

# THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

## Chelsea Milling Company



**HOWDY S. HOLMES** is President and Chief Executive Officer of Chelsea Milling Company, manufacturers of "JIFFY" Mixes. "JIFFY" is the market-share leader in retail prepared baking mixes. Chelsea Milling is a privately held family-owned business. After successfully competing in the world of motor sports for 20 years, Mr. Holmes returned to the family business in November 1987. As a race car driver, he won championships, was "Rookie of the Year" at the Indy 500 in 1979, and competed in six Indy 500 events, compiling the best average finishing record of any Indy 500 driver who started in more than four events. Upon returning to "JIFFY" in 1987, Mr. Holmes led a transformation of the then 100-year-old family business. With the help of others, a professionally managed strategic vision was successfully introduced.

**(SAP611) TWST: What is Chelsea Milling Company?**

**Mr. Holmes:** Chelsea Milling Company is a 100-year-old, family-owned business. Our products are sold under the brand name "JIFFY" mixes. We are a vertically integrated company. We have one manufacturing facility in Chelsea, Michigan. We employ approximately 350 people. We produce 1.6 million boxes of JIFFY mix daily. We compete in the retail prepared mix section in grocery stores throughout the United States.

**TWST: Give us an idea of what the competitive landscape is today from your perspective. What's interesting and what's changing about that competitive landscape?**

**Mr. Holmes** Our competitive landscape today is all about change. Customer consolidation, centralization, food broker consolidation and supply change maximization are all elements of our competitive landscape. Competitors in today's retail prepared baking mix section include General Mills, Pillsbury and Multifoods on a national level, and numerous regional branded products, as well as private label.

What's interesting to me is the tremendous amount of change that is taking place. The rapid expansion of Wal-Mart is forcing many other customers to redefine their business.

**TWST: What are those markets?**

**Mr. Holmes** The retail prepared home baking market is made up of three segments: ingredients, prepared mixes and frozen

products. Chelsea Milling Company only competes in the prepared mix section of the home baking market. A perfect example of an item which fits all three segments would be pie crust. You can purchase ingredients and make it from scratch or you could buy a prepared mix or you could purchase a frozen pie crust shell. Those are the three segments that comprise the retail prepared home baking market.

**TWST: Interestingly, on the sales and marketing side, you have taken a slightly different approach from some of the large marketers. Can you give us a little flavor of that strategy and what you feel it actually brings as far as value to the company.**

**Mr. Holmes** Chelsea Milling Company is very different from our competitors. The biggest difference is we do not advertise. JIFFY mixes are all about value. Since we do not advertise JIFFY mixes in the traditional sense, the costs associated with advertising and marketing are not included in the price of our product. That gives us a tremendous advantage.

Consumers appreciate value. We believe there must be two components to have value — the highest quality ingredients and the best price. The only true comparison between ourselves and our competition is when you equate retail pricing on a per ounce basis. On that direct basis, JIFFY mixes are 20%-60 % less expensive on a per ounce basis than most of our competition. This presents a unique opportunity for both our customers and our consumers. Since our cus-

tomers are interested in maximizing profit, they do so with our JIFFY mixes, because our turns are so much greater than the competition. Consumers, on the other hand, are mostly interested in value. We are popular with the consumer base because our per unit price is so much less expensive than the competition, without sacrificing quality.

**TWST: How successful has Chelsea Milling been in what has been considered to be a flat market space? How have you been able to compete not only for consumers but also for that shelf space in this super market aisle?**

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**Mr. Holmes:** I believe the appropriate answer to that question is value. Let me try to explain. JIFFY mixes are best known for our prepared muffin mixes, although we have many other products such as pizza crust, pie crust, all purpose baking mix, cake mixes, frosting mixes, etc. When you dissect the muffin mix category across America, you will discover that there are two choices — premium products and value products. The premium products sell for a dollar or more per unit of sale, and the value products sell for less than a dollar on a per unit basis. According to IRI, 88% of the muffin mix purchases are from the value segment. When you combine both the value and the premium segments, JIFFY mixes command 58% of those markets. When you just look at the value segment, we hold a 65% share.

