Hormel Foods Corporation with Jeffrey Ettinger at Thomson Reuters Food and Agriculture Summit Chicago - Final

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Body

Corporate Participants

* Jeff Ettinger Hormel Foods Corporation - Chairman, President, CEO

Conference Call Participants

* Thomson Reuters Journalist

Presentation

THOMSON REUTERS JOURNALIST: (audio begins in progress) Dinty Moore, any others you would highlight of it?

JEFF ETTINGER, CHAIRMAN, PRESIDENT, CEO, HORMEL FOODS CORPORATION: That's a good start. I'm sure we will cover a lot of (multiple speakers).

THOMSON REUTERS JOURNALIST: Obviously, you know me.

THOMSON REUTERS JOURNALIST: I am Nicole Volpe and I'm based in New York. I'm the Editor in charge of Reuters Summits.

THOMSON REUTERS JOURNALIST: I am Martinne Geller, based in New York. I cover beverages and [food].

THOMSON REUTERS JOURNALIST: I am Jessica Wohl, based in Chicago, and I cover household products and retail.

THOMSON REUTERS JOURNALIST: I am [Nicole Maistry]. I'm based in New York, and I cover the big discount retailers. So Wal-Mart and Target and the warehouse club operators.

THOMSON REUTERS JOURNALIST: [Lisa Von Ahn]. I cover groceries stores [and what not].

THOMSON REUTERS JOURNALIST: I'm [Ted Curran]. I am based in New York. I cover (inaudible).

THOMSON REUTERS JOURNALIST: I am Terri (inaudible).

THOMSON REUTERS JOURNALIST: I am [Chris Dabby], based (inaudible).

THOMSON REUTERS JOURNALIST: [David Tooms], (inaudible).

THOMSON REUTERS JOURNALIST: [Charles Stone], Chicago. I cover (inaudible).

THOMSON REUTERS JOURNALIST: I am [Bob Ragger] from Chicago and I cover the meat industry.

THOMSON REUTERS JOURNALIST: [Jessica Hall] from Philadelphia. I cover (inaudible).

THOMSON REUTERS JOURNALIST: Ben Klayman, based here in Chicago. I am on the consumer retail (inaudible).

JEFF ETTINGER: Bigger than ever and in a new spot since I was here two years ago.

THOMSON REUTERS JOURNALIST: Yes, fancy new digs. Obviously, we are in a recession. It is a really tight economy. How is that affecting Hormel, both on the positive and negative? Let start with that.

JEFF ETTINGER: Sure, we are seeing some ups and downs in terms of demand for our products. Very strong demand for the canned side of the franchise, Spam luncheon meat, Hormel chili, Dinty Moore beef stew. Our Chi-Chi's salsa products had an excellent couple quarters in a row. Within the refrigerated foods franchise we are seeing very solid sales of Cure 81 hams, Black Label bacon, Hormel pepperoni.

The weaker areas would be our single serve microwave franchises, both in the shelf-stable form, our Hormel Compleats brand, and on the refrigerated side, both our regular Hormel refrigerated entrees and our Lloyd's barbeque tubs are down somewhat. And we are seeing some softness in foodservice.

THOMSON REUTERS JOURNALIST: Is it the price points on the refrigerated -- the products that are being hit is that the issue, or what do you think is keeping consumers away?

JEFF ETTINGER: I think we're still trying to sort through what the challenge in this economy is on some of these items for consumers to make sure we continue to deliver the value they're looking for.

I don't think it is just price points. One of our innovative new products from the last decade has been Hormel Party Trays, which retail for anywhere from $12 to $15 each. And they had a tremendous selling season during the last holiday phase. Whereas the Hormel Compleats microwave meals, they are off somewhat, retail in the $2 to $3 range. So I think in that case what we're trying to do is really take the value message to consumers and remind them really given other alternatives that it is still an excellent value option.

THOMSON REUTERS JOURNALIST: How quickly are you seeing consumer tastes change, just from the economy?

JEFF ETTINGER: I think those productlines we were just highlighting the ups and downs, have been the more significant reactions over the past few months. Many of the productlines seem fairly stable. So we're just -- we are still trying to sort through, I guess, which franchises will be affected most significantly.

THOMSON REUTERS JOURNALIST: I think on your last earnings call you talked about new products that you have coming out. Are you gearing your new product development at all towards things that might sell better in a weak economy, or is that having any impact?

JEFF ETTINGER: We're certainly -- we're having those talks internally. The affordability quotient I think is something that is on the radar more. New product development is an multi-month, even couple of years process in some cases, if you're really doing good diligent consumer work.

So many of the items we have introduced during the past year weren't necessarily with that environment in mind. But going forward I think there is going to be added attention to the affordability aspect of the product.

THOMSON REUTERS JOURNALIST: Going forward things that we're going to see in the next few months, or does it take you longer than that to bring that into the pipeline?

JEFF ETTINGER: Well, if we were going to develop something from scratch it certainly would take more than a couple of months, but we always have a fairly robust pipeline of things we're working on. So in terms of which items that we would highlight and release and maybe which items we would put our consumer marketing behind, that we could do more quickly.

THOMSON REUTERS JOURNALIST: Which ones -- so what products does that lead you to then?

