've just begun to market. This year [our consumer marketing spend is] up about 20 percent.

Meatingplace: Does that mean that the company is no longer pursuing a vertical integration option?

POPE: We are not actively interested in live production expansion — in fact, we have contracted that about 15 percent.

Going forward, our emphasis is on branded meat, either fresh pork or processed and packaged meats, not just domestically but internationally.

Meatingplace: What would you say is your biggest mistake or regret?

POPE: I don't know that I regret any of the



big decisions. Certainly, we had two of the worst years in the company's history in 2008 and 2009, and that was a combination of sharply higher grain costs, for which I didn't get a good hedge in place to protect the company, and of course the downturn in the overall market. I think we reacted as well as we could and got the company through an extremely tough time. From my standpoint, I wish I had seen that earlier. We have now changed [our grain hedging] strategy and that won't happen again.

From a business standpoint, closing a plant and knowing employees are going to lose their jobs, there is no more difficult a job that I can think of. To know you're making a decision to put 500 people out of work when it's extremely difficult for them to find another job, it's just — there's nothing to say.

I guess I wish we had resolved our differences ... in our big plant in [Tar Heel, N.C.] with our union ... sooner. It took too long and too many years and probably cost the union and the company too much money.

Finally, I would tell you that I'm a little frustrated that I can't quite see the way to grow the company at the same level as my predecessor, [Chairman Joseph W. Luter, III]. Joe was CEO for 35 years building [Smithfield], and the opportunity I've had to take this company, building

THOUGHT LEADER

on an enormous foundation ... Joe Luter created the environment for me to make this a success. To keep that growth curve going is extremely difficult. What keeps me awake at night is, how do I take the company to the next level? That's not easy to see. Very likely that's overseas.

Meatingplace: Would you be looking at acquisition as a primary vehicle for growth in that regard?

POPE: I suspect that something outside the United States will be more organic. Now, any future growth [in the United States] is probably going to have to be through acquisition. But the meat industry is healthy and acquisitions in the United States are pretty expensive.

Meatingplace: How would you characterize Smithfield's relationship with the UFCW now?

POPE: We have a good relationship with the UFCW. I think they would make the exact same comment. We haven't had an unfair labor charge against us since the contract [covering 5,000 employees in Tar Heel] was signed over two years ago. They haven't filed a single grievance.

My position is, if our employees want a union in their plant, we'll work with a union. If our employees don't want a union, then I don't think it should be imposed upon them, and that's why we're so opposed to card check. Since [the Tar Heel plant unionized], we've had one plant unionize and one vote not to.

Meatingplace: There seems to be some recognition in Washington, D.C., of the effect of the Renewable Fuel Standard on feed grain and ultimately on food prices. Do you agree?

POPE: Oh, I think there's been a

complete mentality shift. I don't think the politics around the origination of ethanol and the Renewable Fuel Standard was well thought-out. We want to make America energy-independent but not on the back of the consumer in a hidden tax called increased food prices when it doesn't get us off foreign oil [or] make us energy-independent.

If the subsidy goes away, which I think it will this December, and if the mandate goes away, which I don't think will happen in the near term, and you eliminate a tariff on imported ethanol — because if you really believe ethanol's that good, why [not] allow it to come in from any other country? — and we have corn compete in an open market for its highest

and best use and I lose, that's just the free enterprise system. When we create these artificial opportunities for it to go into gasoline, that's when I have a problem because I can't compete with the U.S. government.

Meatingplace: To what extent do you credit the industry's lobbying efforts for this mentality shift on ethanol?

POPE: I think 1,000 points of light have been shining on this issue. Smithfield couldn't have made this legislative change [happen], but I think we may have helped lead the meat industry, which has been pretty vocal. But there's a whole coalition of industries. We've helped that coalition stay together



and focused on the message.

Meatingplace: More on the financial side, beef looks like it's about to soar in price, which leaves pork and poultry duking it out for consumer attention. What do you see happening in the market in the years to come?

POPE: Beef supplies are going to continue to shrink [and] simply be out of the price range of a lot of Americans. Pork and chicken will take up the slack. Pork trades between beef and chicken, so as beef prices elevate it naturally pulls pork prices forward.

I think the pork industry's doing a good job of value-add ... so I think pork's going to do well [and] chicken has always done well in bad times.

Meatingplace: What is the next big thing for the industry, the company and for you?

POPE: One of the hallmarks of the protein industry and American agriculture is our competitiveness. If we're allowed to sell our products in a free and open market around the world, I think the future for American agriculture is phenomenally good. Smithfield will be one of [the American companies out there] but not the only one. I think you'll see a lot of growth of the U.S. protein companies outside the U.S., and that part will be very profitable and good for the industry — very, very good for the industry. I hope to be part of that. I hope we're part of that. ☺

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