

THIS MONTH: THE CHEESECAKE FACTORY

FOOD and DRINK



NOVEMBER/DECEMBER 2002
\$4.95

50
Lone Star

85
Jamba Juice

161
B. Manischewitz
AND MORE...

Value Added

Sensient Technologies
recreates itself as a leader
in food and drink ingredients

CEO and Chairman Kenneth P. Manning

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How to educate workers about the bottom line, one dollar at a time ● Arlene Spiegel helps readers maximize revenues ● A look at this year's HACCP 'audit season' ● 'Best in Class': Why wait for a four-star review? ● What happens when your VP is crackers



● **SENSIENT
TECHNOLOGIES CORP.**

PROJ. 2002 REVENUE: \$920 MILLION
HEADQUARTERS: MILWAUKEE
EMPLOYEES: 3,600
SPECIALTIES: FLAVORS AND COLORS
KENNETH P. MANNING, CHAIRMAN
AND CEO: "I AM VERY, VERY OPTI-
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THAT IS RIGHT NOW -
BUT I AM."

VALUE ADDED

SENSIENT TECHNOLOGIES RECREATES ITSELF
AS A LEADER IN VALUE-ADDED INGREDIENTS.

BY JOHN KRUKOWSKI



CONSUMER TASTES CHANGE VERY QUICKLY TODAY, AND SENSIENT TECHNOLOGIES Corp., a venerable Milwaukee-based ingredients manufacturer, has undergone its own dramatic metamorphosis in recent years.

Under CEO and Chairman Kenneth P. Manning, the company has gone global, jettisoned under-performing business lines and branched into value-added and even non-food product areas that probably would have surprised a previous generation of Sensient executives.

"This has become much more of a global business but, more importantly, we have gotten out of commodity businesses," Manning tells *Food and Drink*. "Today, we're really into technology and specialty products that reward us with higher margins."

In recent years, Sensient has sold its divisions involved in cheese and frozen potatoes. Perhaps the most dramatic spin-off was its \$122 million sale of Red Star Yeast, completed in early 2001.

Although long identified with its parent company, Red Star Yeast was not doing much for Sensient's bottom line. "At the time we sold it, the price of yeast was less per pound than it was during the Great Depression," Manning explains. "It was a very capital-intensive business and it took a lot of the focus from the company."

Where is Sensient's focus in 2002? "Today we have a business base that is in really growing markets, and in some of the markets, such as China, we expect really high-growth because the Chinese are really excited about consumer products," Manning says.

It wasn't always that way. "In 1992, when [Manning] became president, 90 percent of our business was domestic and 95 percent of our workers were domestic," notes Richard Carney, Sensient vice president of administration. "Now, two-thirds of our employees are outside of the United States, and 55 percent of our sales are outside."

As befits a man who is both a trained engineer and a retired rear admiral in the U.S. Naval Reserve, Manning has engineered a dramatic change in the company's focus since he was elected CEO in 1996, and chairman in 1997. Its technical capabilities have been bolstered, and Sensient has set sail for some uncharted waters in terms of new markets.

Although the food and beverage industries still constitute 75 percent of its total sales, the company has increased its presence in or broken into entirely new industries, including cosmetics, pharmaceuticals, ink-jet and other computer specialty inks, and colors for flat screen TVs. ▶



► Reflecting this sea change, the company adopted the Sensient name in 2000, after being known for decades as Universal Foods Corp.

"I think they're going in the right direction," observes Jeffrey G. Kanter, an analyst with Prudential Securities Inc.

Kanter says the full effect of Manning's strategies are not yet known, but "I think he's trying to build a stronger company. ... The steps he's taken will lift it from past [performance] levels."

In October, the company reported higher revenues and profits in its third quarter, a continuation of a trend that began in the first quarter of 2002. Manning credits recent acquisitions, cost-reduction measures and the new strategic focus on value-added products. In fact, he asserts, a "consistent application of a well-planned and disciplined strategy over the last five years" has yielded numerous positive results:

- Earnings per share from continuing operations before special charges have increased an average of 10.5 percent per year.
- Operating margins have increased more than 240 basis points.
- Revenue per employee has increased from \$168,000 to \$237,000.

Manning credits the increase in revenue per employee to a "tremendous amount of investment in our operations over the years. I literally would put our plants against any in the world."

GREEN KETCHUP

Sensient operates more than 40 manufacturing facilities in 22 countries, most of them in support of its food and beverage ingredients businesses. Sensient divides its operations into two segments: the Flavors and Fragrances Group, and the Color Group.

The Flavors and Fragrances Group, with annual sales of nearly \$600 million, develops and manufactures ingredients for customers in consumer products industries, including makers of soaps, detergents and cosmetics. But food and beverage industry customers, including those in the dairy industry, account for about 92 percent of its business.

"Beverage has always been a good growth area [in the flavors business] because there are always a lot of new beverages," says Manning, estimating that sales in this sector are growing annually by "7 percent or better."