JEFF ETTINGER: Of the items we have introduced recently, again, as we're trying to sort out the ups and downs of the different productlines, we actually started our efforts against some of our traditional canned good items about a year and a half to two years ago. We launched the first national ad campaign on Spam luncheon meat in quite a while recently. Dinty Moore beef stew, had our first advertising effort last fall that we had had in a number of years. And so we will certainly continue with those efforts.

THOMSON REUTERS JOURNALIST: Are you -- to talk about marketing, are you, aside from those new campaigns, are you spending more on your marketing now?

JEFF ETTINGER: We did spend more in fiscal year 2008 than prior years, even in the face of what for us ended up being only our third down year on an earning basis in the last 27 years. We felt it was important to keep that support out there for the brands.

Our view of the retail environment is it becoming more and more an environment where you either need to be the strong leading brand, or there is significant growth in private label. And it is always part of our mission to make sure we keep that leadership position. We do need to support those brands. We have 35 items within the portfolio that are either number one or number two in their categories, and so those would be the ones that we would focus much of the effort against.

THOMSON REUTERS JOURNALIST: Do you plan to spend more in 2009 also?

JEFF ETTINGER: At this point we do. For the first quarter, based on our quarterly release, the number was down slightly, but that was more of a timing issue versus what we had done last year. But our goal right now would be to have a somewhat of an increase in overall marketing spend in 2009 as well.

THOMSON REUTERS JOURNALIST: And given the fact that rates have come down in some areas (inaudible) do you feel like you're getting more bang for your buck, or are you changing your allocation in marketing?

JEFF ETTINGER: We are seeing some improvement in that regard, but really the allocation is driven more by the tactics of the brand and by the consumer audience we're trying to reach, as opposed to, okay, if print is down or if TV is down, allocating more money on that basis.

THOMSON REUTERS JOURNALIST: When was the last time you saw Spam moving like this?

JEFF ETTINGER: The double-digit increase we saw toward the latter part of last year, certainly we haven't seen those kind of numbers since there was a stretch in the early '90s, we generated those kind of results. We have had very solid growth of Spam on a global basis for a number of years. That has been closer to double-digit growth.

THOMSON REUTERS JOURNALIST: Okay, but this was double-digit for the entire Spam portfolio or in the US?

JEFF ETTINGER: For the US that was the more unusual move.

THOMSON REUTERS JOURNALIST: What are you planning in terms of how shoppers are deciding what they're actually going to purchase at the grocery store when they are looking at say buying a national brand versus a private brand? You know retailers themselves are looking at rolling out private brands. We just had Wal-Mart talk about the new launch of Great Value. What are you finding, and how are customers making the decision between the national brand and a store brand? What is really swaying their decision in this environment?

JEFF ETTINGER: I think value is certainly of heightened interest. But value doesn't have to be just specific within a certain product category. I think we were seeing people, for instance, migrate to a Dinty Moore beef stew product from other categories entirely, because it does represent a wonderful value to their family for that occasion.

Sorting through even within that brand franchise, branded versus private label, clearly there are stores that have private label stews that is not a particularly high share item. And if they really want to build traffic with a display and have consumers readily know what they're going to be getting, our point of view obviously would be they would be much better off to push the branded item. And I think we have been proving that with some of our results lately.

THOMSON REUTERS JOURNALIST: If they are buying the Dinty Moore beef stew, what would they have been buying before?

JEFF ETTINGER: Just -- they could have been eating lunch out more often or eating dinner out more often. I don't know that I have an exact trade-off item for you.

THOMSON REUTERS JOURNALIST: How closely do you look at where the trade-offs are coming from, or do you not care as long they are buying Dinty Moore?

JEFF ETTINGER: Well, no, you really do want to know what your source of volume is for a productline. For instance, our microwave meals, I mentioned they have been down somewhat here in the more recent economy, but that is after four years in a row of 30% to 40% growth. And our knowledge there would suggest that we're sourcing some of that volume from frozen.

THOMSON REUTERS JOURNALIST: You've got -- I think they are -- I am trying to remember if they were -- the prepared -- there a pork loin, I think. There is a turkey stroganoff. There is a few other ones like that. How are those doing now? Are people going to those because they are eating more at home or is it a pricing issue?

JEFF ETTINGER: The one category you might be mentioning for a stroganoff type dish would be refrigerated entrees. Those are down somewhat. That, again, kind of falls into the array of the convenience meals, more like the microwave Compleats. Marinated meat items really had a pretty strong fall season, Select, Always Tender, pork tenderloin, again more of a make at home full meal.

THOMSON REUTERS JOURNALIST: Is it consumers are willing to give up convenience to some extent in order to save money, or what is causing that?

JEFF ETTINGER: I think we are seeing that right now. I think if you go to the shelf-stable part of the store, whether it is a microwavable container of soup or pasta, or even our meal items, I think consumers look initially at the fact that some of those items were convenient versions of something that was always available in a can or in another form that was probably less cost per ounce.

Part of our communication message with Hormel Compleats is many of those products really are not items that you could get in a can. We're trying to point out to consumers the value of getting a beef roast dinner or something of that type for a price of $2.50 to $3.00 is still an excellent value.

