

# As easy as ABF

Associated British Foods, a diversified British conglomerate in agri-food and clothing, manufactures in, sells to and sources from China. It has bigger plans still, writes the Review's [Humphrey Keenlyside](#).

**ABF** in its various manifestations, has pretty much done a clean sweep when it comes to methods of engagement with the China market. It has formed joint ventures, transferred technology, acquired another company with China-related businesses, established its own wholly owned manufacturing operations, and used China as a supply and manufacturing source for exports.

In all, the group has invested around £700m, opened or participated in 36 manufacturing plants across the country and employs more than 10,000 people. That makes it exceptional among foreign businesses. Even so, its experience is valuable to others of whatever size.

ABF's first venture was in 1995 when one of its subsidiaries, British Sugar, invested £10m in a sugar mill in Shibie, Guangxi. Since then the company has invested in a further four mills in Guangxi, all using sugar cane as the raw material.

There were several reasons why the group chose sugar as its first entrée into the China market: sugar was (and still is) a core business of ABF; investing enabled the company to utilise leading technology in sugar production and to bring outside experience, which China's sugar industry needed in its modernisation process; and, finally and most importantly, there was huge potential in the Chinese sugar market.

The company's market research found that, on average, each Chinese consumed about one-seventh the quantity of sugar of each person in the UK and about one-quarter that of each Taiwanese. Given the strong correla-

tion between economic growth and consumption of sugar, the expectation was that the sugar market would grow significantly.

Indeed, that has happened. In recent years, while consumption of sugar in the West has levelled off, or even declined, demand in China has been growing by about 7 per cent a year. That equates to another half a million tons a year being consumed.

In more recent years, ABF has expanded its involvement in the sugar sector by investing in factories that make sugar from beet rather than cane. The process for making sugar from beet (which is a root rather than a grass) is the same as that for cane sugar, once the beet has been crushed and the sugar juice extracted. ABF has now invested in 12 beet factories in northeast China (including Heilongjiang, Inner Mongolia and Hebei province).

The company's sugar factories and mills, both in southwest and northeast China, between them now produce nearly three quarters of a million tons of sugar a year.

Animal feed is a second core area of business for ABF. Again the growing market, derived from increasing per capita incomes leading to greater demand for meat products, was a major draw. Better animal feed creates healthier animals and leaner meat for consumption, particularly in China's growing cities.

The first investment was in 1996; six animal feed mills have been invested in with another two currently being built. That has made ABF among the five largest foreign companies to invest in the animal feed sector.

With the acquisition of Burns Philp in 2004, ABF gained a foothold in the China yeast market dating back to 1985, yeast being a third core segment of the group's business. Rebranded as AB Mauri, which brings together the existing bakery ingredients business of ABF together with the acquired assets, the company now has five yeast factories in China

with a sixth currently being built.

Together with yeast manufacture, the ABF group also operates a dedicated bakery business in Wuhan, Hubei province.

Finally, on the manufacturing side, ABF owns and operates factories that make Ovaltine and Twining's tea in what it calls its 'hot beverages' division. Most of the output is exported, but some products are sold in China.

ABF also sources from China about half the clothes that it sells from its Primark stores (now the second largest UK clothing retailer by volume).

## Overall strategy

China is, therefore, an extremely important market for ABF, and the intention is for China to be the company's biggest market for sugar, yeast and animal feed. As George Weston, the group's chief executive, says, "The market is growing for all these products, and this is very exciting."

However, he adds that it is very important for the group that there are mutual benefits. "The common reasons for Western businesses to invest in China are well known: big market, huge potential, and cost advantages for manufacturing. But you need to combine that with a key requirement - that what your business has to offer it useful for China. Just to go there because there is a big opportunity is not enough."

So how does ABF contribute? The answer is principally through technology transfer, process engineering and by offering expertise in management. But, ABF has also assisted by operating by, and imparting, its health, safety and environmental standards. Increasingly, these standards are set by China's legal and regulatory regime, but the group's companies often exceed these standards.

It has invested, for example, in its own water treatment plants attached to factories to ensure a cleaner water discharge than could otherwise be provided by local water treatment plants. Over the past two years, it has reduced water use by 25 per cent and energy use by 10 per cent in its Chinese sugar mills.

