Aleph Mills[1]

The CEO of Aleph Mills sat in his office overlooking the mill facilities and smiled at the irony of the situation. He had been brought in recently by the Board of Directors with the mandate of growing the company over the next 5 years. Yet now, just weeks after he had taken on the position, the Board had revealed it wanted him to diversify into pasta production and the industrial bakery businesses in order to capture what they saw as great value-added opportunities in those businesses.

The CEO knew he was part of new management team that the Board of Directors had brought in. It had almost been a clean sweep across the senior management team: a new CEO, Operations VP, Sales VP, Engineering and Maintenance VP and Human Resources VP. Only the Finance VP and the Information Technology Manager remained in their positions. Each of them had in excess of 15 years solid experience in the flour milling industry, mostly in the Middle East and Africa region.

In many ways this was a wonderful personal opportunity and the CEO saw this as way of establishing his credentials as a leader and entrepreneur to complement the solid technical credentials he had after 20 years in the industry across the region. Yet, some instinct told him that he needed to think not only whether these were good business opportunities but also whether the organization had the capability and skills to tackle this diversification.

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[1] This case was prepared by Lambros Karavis, expanding an initial draft by Jehan Alegappan, as the basis for a strategy workshop discussion at the IAOM-MEA 22nd Annual Conference in Jordan on 03rd October 2011. It draws upon and amalgamates information on different companies and countries across the Middle East & Africa region. Any resemblance or relationship to a specific company in the region is purely coincidental and unintentional.

Company Background

Aleph Mills was a 100 million USD company, involved solely in the wheat flour milling business. It had successfully operated in the business for 40 years by focusing on their domestic market. Aleph Mills had captured an 85% market share of the wheat flour milling business nationally and faced only one local competitor (that operated in one of the other regional cities). The national market for flour was growing at a rate of 5% per annum and that was closely aligned with the population growth rate. Aleph Mills had one large mill operating in the outskirts of the largest city in the country

Like many of its competitors in neighbouring countries, Aleph Mills was closely monitored by the national government. Bread was considered a staple food item across the region and many governments had implemented price controls on traditional bread products. Aleph Mills had a net profit margin of 5%, somewhat lower than the industry average of 15% across the region.

The CEO had been surprised by this revelation at the latest Board meeting and was inclined to believe this was due to two factors: that Aleph Mills worked on a flat fee basis (per tonne of wheat processed) while competitors in the region were working on a guaranteed rate of return, and that Aleph Mills had recently completed a major upgrade to its flour mill facilities and therefore incurred substantial interest and depreciation costs compared to its competitors.

The company had recently formulated its Corporate Vision and a 10-year Strategic Plan. The company's vision expressed the desire of the Board of Directors "To grow 10 fold in 10 years". The 10-year Strategic Plan was basically a ten-year financial forecast which projected revenues to grow by a factor of ten and profit margins to increase to 10%. The forecasts incorporated an intention to open the pasta business within 2 years and the industrial bakery business within 5 years.

Other initiatives incorporated in the Strategic Plan included targeting operating profit opportunities in the existing flour milling business and the strengthening of operating control by establishing a unit reporting to the Operations VP to provide quality assurance services and drive lean six sigma initiatives.

Operating Profit Improvement Opportunities

At a recent joint Board of Directors and Senior Executive Retreat, the operations team had identified four operating improvement opportunities including improving the grist and extraction rates, reducing grain losses at the port, controlling shrinkage of flour volumes at silos and in bulk transport, and reducing down-time in the plant due to malfunctions and engineering maintenance. The value of these was estimated to be about 2% of sales.

There was also a belief that better control of wheat purchase prices was possible through hedging and coordinating with the national authorities purchasing wheat. The national authority tended to purchase on the basis of long-term contracts with fixed price clauses (to meet budget subsidy constraints). This meant that wheat quality (in terms of varieties and protein content) was variable not only from year to year but also from shipment to shipment. Aleph Mills had wondered whether a joint-venture operation with its competitor (or even with other flour milling companies across the region) would provide better opportunities for managing wheat prices and therefore quality.

Vertical Integration Opportunities

The Board of Directors had recently communicated its desire to investigate and pursue what they saw as potential value-adding opportunities in the pasta production and industrial bakery businesses. Reasons for this varied across the members of the Board but they generally fell into three reasons:

- The first was that there was a trend across a number of countries for flour millers to vertically integrate across a number of countries, including the United States and the United Kingdom,
- The second was that opportunities for geographic diversification across the Middle East were limited due to government ownership of flour milling in certain countries and the constraints on trade across the region, and
- The third was that opportunities for profit in flour milling were limited by government price regulations and the Board felt the need to operate in markets that allowed greater opportunity for profits.

All members of the Board expressed the concern that rising prices of wheat were inevitable due to the growing demand across the world due partially to higher incomes in developing countries (such as China and India) and partially to bio-fuel initiatives.

The changing face of retail in the capital city was also of some interest and concern to some of the Board members. One Board-level conversation had noted that consumers were shifting their purchasing from traditional retailers and local bakers to supermarkets and hypermarkets. They had particularly mentioned the growth of a European global operator of hypermarkets and a regional supermarket chain that had originated in Egypt. One Board member had even mentioned the emerging trend across the region for petrol retailers to develop C-stores at retail sites, a practice which they had seen in the UK, USA and Australia some twenty years ago.

Looking Forward

The CEO of Aleph Mills knew that he had to take action. He felt very comfortable with the potential for operational improvement opportunities as he had worked his way as an engineer from the ground-floor as a maintenance engineer to his present position over the past 20 years. He had recently enrolled in a prestigious Executive MBA program and he felt that this would assist greatly in tackling the challenges faced by Aleph Mills.

Two questions in particular troubled the CEO as he responded to the intentions of the Board:

- First, were there other value-adding forward integration opportunities that should be considered in addition to the pasta business and the industrial bakery business, and
- Secondly, did the company have the skills and resources to implement this proposed strategy and, if not, how should they proceed with acquiring the necessary resources.

He hoped that some of the answers to these questions would reveal themselves at the forthcoming IAOM-MEA 22nd Annual Conference.