THOMSON REUTERS JOURNALIST: I would like to ask about your foodservice. Last year when we had relative commodity prices a lot of companies were saying they're trying to shorten the length of term of their contracts with foodservice companies. I think they are traditionally a year and they're trying to shorten it about three months, six months, whatever.

Could you address that, what the success of that has been? If that is something you had tried. I know with commodity prices down now that may not be quite the urgent matter it was before. But if you could address that a little bit. And also what percent of your business is foodservice?

JEFF ETTINGER: Sure. We definitely have tried to talk with the foodservice distributors and operators about a shorter window and a much more volatile cost environment, and that does seem to be being well accepted. We are more in that 90 to 120 day range now for commitments as opposed to those full year programs.

THOMSON REUTERS JOURNALIST: 90 to 28 --?

JEFF ETTINGER: 120. I'm sorry, your second question again was?

THOMSON REUTERS JOURNALIST: What percentage of your food business (multiple speakers)?

JEFF ETTINGER: Overall in our total portfolio foodservice sales represents about $2 billion in sales. So just under one-third. That would involve both our kind of core Hormel foodservice unit, which starts with pork-based products, but has a number of other items as well. And that would also include the foodservice portions of Jennie-O Turkey Store and our Diamond Crystal part of Specialty Foods, and even foodservice on an international basis.

THOMSON REUTERS JOURNALIST: Restaurants, I hear all the time would generally be one of the leading indicators when the economy starts to turn around. Are you seeing any signs at all of improvement from your restaurant customers or is it getting worse or how are things going?

JEFF ETTINGER: We are seeing in our results and hearing from some of our customers that their local-based business is -- the comps aren't as negative as they were. They're still somewhat negative. The area that still seems to be under much more pressure would be travel-based destination areas, with both individual travel being off and so much business travel being off. So those are the areas where it is still a more significant problem.

THOMSON REUTERS JOURNALIST: When you say local versus travel, it suggests the type of establishment or how do you break that down?

JEFF ETTINGER: Well, more both the establishment and what town they are in. If it is a town that those of us in the Upper Midwest or some of the colder markets during the winter, those tend to not be locations were companies usually go for conferences. And so we can gauge those results out on that basis, and those are the ones that we are seeing it is recovering somewhat.

THOMSON REUTERS JOURNALIST: When did you start hearing that?

JEFF ETTINGER: Just in the last month to month and a half.

THOMSON REUTERS JOURNALIST: But again, we're still talking about a negative, it is just not as negative?

JEFF ETTINGER: That is my understanding. That would be what our information would show from in terms of our sales to these entities.

THOMSON REUTERS JOURNALIST: What are you finding in terms of discussions with retailers these days? Now last year at the food summit the big topic was commodity costs were rising. Suppliers looking for ways to help pass along those price increases and get them on the store shelves, to recoup some of the increased costs.

A lot of those pressures are gone, but now consumers are under so much pressure in terms of having extra cash to spend. So when you are talking to retailers about maintaining your shelf space, how are they deciding to keep your products on a shelf versus something else? Are you having more discussions that they want you to be bringing your prices down to help their customers out? How is that conversation going these days?

JEFF ETTINGER: I think we're having very active conversations to make sure we're bringing a good value to consumers. I think the proof of it for us right now has been in the sales figures. We had a 4% sales increase in the first quarter, 9% for last year.

On the area of cost to price, we do try to remind the retailers that we have a significant part of our portfolio that is meat-based, protein-based, and in those cases we really never did catch up fully to the cost increases.

Again, if you look at our results over the last couple of years, we grew sales by 9% last year, by 8% the year before, but over that same two year timeframe our earnings were pretty much flat. So the difference really was the kind of commodity cost inflations we saw versus what kind of pricing we were able to achieve. So as the costs are coming down, that is certainly helpful, but we're not at a place yet where we have fully recovered.

THOMSON REUTERS JOURNALIST: So are they though -- are retailers talking to you about wishing you could lower your prices more, even though you're still trying to recover, just given the state of the US shopper?

JEFF ETTINGER: Yes, and certainly we're going to continue to look for ways to drive the right value for consumers. It may be everyday shelf price. It may be certain features that really build traffic and are beneficial to consumers. So we are exploring both.

THOMSON REUTERS JOURNALIST: Are you feeling more pressure from retailers exploring private label, private brands, especially directly on any of your products?

JEFF ETTINGER: Within our categories we have been fortunate enough both I think because of the marketing efforts we have put against those products, and because we're in categories where the products are seem to be a good value, that our shares are holding up very solidly.

Over the most recent tracking period 80% of the brands that we really track are showing share increases at this time. Many of those are also showing private label increases, but what is happening is against the leading brand private label (technical difficulty) hits the brands perhaps in the middle that are the ones getting a little bit squeezed out in that equation.

THOMSON REUTERS JOURNALIST: What about the 20% that is not showing share (multiple speakers)?

JEFF ETTINGER: There are a couple that have dropped slightly, but they obviously at this point are the exception.

THOMSON REUTERS JOURNALIST: Can you specify?

