



# Presentation IPC Meeting Lombok 2011, 23 Nov 2011 Supply Chain Challenges

# Content:

- Olam International
- Supply Change Challenges
- Olam's approach to SCC
- Conclusions

# Olam International Ltd.

- Leading global supply chain manager
- Processor of agricultural products & food ingredients
- 20 products in 64 countries
- 10.000 customers worldwide

# Division Spices & Vegetables (SVI)

- Dehydrated Onion & Garlic - USA & China
- Capsicums: red pepper, chilly pepper, paprika – Peru, India, USA
- Spices: black & white pepper, turmeric, ginger, cassia, nutmegs - Vietnam, India, China, Indonesia, Nigeria
- Tomato paste - USA

# Supply Chain Challenges

1. Supply chain risk mitigation
2. Working capital
3. Sharp rise in raw material prices
4. Margin pressure at 'end users'
5. Product safety & sustainability
6. Price discovery
7. Service & Reliability

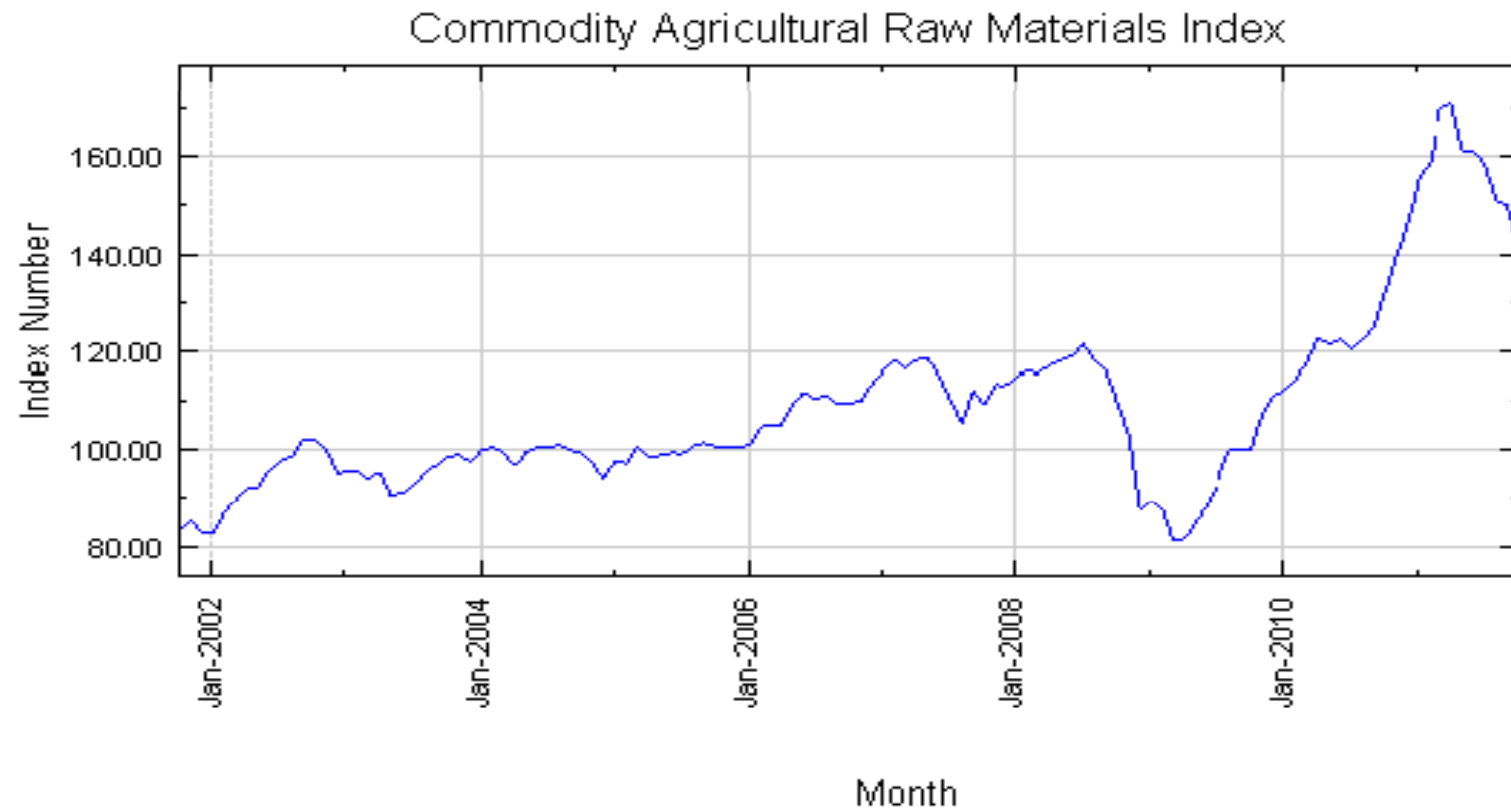
# 1. Supply chain risk mitigation

- supplier financial risk
- volatility in energy, commodity, labor rates and currency exchange,
- unpredictable economic outlook

## 2. Searching for working capital

- Reduced inventory & lower operating or carrying costs
- Extended payment terms, suppliers want to collect receivables quickly

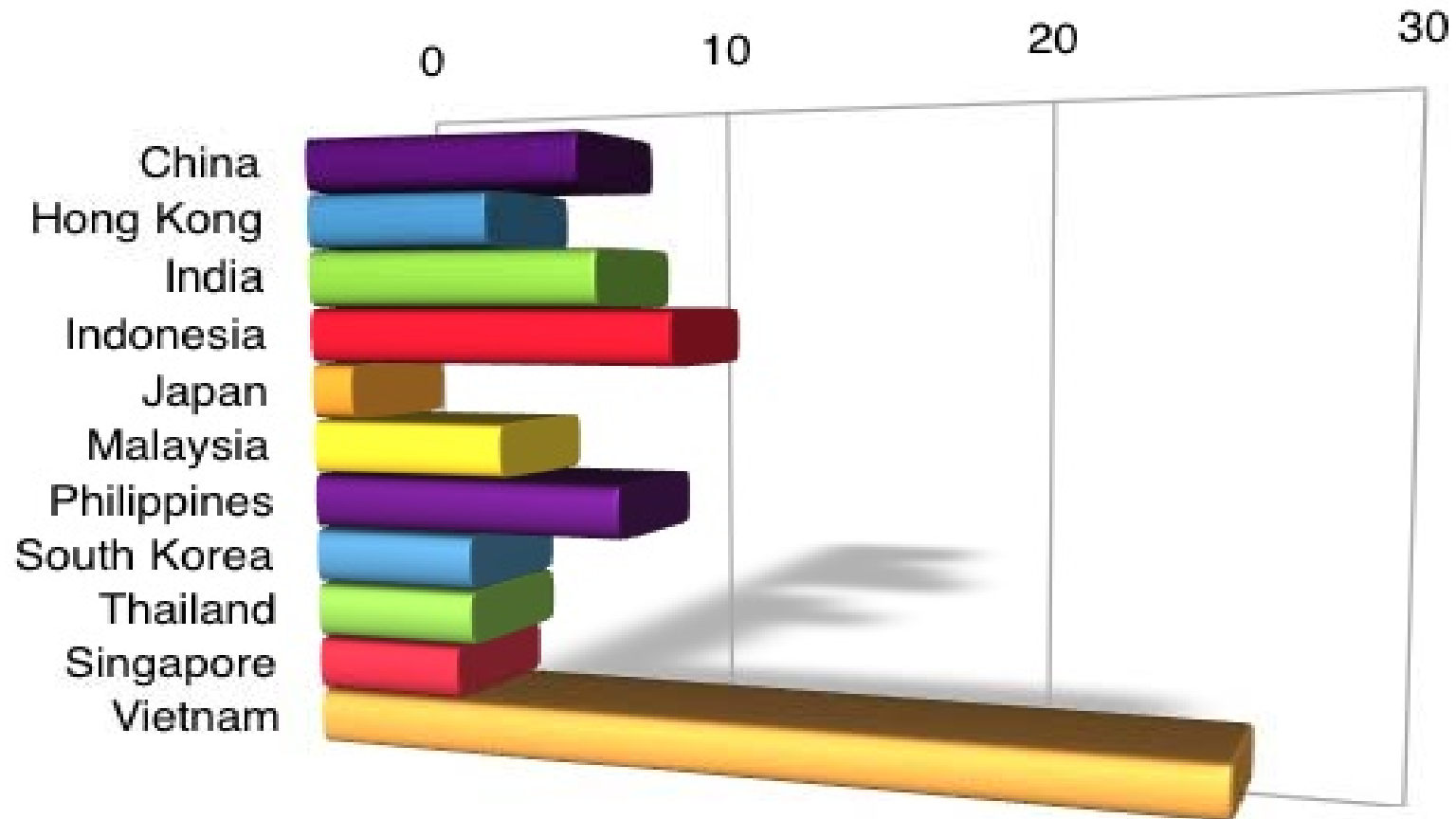
### 3. Sharp rise in raw material prices



