THE MACARONI JOURNAL

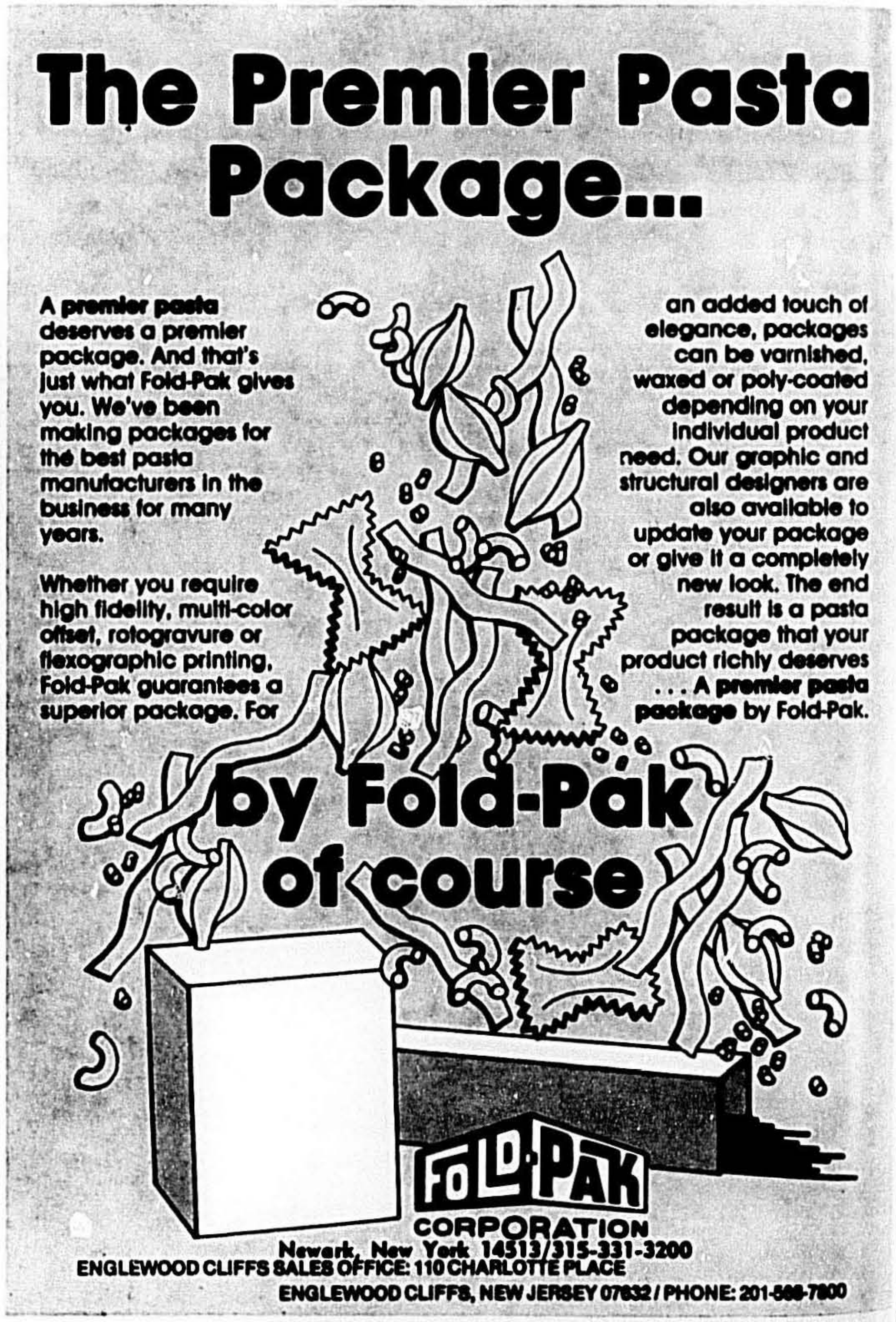
Volume 62
No. 5

September, 1980

Macaroni Journal

0024-8894)

SEPTEMBER, 1980



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Official publication of the National Macaroni Manufacturers Association, 19 South Bothwell Street, Palatine, Illinois. Address all correspondence regarding advertising or editorial materials to Robert M. Green, Editor, P.O. Box 336, Palatine, Illinois 60067.