Our customers are very much aware of these statistics. They realize that stocking JIFFY mixes is in their best interest as it pertains to revenue, and JIFFY is popular with the consumer. In many situations, we drive the category.

**TWST: Walk us through the top management team you have on board today. Are there any areas you are looking to augment?**

**Mr. Holmes:** For the first 100 years of Chelsea Milling Company, we operated as many family businesses do, as a sole proprietorship. In the late 1980s, we elected to transform the infrastructure of the company from a sole proprietorship to a professionally managed company. Over the last 16 years, we have invested tremendously in our facilities, systems and people. Today, Chelsea Milling Company is professionally staffed with a group of individuals uniquely qualified in all disciplines. This is true for both salaried and non-salaried personnel. We have achieved this position by paying very close attention to our hires. Our staff puts more emphasis on internal and external relationships than we do on completing tasks. This is very different from most companies.

We practice interdependent decision making which requires individuals to give up personal ownership of solutions and discuss things as a team. The transition from a sole proprietorship to a professionally managed organization has been slow and methodical. Our dedication to strong family business values, combined with real world professionalism has us uniquely situated for the 21<sup>st</sup> Century.

**TWST: Are there any particular individuals you care to highlight?**

**Mr. Holmes:** Our senior management team is made up of Jack Kennedy, Vice President and General Manager; Douglas A. Tomney, CFO; Dudley Holmes, Vice President Procurement; Ed Hostetter, Director of Purchasing; John Powers, Director of Finance; Tim Kelly, HR Director; Bill McCreadie, National Retail Business Manager; Terry Elmore, Director of Manufacturing Operations, and Mike Williamson, Superintendent.

**TWST: What's on the agenda over the next 12 months? What will make that time frame a success?**

**Mr. Holmes:** Chelsea Milling Company is always on a self-improvement program. In the area of facilities, we have three major projects under way. We are expanding the square footage of our printing facility in Marshall, Michigan, by 40%. We are completing a bulk storage facility here in Chelsea for corn meal and sugar ingredients. We are almost finished with a storage facility to house additional packaging, mixing and warehousing equipment, as well as administrative inventory.

We are in the middle of selecting a new ERP system which will allow us better systems to maximize our business processes. In the area of people development, we have a continuous training and educational program which is offered within the company and numerous external resources which complement and enhance our skill set.

**TWST: I understand that outside funding is not an issue for this company and that you are pretty much self-funding from your internal resources.**

**Mr. Holmes:** We are financially very stable.

**TWST: What do you feel analysts or investors should be focused on within the segment of your industry? What would be the short list of assessments or focus areas that they should include in that assessment process?**

**Mr. Holmes** In terms of growth potential or investor interest, I would suggest they watch closely customer consolidation. Not all of these programs are going to work. I think areas of interest are the following: suppliers, wholesalers, retailers and food brokers that intend to survive are going to have to develop strategies which will stand the test of time. For wholesalers and retailers, that means developing initiatives which consider revenue streams on both the buy and the sell. For manufacturers, I think the key area is electronic business development, maximizing customer service and a thorough understanding of supply chain management.

For food brokers, I believe they will need to develop a plethora of services that have to do with transportation, sales, marketing and information systems which can instantly paint an accurate picture of retail movement off the grocery store shelves.

**TWST:** All the headline companies that tanked, the employees who were heavily invested in the company they worked for saw a lot of their pensions and their investment net worth disappear almost overnight. In a family-owned business, that had to give you a pause for reflection.

**Mr. Holmes** As a family-owned business with limited shareholders, our intent is still to maximize shareholder value. Our employees' profitsharing program and 401(k) options are very diverse. With continual third party education about investment selection, our employees, of course, make their own decisions about diversity.

**TWST:** Thank you.

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