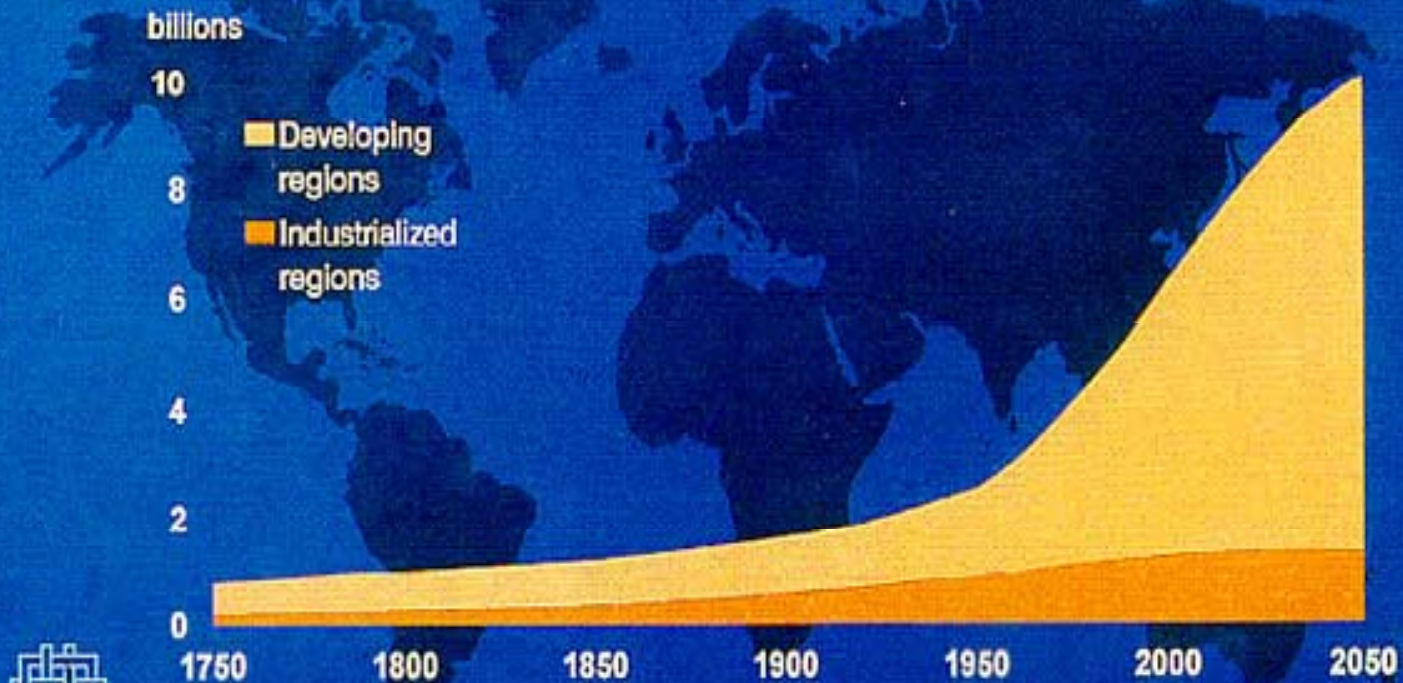
# Sharp rise in raw material prices

- “Limited free trade agreements, high energy costs, and rising labor & production costs in Asia
- Volatile and high prices lead to ‘hand to mouth’ buying.

