

# the Kernel Journal




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Newsletter for and about the employees of Faribault Foods, Inc.

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## Campbell's acquires Wolfgang Puck soups

### Faribault Foods' co-pack arrangement to continue

**O**n June 30, Campbell Soup Company acquired the Wolfgang Puck soup business from Country Gourmet Foods and with the transaction assumed the existing co-pack agreement between Country Gourmet and Faribault Foods. "They don't have their own natural or organic line, so it behooves them to stay with Faribault Foods, and they have shown that they want to maintain that relationship," said Gary. "We're optimistic that we can 1) sustain the business, 2) stay with them as they grow the business, and 3) reach a new co-pack agreement with them that is beneficial to us."

By all indications, says Gary Kindseth, executive vice president, strategy, Campbell's will continue this co-packing relationship with our company.

According to its acquisition announcement, Campbell's bought the Wolfgang Puck business to enter the organic and natural segment of the soup market.

"They don't have their own natural or organic line, so it behooves them to stay with Faribault Foods, and they have

For Faribault Foods, the acquisition likely means increased volume. Country

*Please see Campbell's page 3*

## Expectations exceeded; Scott King promoted

**A**rriving at Faribault Foods in 2006 to take its vice president of manufacturing position, Scott King, pictured to the left, remarked on employee enthusiasm:

"I'm reinvigorated by the people here and how hungry they are for making improvements and moving forward," he said.

Since then, Scott has mentored existing employees and brought in new people to dramatically improve efficiencies and significantly drive costs out of the company's three plants.

"Scott has elevated the expectations of the people here," said

Mark Hentges, CFO and treasurer. "He has led them to accomplish the goals they established when he joined the company and much more. Over the past two years, productivity has improved beyond plan and waste has dropped significantly in each facility."

Because of his leadership and the accomplishments of his people, the company recently promoted Scott to executive vice president of manufacturing and operations. As part of the promotion, Scott's responsibilities will broaden to include overseeing all fixed-asset and plant-related capital projects.

*Please see Scott King page 3*

# Leadership challenges

(Or 'What I did on my summer vacation' by Reid MacDonald)

This article will begin with an embarrassing, klutzy story about myself. But all articles by your CEO must have a message and in this case the message is about leadership development. It is:

- 1) We can all improve our leadership skills.
- 2) Little things can count a lot.
- 3) Basic leadership rules: settle down, shut up, listen, let people take their own initiatives and just be nice.

Okay, on with my story, which took place during the MacDonald Family's 10-day vacation to Italy in June. Let me introduce the characters:

**Ann (my wife)**, keyed up to a nervous pitch by detailed trip planning and hyper scheduling. Now she's anxious that everything will go just right.

**Maria, 23**, who lives in Argentina, is eager to take back her controlling oldest sister role. She's full of ideas, creative, has a high-energy smile and strong emotions to go with it.

**Gray, 22**, our second daughter, who just graduated from college and has been the center of attention. She has temporarily fallen into a trance-like state of worry about her future.

**Reidie, 19**, third daughter, tired after her freshman year in college where she combined hard work with some hearty partying. She anticipates shopping for trendy Italian clothes.

**Van, 15**, our only boy who says not a word before noon and, as it turns out, has a taste for fine Italian cuisine. He has an adventurous spirit and a curiosity about Roman history.

**And me**, CEO and presumably a seasoned leader, trying to keep this crew together.

So Van wants to sleep all day; the girls want to shop. And of course, after dinner when Ann and I turn in, their evening just begins.

We went first to Florence with its Renaissance paintings and buildings. Then to Sienna, which has tiny streets, no cars, and where everybody prepares all year for an August horse race around the town square. To Lucca, a walled-in city protected by a mote until a few centuries ago. And to Rome to view many sights including the Coliseum basement where gladiators awaited battles to the death.

Unfortunately, our group soon encountered trouble. We were pulling in different directions with conflicting



The MacDonalds at dinner in Sienna. Left to right: Maria, Gray, Ann, Van, Reidie and Reid. Everyone is a leader in his or her own way.

priorities. We had stuffed names and dates into our brains. We had loaded pasta di giorno into our bodies. Our nerves were as raw as our feet. Pressure mounted as we pushed on to the next "must see." And of course the Euro's flowed like Chianti.