JEFF ETTINGER: You know, I really wouldn't be able to. I'm not trying to hold it back from you, I am not remembering offhand which items those would be right now. One I know for sure would be within the refrigerated dinner category, because we know that those items have been a little bit off.

THOMSON REUTERS JOURNALIST: Are you seeing retailers making moves to hold less inventory?

JEFF ETTINGER: We heard a lot about that from other food companies here recently. Our experience frankly had been that we experienced that maybe three or four years ago, where retailers used to carry a little bit more significant inventory of our products and/or would build inventories as we completed a deal period, for example.

They really tightened away from that, as I mentioned, about three or four years ago in our categories. So as we ended the first quarter here we really did not see that kind of deloading effect on our volumes.

THOMSON REUTERS JOURNALIST: Do you expect to continue to try to make up for the difference that you lost because of commodities this year? Because from the grocery stores a lot of them talk about how consumers really don't believe that prices can stay high when they are seeing everything else come down.

JEFF ETTINGER: We really would love to just have been in a position where we could catch up, but we expect to ultimately drive results for our Company by enhancing the mix of products we sell and by innovating and creating new items that connect with consumers.

We really are not trying to drive profit growth on the back of pricing. We just were hoping to get our pricing up to a point where we could cover costs.

At this point we really don't have a lot of pricing activity going on in the marketplace. The one significant grocery item that we recently took a price increase on was our Hormel chili franchise. And in that case we really would have been justifiable taking the pricing back last fall, but we had so many significant programs in place with retailers through the chili season of the winter, that we decided we would forego taking our price increase until those programs had worked their way through. And so we have gone forward with that now.

But that having been completed, we really don't have anything on the docket right now in the way of pricing in those categories.

THOMSON REUTERS JOURNALIST: Do you think if the commodity environment stays at least where it is, if not getting better, do you think you're done with price increases for the time being?

JEFF ETTINGER: It is just still hard to read. It is choppy out there. It is hard to know where the meat values are going to go fully. One of the other areas that we were hit on fairly significantly this year were tinplate costs for cans were up 20%, 30%, 40%, 50% depending on the item. We would love an environment where things would stabilize in the realm of costs, because I think we then could be able to shine more fully with the value items we have in the portfolio.

THOMSON REUTERS JOURNALIST: What do you need to do for -- and what are you doing already to try and turnaround the profit at Jennie-O?

JEFF ETTINGER: Jennie-O, the key element of the equation at Jennie-O is we needed to bring production in line with the value-added demand. For a number of years we had pretty good momentum in the value-added items. As we did have to push price somewhat at Jennie-O to cover now what ended up being a move in corn from $2 a bushel up to $8, and then obviously back down somewhat, we did lose some volume in that area. We are working hard with those retailers and operators to gain some of that back.

Clearly we are seeing some mitigation on the cost side with feed coming down. But the bigger controllable part for us has been that we announced the (technical difficulty) last May in order again to get that balance back in line. And that starts filtering -- did start filtering through our system in November. And that was part of why Jennie-O's recovery actually seems to be a little ahead of schedule from what we had expected as of the end of last fiscal year.

THOMSON REUTERS JOURNALIST: Is it just your production that you need to worry about or the industry as a whole?

JEFF ETTINGER: Our production is all we can control, but we certainly keep an eye on production throughout the industry. There are fairly commonly accepted numbers of egg sets and [poultry] placements, and those numbers seem to be down in the high single digit range for the entire industry. So our expectation based on that would be that by summer or late fall we should be back in balance in the turkey industry and not overproducing meat there.

THOMSON REUTERS JOURNALIST: Can you trust the rest of the industry to keep things in line going forward, because that hasn't always been the case in the past, has it?

JEFF ETTINGER: No, it hasn't always been the case, but again what we just focus on is what we feel we can control. And with the slowdown we experience in our value-added business, at the same time as production had in our case ramped up too significantly. The whole industry was for a stretch there, in the last year to year and a half, saw improvements in the average weight, improvements in the livability rates. So that ended up adding more meat to the equation than probably anybody had expected. So that is allowing us to tighten up the number of turkeys that we put in the barn and allowing us to get back in balance.

Our goal is to support our value-added businesses. It is the same goal we have on the Hormel side when it comes to pork products. We would just as soon not sell commodity meat, and so this cutback has allowed us to tighten that up significantly. And so in a market where today breast meat is still under $1.50 a pound, you would be selling at a loss compared to your cost. We don't have to worry about selling it, because we're putting it into value-added products.

THOMSON REUTERS JOURNALIST: With the (inaudible) production on all segments -- turkey, chicken, beef, pork, you name it -- I know you are more value-added, but still there would be some price, I would think, support on the fresh meat side, (inaudible) late '09 or in 2010. What is [actually] your outlook in that regard? As you pointed out, turkey production is down, chicken production is coming down, beef, pork, so forth.

JEFF ETTINGER: I think our expectation would be we would see a solidification of pricing in general as you head toward the end of this calendar year of '09. But clearly turkey and pork are the ones we pay the closest attention to.

THOMSON REUTERS JOURNALIST: Would that be enough to, as you said, recover some of the losses we have seen in the past?