# Inflation Rate in Asia (June 2008)



# World Population Growth



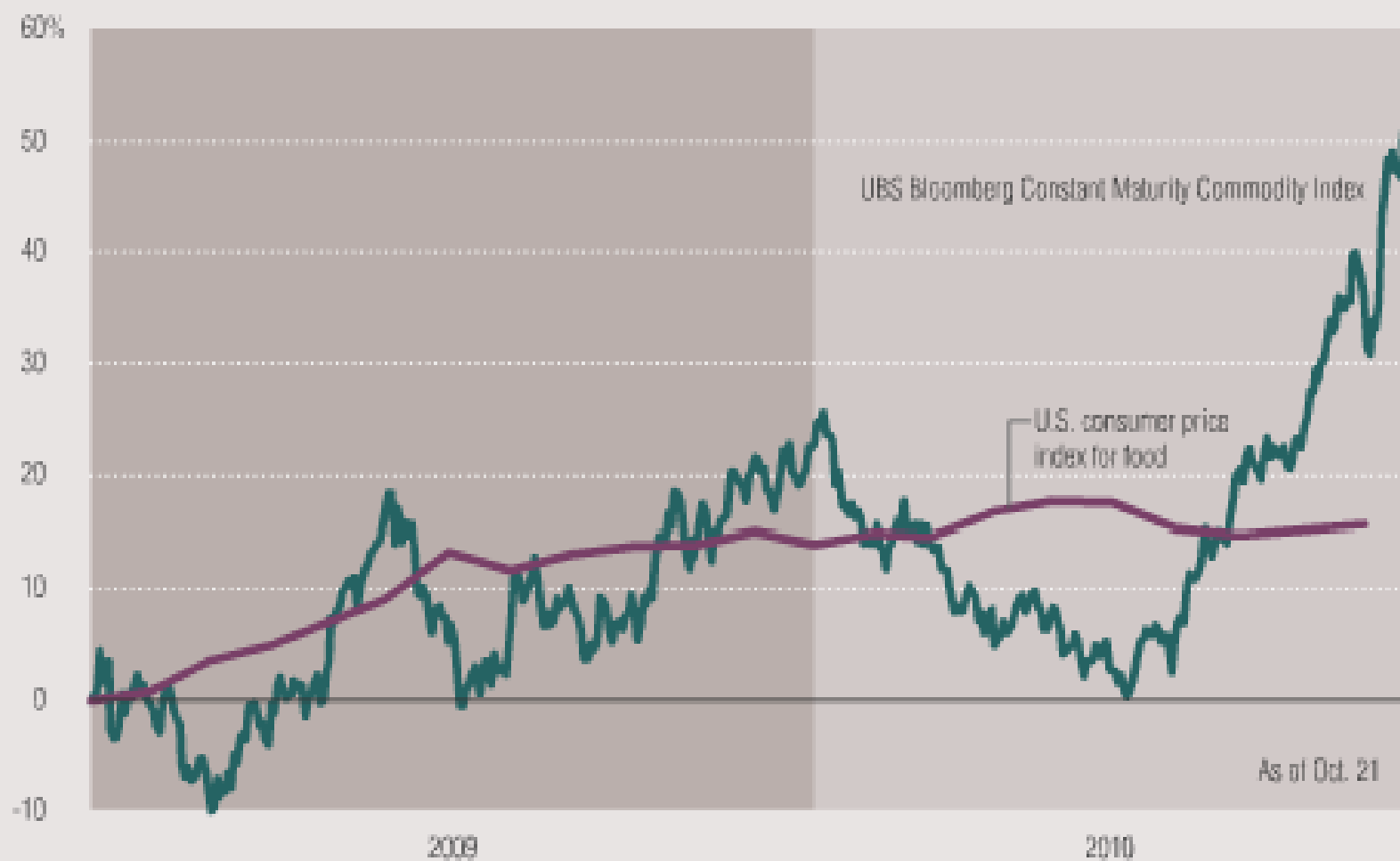
World  
Resources  
Institute

Sources: United Nations Population Division and Population Reference Bureau, 1993.