It was a little like labeling while the customer's truck waits. Or squeezing last minute 3-Tall bean production into a crowded schedule.

Worst of all, whenever I spoke up nobody seemed to listen.

One day I was sitting in a clothing store as the girls were trying on the latest designer apparel. *Suddenly....I blew up.*

I ranted loudly about how we

were wasting our time. Then I withdrew and sulked, feeling guilty. It was embarrassing for everyone, and of course, it had disastrous results.

Everyone wandered off, and I was left to think: Here I am, a company CEO, and I can't even lead my own family. Then I considered the bright side.

First: They can't quit on me. We're in Italy. I have the money. Where would they go? Then: Maybe it would be a good idea to rethink my approach. So Ann and I decided to consider our children as distinct individuals, and we developed a plan:

My son Van had just taken a Roman history course, so we asked him to take us through the Coliseum. ...Gray has a great sense of fashion, and she's a terrific cook, so she found interesting shops and out-of-the-way restaurants for us. ...Reidie had done

well in her art history course so she led us through museums and taught us about the paintings.

...Maria, who speaks fluent Spanish plus a little Italian, became our recognized translator. ...Since she did the planning, Ann became our head of operations. As for me, I relaxed about the bills — I am still paying them! — and resigned myself to being a "happy dad" while others

did the work. I called that "leadership."

In the end, we had a wonderful trip filled with moments we'll remember forever. Ann's preparation paid off; everything ran like clockwork! And it did work to treat everyone as a leader. When we expect the most of people, they will deliver as long as we treat them with respect and gratitude.

Blowing up is a horrible idea, of course. Fortunately, I was able to contain myself for the rest of the trip. That was good for team morale. Plus I felt so bad, I spent my last dollar in that woman's clothing store.

And if ever my family goes on another trip, hopefully I will have learned something.

# The economy and Faribault Foods

A note from Reid MacDonald, President and CEO



**W**ith all the confusion about our national economy, I thought I should address the likely impact of all of this on Faribault Foods.

First, Faribault Foods is fundamentally strong, and we do not have plans that would cut pay, benefits or jobs. Having said that, we are not having a particularly good year financially, but that has more to do with higher commodity costs and less-than-budgeted sales volume (down 7% in the first half year). We are working on making up that shortfall.

The company does not rely on a large amount of bank credit and so will not be affected by a credit squeeze if it hits other sectors of our economy. Plus, our customers are for the most part large, well-financed

retail grocery chains that aren't going to go under, and the same can be said for our key suppliers. We will be watching all of these like a hawk.

Our pension trust fund affecting some of you is fully funded and protected by the U.S. government. Our 401(k) balances also have U.S. government protection. However, while the fund balances are protected, you are not guaranteed any rate of return so you are taking the risk of your individual investment decisions. It's wise generally to invest in a balanced manner. If you have concerns about this speak with our HR department.

This note is meant to calm you

and make you feel secure about your job. But I don't mean to leave you with the impression that Faribault Foods is going to skate easily through the rough seas ahead. It is critically important that all of us pull together and make every effort in our own areas and departments to avoid waste and mistakes. Things could change if we don't all pull together to operate a high-performance company that we can be proud of and that our customers will continue to support. As long as we step up our focus on those fundamentals, we'll be OK.

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## Campbell's

*Continued from page 1*

Gourmet's Wolfgang Puck had limited distribution, whereas Campbell's distributes nationwide.

"Because of Campbell's size and volume in the soup category, one could reasonably expect them to substantially grow this organic soup business," says Gary. "This relationship with Campbell's fits perfectly with our initiative to grow our soup business in Cokato during FY '09."

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## Scott King

*Continued from page 1*

Scott came to Faribault Foods from General Mills where he worked as an engineer, in production and plant management, and finally as business director in the company's new ventures sector. At General Mills he analyzed and organized plants for improved performance. He also has worked for Exxon-Mobil Oil.