JEFF ETTINGER: Our expectation is that it will allow Jennie-O Turkey Store to get back into the realm of having positive comps. And that in turn is driven really by its value-added portfolio. Even in these bad times for Jennie-O over the last three or four years, on a comp basis the entity is still solidly profitable. That really tells the story of the value-added items within the division.

THOMSON REUTERS JOURNALIST: (multiple speakers). You don't sell any fresh turkey?

JEFF ETTINGER: We certainly do -- we participate with Thanksgiving whole bird turkeys, and we do have a commodity element of the portfolio with a particularly dark meat on an export basis. But we try to sell just a minimum of white meat items.

THOMSON REUTERS JOURNALIST: How are you communicating value-added products to consumers right now? We see people trading down from restaurants to dining at home, so that would seem like opportunity for Jennie-O. Are you using that in advertising (inaudible)?

JEFF ETTINGER: Yes, we really are doing that across the franchise. We have tried to tailor our message, whether it is TV, print, couponing, sampling to where it is appropriate talking about the value component of the items, so we are tailoring them accordingly.

THOMSON REUTERS JOURNALIST: Are you doing more couponing this year?

JEFF ETTINGER: We are doing some more.

THOMSON REUTERS JOURNALIST: In what brands?

JEFF ETTINGER: I wouldn't be able to -- I wouldn't have that for you, sorry.

THOMSON REUTERS JOURNALIST: Is there anything you could say about sourcing for beef? We had a story of Australia this morning, just talking about how they're beef exporters were doing really well with the Australian dollar situation. Is there anything there in terms of sourcing?

JEFF ETTINGER: Right now we have actually been seeing some improvement in beef sourcing over the past few months. It was much more challenging for us last summer. That was one of reasons we really needed to look at a price increase on stew and chili and those types of items. So between Australia, what we are seeing in South America, and what we are seeing in the States, for right now the pricing has been better.

THOMSON REUTERS JOURNALIST: Do you make private label products for retailers?

JEFF ETTINGER: We have a significant franchise in private label packaged gelatin, like puddings and jello type items. We have had that since being in the pork business. We used to have a gelatin plant, and we have maintained that business even after we actually sold off the plant that produces the raw material.

We're a willing participate in private label in the more mature categories. So we do some canned meat business for retailers in the US. Given our Company's heritage and focus on innovation, it is important then to balance that into the equation when we assess private label. So for our more innovative items, our refrigerated entrees, or our microwavable Compleats items, or our Natural Choice items, we do not private label those type of items.

THOMSON REUTERS JOURNALIST: What percent of your business would come from private label?

JEFF ETTINGER: The specialty products business is a subset of Specialty Foods. Specialty Foods is 15% to 20% of their sales, so it is not a very big percentage. And when all is said and done it would be under 5%.

THOMSON REUTERS JOURNALIST: Did you see it fluctuating at all or growing as more retailers look to expand their own private label?

JEFF ETTINGER: It has been growing some. I think our very strong heritage for food safety has been a beneficial selling point to our team that sells private label products.

THOMSON REUTERS JOURNALIST: How profitable are they for you versus your own branded products?

JEFF ETTINGER: The margins are typically much tighter.

THOMSON REUTERS JOURNALIST: I think you have mentioned food safety. Do you -- what changes do you think needs to be made in the US and globally?

JEFF ETTINGER: We're not really on the bandwagon of changing to one organization. We think that would be an awfully complex change for the government to adopt right now.

We have certainly seen the proposals that are being made focused on the FDA. Most of our products are in the USDA where you have inspectors in your plant every day. You have prior label approval. You have a very well-developed recall system. So to us the more the FDA can become like the USDA I think that would be beneficial to the food safety of the country.

THOMSON REUTERS JOURNALIST: Do you think it would be useful for the two agencies to be merged?

JEFF ETTINGER: That is what I was getting at at the beginning. I guess I don't think so, in part because you have the drug aspect of the FDA that would have to go somewhere. It just seems like such a complicated set of changes. I think it would be quicker and more effective to upgrade what the FDA does in terms of its food review as opposed to going to the point of actually merging the two.

THOMSON REUTERS JOURNALIST: How about outside the US, whether it is from sourcing that you do outside the US or from your own products say in China or wherever, what needs to change in terms of more of the global food safety framework?

JEFF ETTINGER: It certainly would be beneficial the more countries that would have standards that are more similar to the US standards I think the better off the global food supply would be.

But we don't sit around and wait for that to happen. We're pretty aggressive about making sure we test any raw materials and incoming ingredients for our own products. And we hold our facilities -- our facilities in China make products for citizens within China, but we hold those facilities to the same kind of standards that we utilize here in the United States.

THOMSON REUTERS JOURNALIST: You talked about the number of brands you have that are number one or number two. In this environment is there any reason to hold onto a brand that is not number one or number two?

JEFF ETTINGER: That would certainly -- I think you would -- we try to review our portfolio periodically to make sure that we're in categories where we belong. And that would be part of the equation you would have to look at.

A couple of examples I can give you of divestitures that we have done in the past would be in the casings business. We had been involved in that business for many years. And as the meat industry consolidated and so many of the customers for casings were in essence our competitors, who were then maybe reluctant to have us be their casing supplier, the more we realized that that asset probably was worth more in somebody else's hands than it would be in ours.