## 4. Margin pressure 'end users'

- 'Grinders & packers at destination have difficulties pricing in the rises to their customers
- Margins are under pressure
- Focus on cost savings

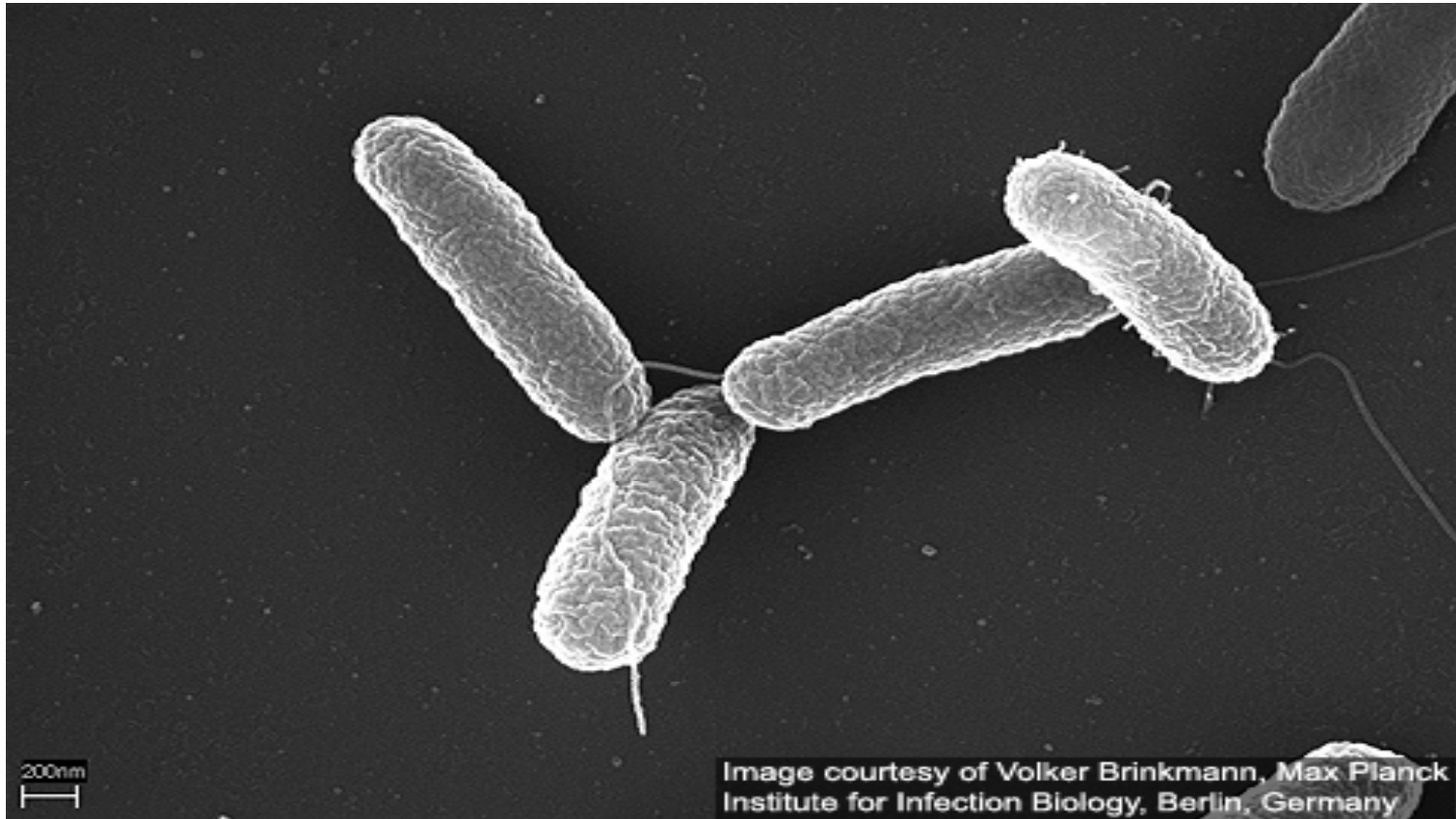
### Change in U.S. food inflation vs. price of agricultural products



