

# Pioneer Foods has sufficient scope to enhance efficiencies

In an interview with Business Day TV conducted on Monday, Phil Roux, CEO of Pioneer Foods, speaks about the company's half-year results, which showed a strong rise in profits despite a tough trading environment.



Image sourced from [Pioneer Foods](#)

**Business Day TV:** Pioneer Foods has had a better first half than perhaps some of the market had given it credit for, pushing revenue up 9% with margins held at last year's 12.3%. Phil Roux is CEO of Pioneer Foods and he joins us now on the line. Phil...that ability to keep your margins steady despite massive price increases and tariff increases, how did you manage to do that.

**Phil Roux:** I would say one has to look at the portfolio mix. Our Groceries division really came to the party, having disposed of loss-making entities last year plus significant organic growth out of the Groceries business contributed circa 300bps (basis points) to the margin uplift. That compensated for the hammering we took on the maize side within Essential Foods.

**BDTV:** Yes. How much have maize prices actually risen for you?

**PR:** How much have they gone up?

**BDTV:** Yes for the group as a whole.

**PR:** Maize prices have gone up 90% period-on-period. So it's massive.

**BDTV:** And wheat prices... I must say I was staggered to read in your commentary that import tariffs on wheat have gone up from R156 to R1,225 per ton. Was that over the year time period? What time period did that occur and how has that affected you?

**PR:** That's a 12-month time period. In fact, a new level has been triggered but not promulgated yet at R1,600 which will probably represent close to 27% of the raw material costs, so it's quite staggering.

**BDTV:** How are you going to lobby against this and do you understand why they've increased it to the extent that they have?

**PR:** It's a duty that's been placed for maize, sugar, rice, the various import duties. I suppose since inception the logic was to protect local plantings of wheat but it's never ever really changed or had that necessary impact because SA is a net importer of wheat.

We import 50% of our requirements as an industry so it's completely counter-intuitive. I have met in person with the Minister of Finance, Pravin Gordhan, and what we are pleased about is that we got a response that ITAC (International Trade Administration Commission) had started the process of reviewing the duty structure on those three commodities I've just mentioned.

**BDTV:** Okay, clearly there's not much that you can do if import tariffs go up or if the weather is poor, so within Pioneer's control how are you going to ride out what is likely to be a very tough second half?

**PR:** In respect of Essential Foods which contributes 60% odd of our profitability, we don't anticipate any further price increases and I'm really convinced that the consumer will come back to the maize category given that there was no rice inflation last year and that it formed the centre of plate offering for consumers in South Africa.

You can liken it to food security. Furthermore, we will continue to do the good work we've been doing on the Groceries side, to capitalise on our international business and make sure we keep a lid on our costs and keep up the efficiency work.

**BDTV:** You said in your commentary, that there's sufficient scope to enhance efficiencies. So where can you still extract cost cuts within the business?

**PR:** We continue to evolve what we put on the ground, being Pioneer Foods Logistics Services. We consolidated all the logistics in the group so there is further upside in that area and that will carry into our new fiscal as well. We've already planned for improvements for the new fiscal.

Our group procurement has begun to gain momentum but arguably the biggest area we can attack is within the manufacturing and you know we have 44 odd manufacturing facilities and we are striving to grow the efficiencies in that area. Other than that we are particularly cost prudent and we keep a lid on any form of waste.

**BDTV:** You also talked about having a high degree of strategic coherence. Is that what you're referring to, the ability to meld the logistics businesses to better use your manufacturing operations or is that management-speak for something else.

**PR:** No, you would be correct. That forms part of it. That would slot under the refit the cost base and efficiency pillar within our five-pillar strategy. By strategic coherence, we certainly know what it is we want to achieve in SA and how to go about it. And then that goes beyond that geography as to how we will continue to grow our organisation beyond this.

**BDTV:** Talk us through your international business, revenue was up 20%, your export volumes were up 7%. Is there further scope for growth there?

**PR:** There is, there is a short-term pressure on the African continent. You would know that currencies have devalued significantly, the metical (Mozambique) over 30%, the kwacha in Zambia over 100%, so with those currencies softening our beverage export business, 70% of which is exported to the African continent, will come under some pricing pressure and demand pressure.

It's essential that we get the efficiencies out of our South African asset base where we produce these products to be able to keep those margins firm. We also see upside in the second half in that our UK operation went through a factory move and we've upgraded it whilst we did the move and with that, came high costs in the first half which are non-recurring in the second half.

Our fruit business will continue to keep up its momentum in the second half but then again will face some headwinds in the first half of the new fiscal given that the weather patterns have also affected the intake.

**BDTV:** So for the second half do you expect a better performance or much of the same?

**PR:** Internally we certainly want to improve our performance for the full year relative to our half year performance. We know it's a stretch but we are hopeful that there is sufficient robustness in our plans to achieve that.

*Source: BDpro*

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