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## Sales steady despite cost pressures

Sales and marketing department watching market closely

**A**lthough a little uneven across categories and despite ever-increasing cost pressures, sales overall remain steady as we near the close of our fiscal year's second quarter, says Executive Vice President of Sales and Marketing Frank Lynch.

Even so, exactly how Faribault Foods will do as the fiscal year moves forward is difficult to say, he says.

Explaining, Frank said that in the past year our commodity costs have risen dramatically, and this may not be a short-term spike. He listed several ways this new level of cost pressures might unfold in the market:

- 1) Private label products could benefit because they reflect a better value.
- 2) Discount retailers may benefit as consumers seek deals and bargains.
- 3) Mass merchandisers might benefit as consumers reduce shopping trips to conserve gas.

At Faribault Foods, cost pressures have forced us to take price increases and these increases are now

working their way into the market. It's still unclear how, if at all, they will affect our business, but Frank did share a few observations.

"Our private label business has been rather strong in the last three months even though we have taken price increases," he said. "This seems to be in keeping with private label products doing better. On the other hand, branded business, good in April and May, weakened a little in June."

Making projections even more difficult, we know that some retailers will use the lag between our announced price increases and implementation as a time to buy more inventory at a cheaper price and in that way buffer the price increase.

"We've also seen some pull back on promotions," said Frank. "So the market is a little hard to read right now, and the best thing we can do is watch carefully — stay on top of marketplace pricing and what's happening with volume shares."



# Needed: mistake-free year — and more — to reach budget

Commodity costs have increased dramatically more than expected, and despite the fact that the sales department did a fantastic job of going to the market and getting needed price increases last spring, we are turning to them again, says Mark Hentges, CFO and treasurer.

“We are asking the sales and marketing departments to devise a strategy on how to get price increases again in October or November that will offset our cost increases,” said Mark. “We are seeing significant bean cost increases, and the only way to cover the cost increases is to push them through to customers.”

Here are additional steps the company is taking to offset inflation:

- Changing shipping, i.e. truck to rail, etc.
- Consolidating our juice and can orders to reduce overall freight costs.
- Spending fewer trade dollars and spending them more effectively.
- Attacking shrink to continue our significant strides in reducing raw ingredient usage in all our plants.
- Enhancing our market intelligence so obtaining price increases doesn't adversely impact sales volume.

“We've built a significant number of planned efficiencies into our budget, and we are running ahead of those efficiencies,” says Mark. “Our plants again are performing better than planned, which is helping to offset some commodity cost increases.

“Scott King (executive vice president of operations) recently told me that in 22 years he has never seen



## It took months to create this book Was it worth it?

The three-ring binder pictured above on the desk in front of Mark Hentges, CFO and treasurer; and Kristi Swisher, controller, holds Faribault Foods' fiscal 2009 business plan. Over 300 pages and published in May, the plan required months to complete. Kristi calls it a collaborative effort.

“People from all areas had input in the plan,” said Kristi. “We just happened to consolidate it and work up the numbers.

“We planned piece by piece starting with sales volumes. You have to have sales volumes before you can do production volumes. And you need production volumes to determine wages, materials, freight and other expense budgets. There are so many variables.”

Besides a collaborative effort, preparing the plan was an

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an environment where plant efficiencies couldn't offset inflation,” said Mark. “But that is our situation today. We have plenty of work to do. We are doing a lot of the right things, making a lot of positive changes, but it's going to be a difficult year. We need to spend wisely and stay positive.”

exceedingly iterative process.

“As things would change, we would request updates from sales or from production because we couldn't compile the book until all the numbers were finalized,” Kristi said.

“It should not have taken as long as it did, but we had so many components affecting our budget this year. We had a lot of moving parts. Budgeting in detail is an evolving process and was new to many involved. That will improve in future planning cycles.”

### WAS IT WORTH IT?

Will the book be useful? Was the time worth the effort?

“Absolutely,” says Kristi. “Now we have something to guide the business and measure against as we go through the year, and that's extremely important. We can't evaluate how we are doing unless we have something to measure against.”

“I don't think we've ever had this detailed a budget,” said Mark. “Now we can prepare valid, thorough and detailed analysis. We can compare what we thought was going to happen with what actually happened and proactively respond to business issues as they arise.”