We also had a line of products within the frozen food convenience meal case, Quick Meal sandwiches, and we had a line called Mrs. Patterson's Aussie Pies. They were kind of a potpie product. And we just found over time that we just did not have the scale and the supply chain infrastructure to be competing in frozen prepared meals, and so we exited that as well.

THOMSON REUTERS JOURNALIST: Are you happy with the portfolio as is, or are there other areas you might review?

JEFF ETTINGER: There is nothing big. There is always -- you look brand by brand. Another productline that we got out of after a time was canned Vienna sausages. We just ultimately determined that that line really just couldn't -- was not bearing any margin, and was taking up room in a plant facility that was better utilized for some of the products that are attaining such good energy right now.

THOMSON REUTERS JOURNALIST: Anything you would like to add to the portfolio?

JEFF ETTINGER: We're always looking for acquisitions and for innovations by our own team that would add to the portfolio. It really gets down to understanding the consumer within our categories. It gets back to us, and we really hope to be the leader in value-added meals that feature meat. So wherever that takes us, we certainly are interested in exploring growth opportunities.

THOMSON REUTERS JOURNALIST: (multiple speakers) the few like fresh meat plants, if you will, on the market (inaudible) particularly, are you saying you probably wouldn't be interested in anything like that?

JEFF ETTINGER: Our supply chain focus, and part of it is historic and part of it is deliberate, but we are basically in pork and turkey. We have products where we use chicken and beef components in the products, but our assessment is to be a significant scale player, and those would be a massive investment, very asset intensive.

Most of those businesses tend to be quite volatile, and we would much rather perform more like the packaged food industry peers that we try to emulate. And so I think that is highly unlikely that we would get into a vertical basis in beef or chicken.

THOMSON REUTERS JOURNALIST: You talked about incredible growth in Spam begin double digits (inaudible) in quite a while, so is that a (inaudible) bright spot?

JEFF ETTINGER: It has done very well. It is still relatively small in our total portfolio. It represents under 5% of sales. But it has been growing at a double-digit clip for sales and earnings for the past three to four years. And it is something we intend to continue to place an emphasis on.

Our focus is in Asia more. We do have a decent franchise for Spam and for Stagg Chili in some other markets in Europe and in Australia and Canada. But in terms of really having in-country assets our significant plays would be our facilities in China and a partnership with San Miguel Corporation in the Philippines that covers Southeast Asia, both in the Philippines and in Vietnam.

THOMSON REUTERS JOURNALIST: What kind of growth are you seeing in China?

JEFF ETTINGER: China, we're still seeing excellent top side growth. It has been choppier with the hog inputs, in terms of having a pork-based business in China. And so bringing home the earnings on the bottom line has been a little bit more of a challenge.

Putting that aside though, we really feel in China we have great experience. We have built a nice brand reputation. It is kind of a premium brand that is more for Western taste. And so we would like to find a way to expand our footprint in China. And we're exploring the potential of building a new facility or of creating further partnerships or of acquisitions?

THOMSON REUTERS JOURNALIST: (inaudible).

JEFF ETTINGER: China has been up and down. It has never been tremendously profitable. Again, it is really subscale for us at this time, and we need to have it be a more significant player in order to really attain good profitability in that area.

THOMSON REUTERS JOURNALIST: Do you expect to be able to do that in the near term?

JEFF ETTINGER: We're exploring the options in the near term. But our commitment there is long term, and so we would want to make sure we make the right move next. So there is -- I have nothing to tell you today about it, but we certainly see that as a good opportunity for us.

THOMSON REUTERS JOURNALIST: Do you see the changes that consumers are making right now in terms of how they are eating permanent, or how do you think they might change once the economy comes back?

JEFF ETTINGER: To us the trade-offs that have gone on in some of our convenience categories, I guess my sense right now would be that I don't see those as being permanent, because I don't see the world becoming any less time pressed.

Secondly, in terms of the added element of convenience to make it easier to prepare good tasting items, I don't see that changing, because people really are coming up with a lot less cooking skills than earlier generations, and so I think it is still going to be very important to deliver those elements.

Within the foodservice world, a little harder to read right now. I think people still enjoy eating out. I think if the economy were to improve, I think you would probably see a return to that fairly rapidly.

THOMSON REUTERS JOURNALIST: Where do you see trends like organic meat and things like that fitting in with consumers cutting back on spending right now?

JEFF ETTINGER: We hear mixed things about organic. It is not a category we participate in with any depth. But it is, on one hand, I think there's a loyalty factor to the organic audience that maybe we would find analogous to the loyalty factor about certain brands. That even in a tight economy if you really like a certain item, and you found that the value proposition is acceptable to you, that is maybe one of the last things you're going to cut out on.

On the other hand, organic, even before the turn in the economy, in many categories does have the challenge of being double and triple what the reference item would be. And so people really have to decide if it is worth it for them.

For us, what we decided to get into was more the natural items. So our Hormel Natural Choice productline was aimed at delivering against that consumer. So we can price an item that is similar to the competition within the category and provide a no preservative, all natural option within that area.

THOMSON REUTERS JOURNALIST: How has that been going?

