

# GLOBALIZATION in agriculture

Q & A WITH TETRA LAVAL GROUP CHAIRMAN LARRY PILLARD



Larry Pillard

Larry Pillard received his earliest lessons about the complexity and volatility of the agriculture industry as a young boy in Iowa, baling hay and milking cows on the farms of his uncles and neighbors. From his vantage point today as executive chairman of Switzerland-based Tetra Laval Group, Pillard still draws on those lessons as trends such as globalization and the growing influence of large retailers on the agribusiness supply chain have intensified the complexity of the business.

Before joining Tetra Laval as chairman in 2003, Pillard was chief executive officer of British sweetener and starch company Tate & Lyle, where he was credited with helping to turn around the performance of the company by selling poorly performing businesses and pursuing growth from higher-margin products. Pillard joined Tate & Lyle in 1992 to run A.E. Staley, its U.S. starch business, after working many years at Cargill.

As part of Spencer Stuart's ongoing series of interviews with top agribusiness leaders, Pillard talks about the experiences that helped shape his career, globalization and other trends affecting agribusiness today, and the skills that tomorrow's agribusiness leaders will need to be successful.

THE TETRA LAVAL GROUP is a privately held industrial group of Swedish origin, headquartered in Switzerland. Operational activities within Tetra Laval are organized into three autonomous industry groups, each group being a world leader in its respective area:

- **Tetra Pak** develops and manufactures processing equipment and carton packaging systems for food products.
- **DeLaval** is a full-service supplier to dairy farmers. The company develops, manufactures and markets equipment and complete systems for milk production and animal husbandry.
- **Sidel** develops and manufactures plastic packaging equipment. Its services extend from the design of bottles to the engineering and installation of complete bottling lines.

WORLDWIDE HEADQUARTERS  
Pully, Switzerland

2004 REVENUE  
\$11.0 billion (USD)

EMPLOYEES  
29,500

*Larry, what attracted you to Tetra Laval?*

**Pillard:** First and foremost, Tetra Laval is one of the best companies in the world. Because it is private, a lot of people aren't that familiar with it. I had experience with the company through my work and learned more about it when I joined the board as an outside director in 2001. When the opportunity came along to become chairman, I hadn't been thinking about making a change. But sometimes when an opportunity comes along, it happens just at the right time. I'm the kind of person who wouldn't leave if there was unfinished work to be done. In the case of Tate & Lyle, we had been through a major restructuring and reshaping of the company. Most of that work was finished and it was a good time for Tate & Lyle to have a CEO with a different view to take the company to the next level. At the same time, it was probably a great time for me to leave because I had been through that challenging time and the question becomes, "What's next?" So, I think it was both the quality of the company that I had a chance to participate in and opportune timing.

*Before leaving, you gave Tate & Lyle six months of continued service to help make a smooth transition — a very different situation than when a CEO leaves abruptly and there is nobody ready to step into the role.*

**Pillard:** We did have a succession plan and, unfortunately, the top candidate ended up leaving, so that left us a bit out of position when this opportunity came along for me. But I was happy to stay for six months and Tetra Laval was comfortable with that timing. It gave me the chance to prepare for my current role, while also transitioning the CEO position at Tate & Lyle. I also was asked to stay on the Tate & Lyle board for two years after, which made me feel quite good that I was asked to do that.

*Which of your prior experiences in agribusiness most prepared you for your current role?*

**Pillard:** I've had some great opportunities during my career and I've also been very lucky. Firstly, I started at Cargill, which does a superb job of training people. It has the right set of values and is very ethical. They also let you take risks early in your career and let you make mistakes. It's just a great company. I also have had a great set of bosses, good mentors and guidance. Of course, I had a work career that started very young on the farm with my father, uncles and neighbors. You learn from all those things.

Tate & Lyle also was a great experience for me. It is a great company, but there was a lot of work to do there. When I was considering the position, I knew I would be the fifth leader there in five years and that was a bit intimidating. I kept asking myself why I would leave to go to a place that's gone through so many leaders in such a short period of time. In the final analysis, I decided to take the job. Like I told my wife at the time, "I really have to know if I can do this or not. If I hit the wall, well, okay. But I'm happy to take the risk." I knew (Tate & Lyle U.S. subsidiary) A.E. Staley. I admired its technology leadership and product development, but I also knew where it had problems and really wanted to tackle those issues. I spent the next three years doing that. We went from about 3,200 employees to about 1,400 and increased production by about 30 percent in that same period. It wasn't easy. The company ended up much improved and the employees there have much more secure jobs than they had before, although there are fewer. That was a very satisfying experience as well. Then I had an opportunity to take another big step and move into the top job in London.

*As the leader of Tetra Laval, you are selling into food processors and agribusinesses. What's it like to be on the supply side?*

**Pillard:** I have spent my entire career in the agriculture business one way or another, from milking cows and baling hay as a kid to growing crops to processing crops to ingredients and then selling them to customers. So, in a sense, I have been a supplier in agriculture all my career. Having said that, there are always surprises. One of the things that is inherent throughout agribusiness is that you don't have much pricing flexibility for most of your products. The other thing that's difficult in being a supplier is that no matter what you do, you're still dependent on factors such as weather and rain. So, you have a lot of things you have to try to anticipate. You also have to watch consumer trends, which are much more dynamic today than they ever have been. You have to balance all of these different aspects of your business, from your raw material suppliers to your customers' preferences.