Savory food flavors are another growth area: "People are looking for very unique products - our inventory of flavors is about 30,000 flavors [and] every flavor is a custom product."

The \$300-million Color Group is dominated by sales of natural and synthetic colors to food and beverage companies. It is seeing particularly strong demand for its colors for beverages and, geographically, in the expanding Asia-Pacific market.

Manning notes that to be competitive in today's ingredients industry, "You have to have unique products. You have to

have the capabilities to develop products that the customer wants and others can't develop, and we've been able to do that, particularly in color."

This does not mean merely being able to manufacture an attractively colored dye; rather, Sensient's customers expect color ingredients that react well with other ingredients, such as one that doesn't "display" until the consumer mixes the product with milk. Or, one that doesn't cause problems for the consumer, such as a color that easily washes off of children's hands.

The expectations of its food and beverage customers have changed in the past decade, and Manning is bullish about what this means for his company. "I am very, very optimistic about the future," he says. "I'm probably one of the few guys in America that is right now, but I am."

For one thing, he explains, manufacturers are accelerating their rate of new product introductions to compete for consumers' dollars and attention. "So I think we're going to see some healthy growth over the next couple of years, and I think we'll see some very exciting and unique products," Manning says.

A recent example was Sensient's work with a well-known ketchup manufacturer to create a green product. "That is a very old product, and suddenly we were selling a lot of ketchup," he says, adding that the color was especially appealing to children, a prime target for today's consumer product marketers.

Another reason for Manning's optimism is a growing tendency for food and beverage manufacturers to depend on suppliers for product development. Sensient, he believes, is uniquely well qualified in this regard.

"We have had a very good track record at responding to these needs," he says. "Sometimes the product development takes a year, sometimes it takes a bit longer."

Sensient employs several hundred people at research facilities worldwide. A recent area of focus has been in the development of ingredients for the booming tea- and alcohol-

based beverage markets.

"We have better product development capability than probably anyone else in the industry," Manning says. "We have a wonderful record in beverages, and we are working very hard in the savory and other food areas to be able to supply unique products and services to our customers."

FROM ICE CREAM TO FLAT SCREENS

In addition, by taking advantage of its own in-house skills - such as purification technologies - and through strategic acquisitions, Sensient under Manning has built a presence in markets for such non-edibles as digital imaging technology. Revenue from its ink-jet ink business, for example, grew by 15 percent in 2001.

To Manning, it is not at all counterintuitive that the company has expanded its offerings from the colors and flavors used in



ice cream to – using a recent example – organic light-emitting diode (OLED) chemicals used in flat screen displays.

Many of the chemicals Sensient deals with, he explains, have applications other than in food and beverages: “Red 40 might sell for \$6 a pound [as a food ingredient], but as a color on a flat panel display, it may sell for \$1,500 a pound. So you’re dealing in much greater value-added. It made all the sense in the world for us to extend into these non-food areas.”

Until recently, the ingredients industry had experienced considerable consolidation, and Sensient itself acquired 18 companies in the past five years. Recent acquisitions illustrate its commitment to expanding worldwide, as well as into key non-food markets. They include:

- Swiss company ECS Specialty Inks and Dyes. The \$12 million company is a primary supplier of advanced inks used in specialty printing in Europe. When the deal was announced in March, Manning called it “one more example of the success of our acquisition program, and [of] our ability to combine a series of smaller technical companies into a significant business with worldwide reach.”

- The flavors and essential oils operations of C. Melchers GmbH & Co. The \$14 million German company is a leading supplier of flavors for coffees and teas, as well as essential oils, aroma chemicals, and other formulations for flavor, cosmetic and fragrance applications. It has facilities in Europe, China and the United States.

- SynTec GmbH, a manufacturer of specialty dyes and chemicals for the imaging industry. “We now have a presence in the laser imaging market that complements our leading position in ink jets,” Manning commented after the acquisition. “We will be able to offer a common customer group additional products and technologies. SynTec expands our technical capabilities in highly purified organic chemicals and provides access to several rapidly expanding markets, including electrophotography and OLED.”

While busy acquiring strategic businesses, Sensient also has worked to improve efficiencies at its existing facilities. In 2001, it consolidated five synthetic color plants into three, and weeded out duplicated processes at the remaining operations. “I see us continuing to invest in our existing operations,” Manning says, “and continuing to expand our markets and our products wherever they will go.”

Sensient has not developed into a global manufacturer of value-added products merely for the benefit of shareholders, Manning says. Its activities of the past five years, he insists, have made the company a better partner to its customers.

“I think what [food and beverage customers] can now expect – if they are trying to make a rather sophisticated food product – is they now have a very reliable supplier to help them with that. We are expanding our technology and ability to do that more and more,” he says.

Manning foresees a bright future for Sensient and its customers as long as they can keep pace with consumer tastes. “We’re getting far more sophisticated in our society,” he muses. “The old things that I thought were great as a kid are no longer enough to satisfy [consumers]. There is a taste or demand for novelty and sophistication today that comes with being a mature society.” 🍷