# New Faribault plant taking shape

## Facility runs at budget rates during chaotic period

About the time the 35W bridge in Minneapolis collapsed in August 2007, we had our own “rusty plates” when a concrete chunk fell from the mezzanine in Faribault.

And just as the bridge collapse dictated a new bridge, our errant chunk triggered a plant remodeling.

A year later, both bridge and Faribault plant projects remain on schedule. Though our remodeling hardly competes with bridge construction in size, we faced an obstacle that the bridge contractors did not: We needed to keep our facility operating while construction progressed.

“We had no alternative plant to run bean products,” said Dave Tieman, director of operations.

The plant has done a great job of working through its transition, he says. It has maintained production without customer service issues and with no project-related quality issues.

“In fact, our quality is higher

than it has been,” said Dave. “We set a 4 percent ICA level goal this year and so far we are at 4.4 percent despite potential risk from construction.”

He credited design team members. This 13-member team centered planning around how to keep the plant running through transition. For

example, they divided the floor plan so contractors could move one area at a time. They also planned use of a start-up ladder to carefully bring each new line up to 100 percent efficiency.

“At start up we know we might run at 40 percent, perhaps at 60 percent the second week, and we progress along that ladder until we reach 100 percent,” said Rob Rogstad,

operations manager. “It’s really about communicating issues and having the boots on the floor to see the issues right away and manage them quickly. We have a good team from that perspective. Everyone stays focused and there’s a lot of communication. It’s a very responsive group.”



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1) Around the table beginning on the lower left, design team members are, Rob Rogstad, operations manager; Dave Maynard, controls technician; Ken Beaupre, production maintenance manager; Dave Tieman, director of operations; Rob Schwichtenberg, production maintenance; Phil Hines, senior project engineer (WEI); Jeff Martinson, production maintenance lead; Brenda Probst, process improvement manager/start up manager; Wendy Gillen, production, canning operator; Greg Nugent, QA manager; and Angie Keilen, production supervisor. Not pictured: John Lawrie, technical manager, and Bob Klahr, production maintenance.

2) Workers removed the first section of the mezzanine in July to make room for the refried line, which moved in early August.

3) Brenda Probst, process improvement manager, demonstrates how each part of the line starts sequentially with just one push of a button on this Human Machine Interfacing computer screen. Brenda and Stu Wagner, training supervisor, oversaw line startups simultaneously trouble shooting each line. Operator input improved user friendliness.

4) Bean and brine line number one, left, moved on March 31 and began running a month later. Line two, right, also a bean and brine line, began its move on June 2 and began running on June 26.



# Three departments add employees

## JOEL GAUSTAD: 'THINK ABOUT THE MARKET IN BUYING DECISIONS'

Joel Gaustad has worked in food purchasing for ten years, including as a buyer at General Mills where he employed hedging as part of his corn and soybean buying strategy.

"We aren't big enough at Faribault Foods to hedge with publicly traded futures and options on the ingredients we buy, but we can at least have a plan for what we do," says Joel, Faribault's senior director of sourcing since mid April. "I want our buyers to always think about the market in making buying decisions."

Joel works with buyers Lisa Kenny and Tom Youngquist, Elk River; and Tom Randgaard, Faribault; and packaging specialists Heidi Kohanek and Connie Anderson, Faribault.

Besides his work with General Mills, Joel purchased bakery and deli raw ingredients for Lunds and Byerly's stores. He also worked at Novartis Nutrition, now Nestle.

Joel holds an MBA with a supply chain management concentration from Arizona State University, Tempe. A Minnesota native, he and his wife, Sarah, have two daughters, Joie, almost two, and Sadie, born in August.



## STEPHANIE SELIGA TO ENSURE HIGHEST QUALITY PRODUCTS

Stephanie Seliga joined the company in late May as director of quality.

"I rely on the quality groups to work with operations personnel to ensure that the products we produce meet the company's internal standards, our customer's expectations, and comply with regulatory requirements," she said about her position. "We want to meet the best practices in the industry and ensure that we are making the highest quality products."

With bachelor's degrees in microbiology and biochemistry from the University of Minnesota, Stephanie has worked in the food, personal care and medical devices industries. She spent eight years with Novartis.