JEFF ETTINGER: Very good still. Natural Choice has been a very -- we are in our third year really of that productline, and it continues to show good growth.

THOMSON REUTERS JOURNALIST: Would you look at organic, or you just not feel the opportunity is the there or --?

JEFF ETTINGER: We have been reluctant to get into organic, especially as it relates to -- if the organic component we are bringing is organic turkey or organic pork where you're going to have supply chain implications, we don't feel that the added complexity that that would cause within our system is worth it. We don't think that is what consumers are really looking for from a major manufacturer like Hormel.

So it would tend to be maybe a more niche area, as we have an organic salsa, we have an organic option within our chunked canned chicken line, Valley Fresh, but it would be more of an one up kind of niche item.

THOMSON REUTERS JOURNALIST: In terms of -- we touched upon it a little bit, but in terms of discussions with retailers, has it changed in the past couple of years? Has it changed since you have been in the business? What are retailers asking for now that they weren't in the past? And either on price, on promotion, on endcaps, on displays, on packaging, what are the retailers asking differently?

JEFF ETTINGER: I think you -- there are always areas of change. I have seen every year or two there's a little bit different slant on how those conversations go. But I think there is a good focus right now on recognizing that the ultimate point of value is the consumer, bringing the right items at the right time in the right place for the consumer. So I think we have had better partnering efforts to make sure we're delivering that.

They're doing, I think, a lot more bundling of items to make meals more obvious and more readily accessible to consumers. And in those cases sometimes they are with other branded peers that we will be paired with, and sometimes they will be with the store's private label items. And either one of those are fine as far as we're concerned, if they are reaching the right audience.

THOMSON REUTERS JOURNALIST: Can you expand a little bit more about that, the bundling? Have you seen it in stores? What are they putting together, and how are they displaying it? And how are your products (inaudible)?

JEFF ETTINGER: It would be merchandise, either with contiguous endcaps to have items that would be a natural complement to each other in a meal, or sometimes they deliver it through couponing, but either way.

It is just more stepping ahead and really recognizing that rather than looking at your 20,000 plus SKUs in the store as being all separate, that ultimately the consumer is time pressed for shopping as well, and is looking at alternatives that would make that -- make the decisions on meals much easier.

Another thing we did in that regard is we recently collaborated with an entity called Cannondale Associates to do a study of aisle management. It was recently in Supermarket News. That was really aimed at that convenience meal area of the center of the store. There we talked to 1,500 shoppers on a separate basis. We looked at over 15 million shopper cards with various retailers.

And really the discovery was that consumers up for convenience items would love to have those items located in a readily accessible, readily understood single aisle location. And right now soup is one aisle, and our canned meat items are in another, and pasta is in a third, and Mexican is in a fourth, and the helper items is in yet another aisle. So we're working with retailers on a collaborative basis to start piloting sections of the store that consumers would understand much more readily.

THOMSON REUTERS JOURNALIST: So would that be like if you want to make dinner tonight, here's our suggestion, instead of running from five different aisles you can get off here?

JEFF ETTINGER: There is some of that. Though the endcaps I was mentioning earlier were probably oriented more toward a, okay, here's a meal you can do right now. Clearly our refrigerated items, whether they are in the grab and go deli or in the meat case would be oriented to that.

This would be more making the kind of the weekly shopping more convenient. That if you know that, when all is said and done, you want to have eight or ten different options that are microwavable and they are going to be easy for you to prepare, or your kids to prepare, that they are all in a very quick, easy to find place.

THOMSON REUTERS JOURNALIST: Have you gotten any [feedback] with that from retailers, because they set out the store in order to get people through every aisle.

JEFF ETTINGER: We're certainly in talks with the retailers right now. I think retailers -- for a number of years the center of the store, although a profitable area for the retailer, had been a less exciting and a less trafficked area. And so I think they are open to anything that it makes it easier for their shoppers, and that ultimately would increase the amount of sales they have through that part of the store.

THOMSON REUTERS JOURNALIST: You are talking to them right now about this idea and the research and what you found?

JEFF ETTINGER: Yes.

THOMSON REUTERS JOURNALIST: What about outside of grocery stores, what about in dollar stores or drugstores, are you doing things to try to get people to buy more of your items say for lunchtime at work and things like that?

JEFF ETTINGER: Yes. But we do business with the dollar stores, and that certainly would be a good vehicle for that. We also do business with the club stores. They tend to have more unique items, more large pack sizes, but we have a number of items are sold in that format.

We have not been particularly strong in the c-store environment. It is something we continue to kind of work on. But our sales organization is probably focused more on the traditional size retailers and has not been as oriented toward that.

THOMSON REUTERS JOURNALIST: What are you finding in the warehouse clubs in terms of big pack sizes? There is talk about if you're running out of money and paychecks, can you still be buying in bulk, or instead are you turning to the grocery store despite something smaller? So what are you finding in terms of demand that you are seeing at warehouse clubs versus maybe in grocery stores?

JEFF ETTINGER: I think it is mixed. I think in some ways, because they tend to offer an item at a little lower margin than the traditional retailer, and because they're looking at larger sizes that on a per ounce, or whatever the equivalent size basis is, that they do represent a very good value to consumers.

