FEATURE

Are job cuts the future of the food manufacturing industry?

Kellogg announced about 2,000 jobs could be lost through its new distribution strategy, but it's just the latest manufacturer to make this kind of a change

By Keith Loria , • Feb. 21, 2017

Kellogg recently announced 1,100 workers would most likely be losing their jobs in an effort to help the company improve efficiency. This was on the heels of another announcement the company made in January, saying it would cut 250 jobs as part of “Project K,” an effort to generate $425 million to $475 million in annual cost savings by next year.

Kellogg did not respond to Food Dive's request for an interview, but Paul Norman, president of Kellogg North America, said on a recent earnings call that the “difficult decision” was one that needed to be made to accelerate the company’s transformation of its U.S. snacks business.

The breakfast giant is not alone in having to make tough calls like this for the good of the company. In recent years, food and beverage companies such as Coca Cola, General Mills, PepsiCo, TreeHouse Foods and Kroger Co., have had to slash jobs or close plants in efforts to be more profitable.

Dexter Manning, national food and beverage practice leader for Grant Thornton, noted that a layoff like the one coming at Kellogg usually means that the rate of sales growth has slowed and management has to use the leverage available to continue to increase margins and overall profits.

“If you can’t increase the top line, i.e. sales, the next area that is normally visited is cost of goods sold. In this area, there are a few big expenses to consider: raw material costs, labor costs and energy costs,” he told Food Dive by email. “Most major food companies have pursued some form of sustainability in the past 10 years. In addition to the benefits of lowering their carbon footprints, many companies have found that the investment has actually saved them money in the form of lower energy costs and reduction of production waste.”

Rick Schreiber, the national manufacturing practice leader at accounting and consulting firm BDO, said public perception of manufacturers’ staffing decisions is changing.

“Recent high-profile negotiations between manufacturers and the government around domestic jobs and production could change the decision-making process for companies as they think about staffing,” he told Food Dive. “The balancing act between reputation management and the need to compete effectively in a global economy could grow more delicate.”

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Howard Dorman, partner at Mazars USA, said that a decision like Kellogg made is not one that any company takes lightly,

"Today's environment yields a very competitive landscape and companies are looking at ways to reduce costs in order to maintain competitively priced products," he told Food Dive by email. "Shipping directly to the customer and closing down brick and mortar locations can be a way to achieve this goal, since it eliminates a large part of the logistics costs."