*What do you think some of the challenges for large agribusinesses will be going forward?*

**Pillard:** One of the obvious trends is globalization. The businesses that have been very successful, really prospered and grown, have handled globalization very well. The big challenge of globalization is to be able to capitalize on opportunities wherever they are. It's not easy. The food business is quite different in different places. Where some other industries might be a bit more standardized, food tastes, habits and cultures are quite different around the world. You have to be able to accommodate those differences. You have to understand where the raw materials for the food chain are coming from and, increasingly, you have to be an expert in logistics.

The other thing companies always should be trying to do is move up the value chain. I know that sounds a bit of a cliché these days, but it is critical. There is nothing wrong at all with processing true commodity products, but if you want to improve your margins and returns, you have to constantly be looking for those niche products that can set your company apart and enhance its margins. Developing new products is fun, a real challenge and a benefit to shareholders. One thing I have enjoyed as an ingredient supplier is seeing our products sold to customers who, themselves, are the best marketers in the world.

*When you look at changes in agribusiness during your career, are those the two things that have changed the most?*

**Pillard:** Globalization, you might say, has been going on since before I started in the business. Some companies like Cargill, for example, have done a great job moving outside of their home territory and have had some really successful results. I would say that the pace of globalization has picked up. Another very big change is technology. The level of technology that goes into food products today is so much higher than when I started. The sophistication of food is so much greater. A consumer buying salad dressing, for example, probably has no idea what goes into that dressing to make sure the spices are evenly dispersed throughout or that it clings to the lettuce in a special way.

But the biggest change that I've seen in the 30-plus years I've been in business is the consolidation of our customers, as well as the retail customers of our customers. All of a sudden, the people who have, in many cases, the greatest influence on products are now the retailers. Can you imagine somebody saying that 10 or 15 years ago? The retailers are telling our customers what they want — from the packaging size to the way a product is prepared — and that has an impact throughout the supply chain.

*Let's talk about Brazil. As it continues to develop its agribusiness, how is Brazil affecting agribusiness globally?*

**Pillard:** Hugely. I recently flew over some areas of Brazil and saw massive crop areas, but I also saw large acreage that hasn't been planted yet. Last year alone, Brazil planted more new acreage in soybeans than Indiana has. For the second year in a row, Brazil will have a positive trade balance. The country has great energy, a great work ethic, great aggressiveness and it's going to continue to develop its agriculture industry, affecting all areas of global agriculture. It's not just soybeans. It's corn and even eucalyptus trees.

That's why I said earlier that agribusinesses have to step back, take a look at what they do well and how they add value to the value chain. What can you do better than your competitors? If a U.S. farmer is

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competing with Brazil in, say, soybeans, what can he do with his soybeans that adds more value, has more margin and creates a niche market? That is something you must take into account when planning your strategy. You have to be moving up the value chain. That means more processing, more branding and developing more sophisticated plants. There's no stopping because it's not just Brazil that is the competition; there's Argentina and Chile, as well.

*What kind of skills and experiences will the next generation of agribusiness leaders need to prosper?*

**Pillard:** One of the things I would say is you really do need to have a global view. It's very dangerous to take a provincial view of your business and the industry. Agribusiness today is very much a global business with global opportunities. Unless you have a global view and start learning about other places — the kinds of businesses they have in different locations, for example — you won't be in a position to capitalize on global opportunities. I would look for someone who has developed a global view early in their career, who had experience from off-shore, wherever that happens to be relative to where they started, and a curiosity and receptiveness to opportunities when they arise and an ability to capitalize on those opportunities. You want people who exhibit a natural curiosity for a lot of things, not just their career. And the other thing — I know it may seem kind of mundane — but you must be very focused on cost and productivity because our industry is very competitive and it is dependent on cost management. As a good leader and good manager, you never should forget this.

*You started your career in a private company. You also worked at a division of a big public company and then a U.K. listed company as CEO. Now you're back in a private company. Tell us a little bit about the strengths and weaknesses of those models.*

**Pillard:** Well, as the British would say, it's "horses for courses," in my view. There are some types of businesses that are very well suited for private ownership, particularly businesses that have a lot of cyclicity and volatility. Agriculture and agribusiness certainly can fall into that category. Stock markets generally are uncomfortable with too much cyclicity, even when they understand it is inherent in the business. So, I think in that kind of a business, private ownership can add value. Also, private ownership is well suited to businesses that have long horizons for investments. So, for example, companies that made investments in China 20 years ago are now prospering from those investments. But that's difficult to do in a public company. For companies that need to raise a lot of cash and do it in a fairly quick fashion, obviously, a public company is the right answer. In many other respects, I think there's not a lot of difference any more. If you're running a private company, you have to have a similar view about corporate governance, accounting standards and the composition and role of the board. In my view, if you're doing the right thing in a private company, you're doing much the same as you would in a public company. One of the advantages of a private company is you don't necessarily get tied to a particular set of corporate governance guidelines. In fact, one of the luxuries is that you can pick and choose from the best ideas of corporate governance from the U.S., from the U.K., from Sweden, from wherever you happen to find the best ideas. You can synthesize those to suit yourself and end up, I might argue, with a better corporate governance standard.

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