## 5. Product safety & sustainability

- Legislation (e.g. USA Bioterrorism Act),
- Food safety: pesticides, chemicals, heavy metals, pathogens, ochratoxin, aflatoxin
- Sustainability: child labor, farmers welfare, organic products, carbon print
- Quality: Accreditation BRC, HACCP, ISO, AIB, Kosher, Halal etc

# Salmonella poisoning led to bankruptcies in the USA



## 6. Price discovery

- Futures markets in spices hardly available, not functioning properly
- No transparency in supply & demand, available figures often not reliable.
- The future price trend is often unknown, leads to more volatility and risks

## 7. Service & reliability

- Consistent and on time supplies are critical
- Right quality, meeting legal norms
- Contingency plan when natural disasters interrupt trade lanes.

# How does Olam Spices handle the Supply Chain Challenges?

# 1. Supply chain risk mitigation

- Diversified sourcing operations in key producing countries
- Create strategic adjacencies that mitigate political, currency and crop risk

## 2. Searching for working capital

- Putting capital directly into farmers' hands and granting Olam closer control of product

### 3. Sharp rise in raw material prices

**Mitigate rises / bottom line costs by:**

- Straight to the source, no use of middlemen
- Erase inefficiencies
- Unparalleled economies of scale

## 4. Margin pressure 'end users'

- Create value that helps offset the margin compression of customers
- From products to solutions
- Doing things right the first time

## 5. Product safety & sustainability

- Industry-leading standards
- Investing in next-generation process technologies
- Committing to R&D across portfolio
- Building the largest global safety and sustainability knowledge base.

# Product safety & sustainability

- Know your grower: a container of spices may contain product from hundreds of small farmers.
- We offer our partners and their families health care, a living wage, education & community support to improve their livelihoods and build productivity.

## 6. Price discovery

- Trading intelligence lets us 'right-time' the market to save our customer money

## 7. Service & reliability

- Delivering accurate, on-time shipments
- Fulfilling contracts completely and reliably
- Responding to customer needs and engaging with them directly

## Conclusions:

- Increasing world population
- Increasing demand for spices
- Trend towards natural spices
- 1/3 land area used for agriculture
- Agriculture prices likely to rise further
- Supplier / customer alliances

- Sustainable farming is a major topic
- Quality parameters more strict
- Fragmented spices industry likely to consolidate in the next decade(s)
- Cost savings, economies of scale necessary

## Supplier / customer alliances



# Thank You