Away from work, Stephanie likes to travel. Most recently she visited Costa Rica, and this October she plans to go to Africa.



Far left: Joel Gaustad; middle: Stephanie Seliga; right: Eric Julstrom

## ERIC JULSTROM NEW MARKETING MANAGER

Eric Julstrom joined Faribault Foods as marketing manager in July. Reporting to Frank Lynch, he will work on developing both branded and private label businesses. Currently, he is searching for promotional opportunities to grow sales and customer awareness for our S&W brand in the Minneapolis and St. Louis markets.

Before coming to Faribault Foods, Eric was marketing manager for Blue Bunny Ice Cream, Wells Dairy, Inc., LeMars, Iowa. He also worked for Matsushita Home Appliance Company, a Panasonic operating company in Danville, Kentucky. Eric has an MBA with a marketing focus from the University of Iowa. Originally from Iowa, Eric spent most of his growing up years in northern Illinois. He and his wife, Logan, have a 21-month-old daughter, Inga.

## Employees clean litter and trash from city trail



Volunteering for the "Adopt-A-Trail" program, left to right, Brad Kindseth, director of deployment; Karen Schisler, senior sales coordinator; Jim Noonan, vice president branded sales; Kristal Sevcik, private label account executive; and Karen Fink, promotion analyst, cleaned a mile and a half section of a Faribault hiking and biking trail behind the Faribault facility this spring. (That's Faribault Foods in the background of this picture.) Kristal initiated the project while participating in Faribault Future, a leadership development program, and the company quickly endorsed her idea. Faribault Foods Executive Vice President of Strategy Gary Kindseth was among the founders of the Faribault Future program. Said Kristal, who makes community involvement a priority, "I joined Faribault Future to figure out what I could do to make Faribault better." Kristal again will seek Faribault Foods' volunteers for a fall cleanup.

# Pulling together our sustainability plan

From the beginning, we have purchased corn from local growers. Only recently, however, have we learned that this is called sustainability.

“When I started, I was happy to see that the company was doing a lot of good things like this and for the right reasons,” said Jason Einertson, an intern at Faribault Foods this past summer who analyzed sustainability for the company – our sustainability, and sustainability in the food industry and in the world in general. Jason is an MBA student at the University of Minnesota’s Carlson School of Management.

To analyze sustainability, he looked at the metrics people use to determine whether a company is acting responsibly when it comes to the three aspects of sustainability:

- Environmental, which means



Jason Einertson, right, an MBA student at the University of Minnesota’s Carlson School of Management, worked on a sustainability project for Faribault Foods as an intern this past summer reporting to Executive Vice President of Sales and Marketing Frank Lynch, left. Before beginning his MBA, Jason lived in Washington DC and worked for Senator Rod Grams, and also at the White House and at the Departments of Energy and Labor.

how green or environmentally friendly a company is.

- Social, which encompasses community involvement, diversity in the workplace, employee benefits, and how a company treats its employees and its community as a whole.
- Economic, which asks whether a company is economically stable.

He then balanced these metrics against what seems to be important

at Faribault Foods to see how we measure up and determined how to improve sustainability at the company. The final step is to market our sustainability.

“Other companies market what they do, so it’s important that Faribault Foods lets its customers know what it does too,” said Jason. “Consumers and our customers like sustainability.”

## Ask the expert: Is our information system up to date?

Is our information system doing the job we need it to do?

Recently, *The Kernel Journal* met with Rolynn Larson, director of information technology, to ask him just how up to date our system is. Here’s what he said:

**KJ:** What is an information system?

**RL:** It’s the computer system we use to run our business from taking and shipping orders, tracking inventory, and billing customers to keeping track of financials. It automates our records.

**KJ:** So, is our information system up to date? If not, how out of date is it?

**RL:** No it’s not. It’s over seven years old and in computer terms, that’s very old. Since we implemented our information system, our software company, JD Edwards, has issued six

major new releases. We are six releases behind.

**KJ:** How does this affect our ability to run our business?

**RL:** The system meets our current needs, but just barely. To grow as a company, we need to upgrade because our information system is pretty much maxed out now.