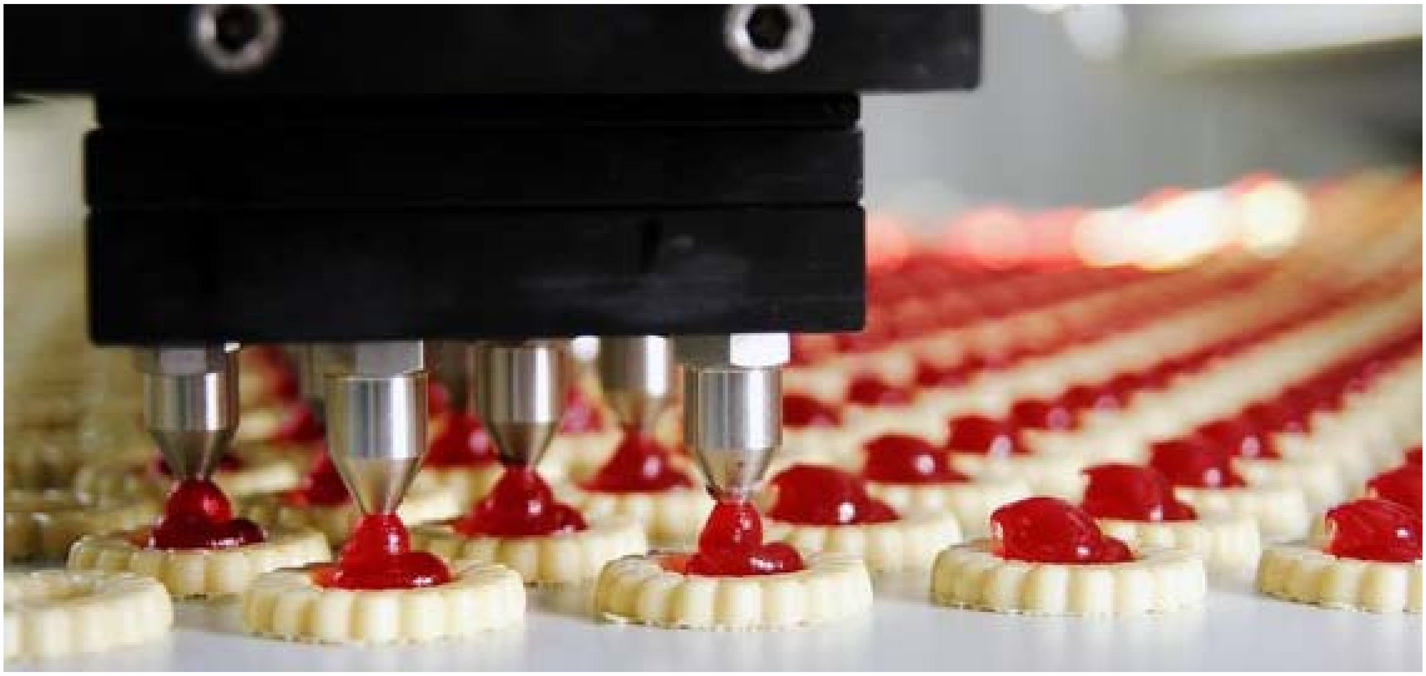
Technology plays a role

The new presidential administration is focused on not losing American jobs to moving production internationally, but new automation technologies may replace more manufacturing workers over the long run. A report from Ball State University found that between 2006 and 2013, trade accounted for just 13% of lost U.S. factory jobs, while 88% of the jobs were automated or cut because of fewer labor needs.

"Strides in automation have significantly boosted U.S. manufacturers' output in recent years, and we're really just at the onset of the next big industrial revolution and understanding the potential of technology and disruptive supply chain models to reinvent manufacturing as we know it," Schreiber said. "And manufacturing jobs during this evolution are going to look very different."

That's why the biggest impact on labor costs and workforce size has been technological advancements. Innovation in technology has been a constant driver in the industry over the past few years.

"As margins are squeezed by higher labor costs, automation has come along to relieve some of the pressure," Manning said. "Over the past few years, automation in food handling and packaging has improved areas that were previously labor intensive. Automation and robotics have become more flexible in their ability to switch between products and handle multiple products on one line."



Credit: Depositphotos

There are many public companies that have cited improved efficiencies and greater investment in automation over the past few years resulting in reduced labor needs. The impact of foreign trade and the relative affordability of sending certain jobs and operations overseas can also threaten workers' job stability

“Manufacturers are investing in new technologies in order to stay competitive. Return on those investments often means reductions in labor costs,” Dorman said. “While certain companies have decided to keep their operations in the U.S. instead of manufacturing overseas, they have, in tradeoff, had to reduce staffing costs in order to invest in these process improvements.”

He also noted that companies are constantly looking at measures to reduce costs somewhere along the way in their supply chain. Whether it is hard costs similar to Kellogg’s cuts or becoming more technologically advanced, which eventually will reduce staffing costs by the use of robotics.

In the same breath that the industry talks about manufacturing positions being eliminated, they also talk about a shortage in technology talent. The reality is that manufacturers are hiring — but they’re hiring for different skill sets.

“We’re seeing many food manufacturers reevaluate their distribution models as pressures to reduce operating expenses have increased, as have consumer shopping habits,” Schreiber said. “The industry as a whole is moving toward centralized distribution not only to cut logistics costs and take advantage of efficiencies of scale, but to better compete with emerging online grocery options, customized meal delivery services and other alternatives.”

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While staffing changes and layoffs may be par for the course during these transitions, long-term cost savings come from increased productivity and greater operating efficiencies. Some of the manufacturers that have been most successful at implementing lean manufacturing and process improvement have done so without significant layoffs.

What happens next?

Once a food and beverage company makes a big move that cuts jobs, it must be vigilant in monitoring all changes to their production processes.

“Although efficiency is often cited as a goal, there are also safety and health concerns that are equally important,” Manning said. “If automation can reduce labor costs and provide a safer production environment, it produces a win/win for the company and the public.”

As the industry embraces greater connectivity and new technologies, there are a handful of levers that can be pulled as management navigates the complex global world of food production. Questions they must ask include “How can we make innovative products that the consumer wants?” “Can we make our products safer and healthier?” “Can we make them at a price the consumer will buy?”

Credit: CTsabre14

“Technology and automation have provided management with new tools that can help address some of these questions,” Manning said. “Labor decisions are just one of many inputs that must be considered. Is this product labor intensive or not? If so, where should we source the labor? Can the manual processes be automated? Is there any backlash from consumers to the companies that make these decisions? If so, how can companies get past that?”

There are several ways in which companies are likely to achieve efficiency with moves like this, Dorman said.

It should reduce inventory levels that are maintained, because they are not shipping into the grocer's warehouse; the grocer's order points will be "just in time" because they will be less dependent on the company's inventory levels, which creates more efficiency in the ways that the company produces their products to meet demands; and "just in time" inventory management tightens up inventory and creates efficiency in cash flow for the company."

Customer backlash?

There are many factors that influence consumer buying patterns. Research has shown that consumers want simpler, less processed food choices. Consumers have become more interested in where their food comes from and how it's made. This trend has been validated by more demand for healthier options and organic products, as well as more consumer awareness of sustainability efforts.

"There will always be push back against 'Big Business.' It is the right of every consumer to push back on the companies they purchase products from," Dorman said. "This is another part of why companies must carefully consider these decisions and what they need to remain competitive."

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Still, although layoffs and politics may be factors some consider in their buying process, there are probably more important factors that ultimately will determine the winners and losers.

Most analysts believe that Kellogg doesn't have to worry about sales of their cereals decreasing mightily due to their layoffs, but if other job losses come soon after, it might make people think twice the next time they are in the cereal aisle.

Companies will always face risk. It's how they manage that risk that will set them apart.

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