And so many consumers are starting their shopping week at those places, seeing what they can find in those locations, and then moving on to finish off their shopping.

But I also am hearing from some of the convenience operators that perhaps we do need to be looking at a little bit smaller sizes. And it really is all about unique sizes in many cases. They just want to make sure that there is operating offering within that store that is enticing to that consumer, and that they perhaps don't get it readily in other environments.

THOMSON REUTERS JOURNALIST: What are some of the examples of what you have at warehouse clubs?

JEFF ETTINGER: We certainly sell some of our canned items there. Jennie-O Turkey Store does a nice set of business with both fresh items and with frozen turkey burgers and other types of items like that.

THOMSON REUTERS JOURNALIST: So are they talking about maybe shrinking some of the size, maybe people don't want to buy as much meat in one trip?

JEFF ETTINGER: They're looking at some smaller sizes. But I think you're also seeing consumers, even if they're buying the bigger packs, they then go home and separate. Okay, this much I'm going to keep in the refrigerator and the rest is going to go in the freezer. And they think that it is worth it for them to get the pricing that they get from the big pack. So they will need to sort that out.

THOMSON REUTERS JOURNALIST: Can I just go back to something you spoke about in the beginning about new products, innovation type [blend]. Do you see more of your new products being sort of line extensions from existing products, or would you develop in-house for a brand-new product?

JEFF ETTINGER: We are very willing to look at new products. They may not be new in the sense of revolutionary to the food industry, but I will cite -- to us, Natural Choice was not a line extension. We were not in sliced luncheon meat. We were kind of late to that category. And we didn't want to just put out a me too item. So when we came upon the technology that would allow us to take preservatives out of that product and offer something with a true point of difference, that was when we rolled with it.

I think our Party Trays, we have a 90 share within that category, because again we utilize that same high-pressure pasteurization technology to allow retailers to carry a Party Tray on a much broader basis for many more days. So we're certainly open to looking at new platforms, as well as line extensions.

THOMSON REUTERS JOURNALIST: Can you give any idea of what type of products would fit into your existing portfolio?

JEFF ETTINGER: To me it gets back to that kind of overarching theme for us of the value-added meals that feature meat. That what we're looking for in meat components. We are looking to innovate within that area. You still look at the fresh retail grocery set and there is still in most grocers a lot of raw overwrapped meat items that many consumers really don't know how to cook very well. Or maybe they don't (technical difficulty) have the time to cook. And so we see still a lot of room within that realm, both in refrigerated and within shelf-stable.

THOMSON REUTERS JOURNALIST: What is your favorite thing to eat?

JEFF ETTINGER: Of our productline?

THOMSON REUTERS JOURNALIST: No.

JEFF ETTINGER: Well, I would go with that. I mean I love (multiple speakers).

THOMSON REUTERS JOURNALIST: In general. It can be your productline or not your productline.

JEFF ETTINGER: I love our marinated pork tenderloins in the summer. You get a couple of nice days like we had this last weekend, and it is starting to get you thinking about using the grill again. So those are excellent.

I have long been a Hormel chili consumer. And I really like our -- we have a new product innovation within that category as well, a premium glass jar chili called Hormel Chili Master. And it has some excellent varieties in it. I'm a big Jennie-O Turkey Store fan and we use those products as well.

THOMSON REUTERS JOURNALIST: How about if it is not a Hormel product?

JEFF ETTINGER: There is all sorts of things I guess that are in our household. We certainly have a number of the Kraft items. And you will find Campbell soup in our cupboard, and some other things as well. I guess we're typical consumers in that regard.

THOMSON REUTERS JOURNALIST: Okay. You can only eat one thing the rest of your life. And it doesn't have to be a brand or anything, what would it be?

JEFF ETTINGER: You are asking me that right now after -- or in Lent here, and my daughter and my wife and I gave up desserts for Lent, so the desert things are starting to kind of bombard me right now. But that probably wouldn't be the best one thing to eat if I had to last for a while. I guess I (multiple speakers).

THOMSON REUTERS JOURNALIST: (inaudible) on the chili, a couple of years ago, I think it was you who said that when -- was it Bush and also Campbell coming out with chili, they were competing with your Hormel chili. How has that -- now that they are all three on the market, and how has that affected the business? At the time I think you said just with greater attention it would help boost sales? Has it?

JEFF ETTINGER: I think we saw some of both. There was some immediate share erosion when they first came out. It was very competitive on the shelf and in the airways. I think they did drive traffic to the categories. And we have emerged really stronger than ever. Our Hormel chili shares for this last winter season were the highest they have ever been.

So we do see that sometimes bringing new energy to a category is not all bad. For example, I think we are seeing that right now a little bit with the ConAgra offering within our shelf-stable meals. That they have entered that category and they have spent some money to support their item. We think our item is very competitive against that item.

But over the long haul we think that is going to the a bigger and bigger section for the store. And we recognize that we're probably not going to be the only player in that section. So having a formidable competitor that brings some new news and is willing to market against it is not all bad.

THOMSON REUTERS JOURNALIST: We're going to have to end it here.

JEFF ETTINGER: Great. Thank you all very much.

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