**KJ:** Are you planning to upgrade?

**RL:** Yes, we are planning to upgrade to the latest release over the next couple of years. This new system will be easier to use. It also should give us new and better functionality. To take advantage of this new functionality, one of the

first projects we plan is transportation management.

But before we can upgrade JD Edwards, we need to upgrade our data collection system, RF Smart. We also need more powerful machines as servers. We are planning now and hope to kick off these projects later this year.





## Thoughts on investing your 401(k) savings

A few well-known principles may help you cope with market ups and downs:

**Diversify** There's no time like the present to put together a diversified portfolio. Diversifying investments across the three major asset classes (stocks, bonds and money market funds or cash) can help cushion a downturn in any one market. Once you diversify, stay focused on this strategy. Resist the temptation to "play the market" or react to day-to-day market developments.

**Rebalance annually** A typical allocation plan for a mid-career person, for example, is a 60/30/10 split of stocks, bonds and money market funds or cash equivalence. At year end, if your percentages have drifted from your target, make adjustments to get them back in line. This "rebalancing" strategy can help you position your portfolio for a potential rebound.

**Know your risk tolerance** If market volatility makes you nervous, you might allocate more toward fixed-income investments, which tend to be more risk adverse. A typical portfolio balance for minimizing risk might be 30 percent stocks, 60 percent bonds, 10 percent cash. This may result in somewhat smaller appreciation long term, but your portfolio would suffer fewer ups and downs along the way.

**Check your benefits on line** Want to learn more? Merrill Lynch, the company that manages our 401(k) plan, has a helpful Web site. Log on to [www.benefits.ml.com](http://www.benefits.ml.com). Select the "Advice and Planning" tab and then the "Investing" tab. You can also change your investments at the same Web address. Under your "Retirement Plan" tab, select "Current Elections" and follow the easy prompts.

## IN THE SPOTLIGHT: Ashley Overlie, Elk River



**Job:** Production administrator.

### What was your first job?

I washed dishes at Tasty Pizza in St. Francis.

### Did you enjoy it?

Oh no. It was all by hand. They didn't have machines so on busy nights we'd be there until 2 a.m. I was only 15 and had to get up for school the next day. I worked there about a year.

### What did you learn from the job?

To be calm in hectic situations. I learned time management, and how to stand on my feet for nine hours.

### Best advice you ever got?

Let the little stuff go because in two years it won't matter. This is from my step dad. He's always been a rock, a supportive person, a great guy to lean on if you need him.

### Favorite childhood memory.

My brothers teaching me how to play baseball. I had three older

brothers and when they taught me to play, I felt included.

### Instead of work and with money no object, what would you do?

Build my own house. I love to learn, so before starting I'd take some trade classes and learn how to wire and all that stuff so I could do it myself.

### What does your family say about you when you aren't listening?

That I'm stubborn, but I know that. And they call me the wealth of useless knowledge because I know all kinds of facts that pop up when least expected.

### What is your dream job?

I'm actually trying to figure out what I want to be when I grow up. Maybe a photographer or interior designer. Something with art so I can express myself.

## Employee preserves cars...and the past

Denny Dugan, maintenance parts clerk in Faribault, has carried on a love affair with cars since he was 13 years old. He lists nearly a dozen cars he has bought, refurbished and sold ranging from a 1940 Ford to this 1972 Corvette Sting Ray, his all-time favorite. "I like to refurbish cars so the past doesn't die," he said. Denny found this Corvette 10 years ago, attracted to it because it was the last model with chrome bumpers and a removable back window. He installed new brakes and exhaust, went through the motor and transmission, and redid the interior. But the car was in "pretty good shape" and still has the original paint, wheels, motor and transmission. Denny and his family belong to the 15,000-member Minnesota Street Rod Association and Faribault's car club, the



Faribault Drag-ons, a non-profit organization that holds fundraisers and supports the local food shelf. Denny has worked for Faribault Foods for three years and has the same enthusiasm for his job as he has for cars. "I'd just like to say that I feel proud to be an employee of Faribault Foods," he told *The Kernel Journal*. "It's a wonderful place to work. The people are friendly here, and I've liked it since day one."