China has been very successful for ABF. But for 2008, when sugar prices were "exceptionally low," the group has made profits every single year of operation in China, most of which have been reinvested in the country.

The group has big ambitions. George Weston says he wants the group to become even larger. The two key areas of opportunity are, firstly, sugar production in northeast China, taking advantage of its technological know how, and secondly, helping transform the animal feed sector not just with better equipment but "attitudes towards food safety". And he concludes: "I hope that by introducing these skills sets, we will be able to make our business grow at a faster rate than might otherwise happen."

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# Interview with George Weston, chief executive, ABF

Humphrey Keenlyside interviewed George Weston about the challenges of doing business in China.

**It is often said that foreign companies have to operate to different standards than their local competitors and that this gives Chinese companies an unfair advantage. Have you found this to be the case?**

It is true the spotlight is sometimes shone more vigorously on foreign companies than on Chinese companies, but let's be clear, we are

## George Weston



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guests, and I would expect nothing less. The Chinese have high expectations of us. In due course, everyone will be treated in the same way.

**Has it been to your disadvantage?**

No, it has not. In fact, it is to our advantage that we can demonstrate our compliance and commitment as well as offering our expertise to others.

More pertinently, the local competition is getting stronger all the time. In sugar cane, we are not the only company that can take an underinvested sugar factory and renovate it. That is not quite the same in sugar beet, where our technology is probably still better than others, but it will not remain that way for long. We have a window of opportunity.

The markets have evolved. In China, we have to rely on exactly the same attributes as we do elsewhere to beat the competition, that is on quality, delivery, service, sales, distribution, marketing, good people policies and so on.

**One of the factors you mention is cost advantage, but aren't costs rising?**

Yes, they are and we have certainly noticed that in the case of our clothes and textiles suppliers. Clothing industries in other countries are challenging China strongly. China does not have the monopoly on low cost. But, even though price is key component, we also factor in capability, particularly for high volumes, speed and quality. China still holds up very well on these counts.

**What other particular challenges have you had to face?**

The most obvious challenge we faced has been the melamine contamination of milk powder which involved our Ovaltine factory. Through a combination of tight controls that we require of our suppliers, and good luck, our supplies were not contaminated. But it had an impact because certain countries around the world closed their markets to products containing Chinese milk. We supplied those markets from different factories, but it added to costs and put our system under stress.

We also have to be especially diligent in monitoring supplies for our animal feed businesses, to eliminate any risk of contamination by pesticide residues. In sugar, we buy

directly from farmers and process it ourselves.

**Have there been any positive benefits?**

Yes, there have. The central drive to improve food security is very real, and that is enabling us to show that our standards operate down the supply chain. Our customers value the care we take to ensure that the food is safe. In the past, price comparison between ours and other products would have been the first, second, and third elements of the negotiation. But I think we have reached a tipping point in Chinese attitudes to food safety.

**Have attitudes to environmental protection also changed?**

There are two key issues as China's growth impacts its environment. The first is the effect of growth on climate change, as a result of carbon emissions. It has signalled its intent to reduce emissions, but at the same time, it has to generate power, much of it coal-based, to deliver power to its people. So that is a challenge.

Secondly, China has a huge shortage of water. They are working to improve water efficiency, recycle and produce clean water. Again, they are definitely taking these matters seriously. China has passed a raft of environmental legislation and is starting to get serious about enforcement. So, yes, I believe attitudes to the environment have changed.

**Am I right that you have visited your clothing suppliers under cover?**

Well, not exactly under cover. I did not advertise the fact that I was chief executive, so that I could get a real picture of factory conditions. I look quite young so was able to carry off the bag carrier role quite convincingly!

**What would you advise other companies?**

Someone used a phrase the other day which thought was very good. He said you have to treat China as your second home market. In other words, the approach you take to your home market, your relationship with suppliers, your commitment to customers, needs to be the same for China.

We try to make sure we do not make special allowances for China or treat people differently. We have to live up to our philosophy, and make sure we don't under-resource or under-skill key positions. There are cultural differences, but the basic business model is the same.

We want our companies to be close to the market, and we must have leadership which is local and knows the market. Equally, we always have to remember we are not a Chinese company. The Chinese operations are reporting to headquarters in the UK. If I could sum us up, in China we are a Chinese company run by Chinese people for the China market, that happens to be owned by a British company.