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HD **BHP coal division keeps it lean to keep its workers keen on productive outcomes**

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BHP boss Andrew Mackenzie has told **coal** boss Dean Dalla Valle not to expect another cent from head office until he can get substantially better than the 7 per cent returns he is delivering from the **coal** assets.

Dalla Valle presented a relatively upbeat assessment of the market with **energy coal** growing at 2.4 per cent a year in a world where 20 per cent of the planet lacks access to reliable **energy** and more demand coming from the likes of India than **China** for his metallurgical **coal** assets.

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With head office shutting off funds his only choice is to improve performance through better productivity, which is starting to deliver in a detailed five-year program working on the assumption that all losses are identifiable, quantifiable and eliminated.

The way he sees it, there are 8760 hours in every year and everyone has to start work each day knowing what they can deliver each hour and how that can help the team around you.

“We obsess about hours here,” he said in an interview.

Equipment is logged so a team in the Bowen Basin knows the people in the Pilbara are running the same trucks for longer or faster than they are. Everyone wants to be on top of the league table in part because you get paid more.

The program is highly collaborative, with the shop floor setting the agenda under direction from divisional managers. That’s part of the program, with bottlenecks assessed and cleared and production adjusted accordingly. New projects are assessed on the same metrics and then on a global level mines are assessed to see if they meet the tests set by the best producers.

It’s a version of the Lean manufacturing program used by a range of companies from Boral to CBA to BHP but in this case according to Dalla Valle “it’s about job security because we all want a profitable future”.

Last year Mackenzie ran the top 500 executives in the **company** through an executive learning program teaching them just how to work to achieve the ultimate goal — to run their equipment at nameplate capacity 24 Continued on Page 24 Continued from Page 17 hours a day, seven days a week.

In his CEDA speech in Brisbane, he cited the example of his truck drivers who earn 50 per cent more than their equivalents in New Mexico in the US but apart from saying the difference was purely in wages he declined to provide details.

In part this was historical because in boom times managers are happy to pay more but “if we are paying more then the drivers will have to be more productive and we have to get more out of them”.

The productivity agenda in the coal division is working, with truck performance up by 40 per cent, through new larger trucks that carry the equivalent of 20 Corolla cars or two jumbo jets in each load, improved shift changes and cycle times.

The starting point is to cut absolute costs, so if something cost $20 they want to get it back to $15 and work through the process and go back to suppliers and then start all over again.

It’s a relentless drive that Mackenzie has instilled in the company and the likes of Dalla Valle are implementing with almost zealous intent.

This, of course, is part of the simplification agenda that also includes asset sales and consideration of bigger portfolio adjustments that have been ongoing for some time, but this week have been publicly aired with some enthusiasm.

Earlier this year BHP chairman Jac Nasser convened a dinner in Melbourne for former chief executives and the board, featuring such names as Brian Loton and former Billiton boss Brian Gilbertson, who was quickly turned out just six months into his post in 2003.

Then chairman Don Argus was in attendance, but the two were not seated together. Still, as one participant noted, Gilbertson sure did a great job for his shareholders when he merged his company with BHP back in 2001 and, by implication, it was not such a good job for BHP shareholders.

If the reported exercise is more than an attempt to fast forward asset sales, maybe BHP shareholders will at least get something. UBS analyst Glyn Lawcock noted if BHP proceeds with the plan to repackage what would essentially be the old Billiton assets it would have minimum impact on BHP earnings.

He suggested adding the Cannington silver lead and zinc assets into a new vehicle comprising the unwanted aluminium, nickel and manganese and the end result would be a 13 per cent fall in revenues for the remaining BHP assets, along with a 3 per cent fall in earnings before interest, tax, depreciation and amortisation and a 2 per cent fall in net profit.

The assets in question reported a loss of $US523 million in the last financial year against a $US2.9 billion result in 2006, such was the impact of falling commodity prices.

The split on Lawcock' s numbers would have an immediate positive boost to the BHP core and as the company's 2001 annual report noted — trumpeting the Billiton merger — “a new day begins”.

Dalla Valle said he was about halfway through his revamp of the coal division and, while there were “pockets of excellence, there was plenty of work to do’’.

Bread and butter issues RENAISSANCE man Chris Delaney has delivered a 45 per cent fall in earnings at Goodman Fielder, which is not how the original script was written.

Yesterday's profit downgrade will see full-year earnings before interest and tax at $160m compared with $289m in 2011.

Some of the fall was deliberate with about $40m going in asset sales and everyone well understands the problems of being caught between the supermarket behemoths and commodity prices.

But as much as Delaney talks up his intention to cut costs further, the market is fast losing patience.

The stock price closed down 22 per cent at a 19-month low of 47c a share on heavy volume, with 31.8 million shares changing hands and, while Delaney stressed the company was well within its debt covenants, he declined to reveal just what they were.

Asset value writedowns were flagged and dividend cuts are certain. Delaney, it must be said, inherited an under-invested basket case when he took the reins nearly three years ago.

New Zealand billionaireGraeme Hart stripped the best assets, such as Uncle Toby’s, prior to its refloat in 2005 and then dumped his dairy assets into the mix just to add further to the problems.

The New Zealand dairy assets earn $55m in EBITDA on average but much less this year as Delaney has to match the higher farm-gates prices imposed by market behemoth Fonterra.

He has engaged Credit Suisse to find a buyer such as Lino Saputo, Parmalat or just about anyone interested in the asset and a dream deal could deliver about $650m based on an 11.5 times multiple.

The Fijian chook business is climbing off the floor, but elsewhere trouble is all over the place.

In dressings, it seems rival Kraft has had its product on **sale** at half price for the past 13 consecutive weeks.

That is tough to sell against.

In spreads, the aforementioned Fonterra's innovation with spreadable butter is fast outselling Delaney's spreads which are losing share.

In the $1.1bn loaf bread market, Delaney speaks for about 34 per cent of the market and supplies Coles with house-brand product.

Rival George Weston, which supplies Woolies with private label, has 29.5 per cent.

Private label bread share is falling at around 17 per cent, but the fast mover is so-called in-store baked products with 14 per cent.

Like Fonterra's spreadable butter, this is a market innovation and Coles, by way of example, buys the bread mix from an outside supplier Bread Solutions in Melbourne while Delaney provides some ingredients to Woolies.

It still costs more to truck the bread to the supermarket than it does to make the product and the days in which bread is delivered fresh to the store each day are fast disappearing.

The big suppliers simply can't afford it any more.

Delaney has cut his plant numbers down but when you only have one plant in town, and it is broken, then trouble follows, as happened recently when Perth broke down and Delaney had to ship bread from his Adelaide plant at great cost.

A new, efficient plant is the answer, but that costs money, which is something that Delaney does not have much of.

Some in the market say the only answer is to virtually draw a line in the sand and start again, whereas Delaney is trying to do it all in bits.

Increased bread volume was meant to lower costs, but in the last half it didn't, so his cost savings under project "renaissance" were not as big as planned.

So another 300 jobs will go from the 6000 staff base and the savings target for next financial year will be increased.It's all just fiddling around the edges. The ship continues to sink.

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