MACARONI JOURNAL

Subscription rates

Domestic	$12.00 per year
Foreign	$15.00 per year
Single Copies	$1.00 each
Back Copies	$2.00 each

Published monthly by the National Macaroni Manufacturers Association as its official publication since May, 1919.
Second-class postage paid at Appleton Wisconsin and Palatine, Illinois

In This Issue:

Crop Prospects Fair to Poor

Spring wheat and durum prospects are "holding, but vulnerable," in the major producing state of North Dakota, where below average to much below average yields can be expected, Vance V. Goodfellow, president of Crop Quality Council, said in a summary of a crop tour by Council staff members in mid-July.

Vance V. Goodfellow

Mr. Goodfellow cited substantial abandonment of spring wheat and durum acreage, as well as barley and oats, but stressed the view that "the crops still out there are holding and filling." Spring wheat harvest has begun in South Dakota and swathing of fields in southern North Dakota is expected this week, spreading over wide area by Aug. 1.

Since July 1, spring wheat, barley and oats in North Dakota have sustained additonal drouth damage, while durum has fared slightly better. Mr. Goodfellow said.

Currently, spring wheat production in North Dakota would appear to be in the 19-bu-per-acre range indicated in the July 1 estimate of the Department of Agriculture, Mr. Goodfellow said, but abandonment will probably be about 20% of the planted acreage, instead of the 11% estimated by U.S.D.A. as of July 1. Based on a 19-bu yield, North Dakota production of other spring wheat would be about 110 million bus, down from the 165 million estimated by U.S.D.A. as of July 1.

Best spring wheat prospects continued to be in the eastern third of the state, where yields ranging from 23 to 25 bus are possible, according to Mr. Goodfellow. Heat forcing is expected to cause some loss of test weights in this region, he said. In the drouth-stressed western two-thirds of North Dakota, average yields of 15 to 16 bus are likely and heavy abandonment is occurring, he said. The greatest acreage reduction is expected in south central counties, where abandonment could reach 75 to 80%, or more, Mr. Goodfellow said.

Durum Outlook

(Continued on page 27)

THE PRESIDENT'S ACCEPTANCE ADDRESS

by Lester R. Thurston, Jr.

Let me first express appreciation to the board of directors and members for providing me this opportunity for leadership. It is the culmination of a career spanning 30 years in the industry, beginning at Megs Macaroni Company and the last ten enjoyable years with my associates at C. F. Mueller. It is a source of pride and satisfaction to be in a position to influence the affairs of the Association. I will do my level best to merit your confidence and support. Speaking of Mueller, we have two newcomers attending their first convention, our President Cline Merrick and his wife Gayla. Also our Executive Vice President Gene Blattman and his wife Virginia. I know if they were at the podium they would thank all of you for your warm welcome and gracious hospitality during the convention.

I would not be enjoying this new office were it not for the constant hand on my shoulder and the tender loving care of my wife Nancy. Speaking of family, we are pleased to have sharing this occasion with us our son Tom and wife Helga, Steve and Wife Chris and our daughter Leslie.

Compliments to Paul Vermylen

On this occasion I want to compliment Paul Vermylen and extend appreciation on behalf of the Association for his outstanding leadership. It has been two of the most productive years in memory, and a full measure of credit goes to Paul and Nancy for her strong support of his efforts. Paul is truly a man of distinction. He is a thoughtful person given to careful consideration of issues and the exercise of extraordinary good judgment in his decision-making process. He is articulate in his presentation of thoughts and even tempered in disposition regardless of circumstances. He is a creative person who is willing to break new ground and yet mindful that change should be undertaken with due deliberation. Paul is a gentleman in every good sense of the word and he has reflected credit and prestige on this Association by his capable performance.

I would like to mention a few accomplishments of his administration.

Lester R. Thurston, Jr.

Paul managed the merger of the National Macaroni Institute into this Association which has the effect of consolidating our total effort and brings our membership together in a truly united industry program.

Paul activated the Executive Committee of the Board of Directors into an action group that greatly improved the efficiency and effectiveness of that body. Paul would be the first to acknowledge the strong support of our various standing committees during his administration. I would like to single out one man for special recognition. Mickey Skinner, in his responsibility as chairman of the Standards and Nutrition Committee, has done an exceptionally fine job in our behalf and I want to formally recognize his contribution.

Through Paul's encouragement and persistent effort, we reached a new and exciting level of cooperation among elements of our industry. Specifically, added financial support through increased contributions from the Durum Wheat Institute and the North Dakota State Wheat Commission. We should join in a round of applause to these two bodies for their generous expression of support.

Finally, under Paul's leadership, this Association has formally embarked upon a program of long-range planning so that we can know how the future will affect us and also how we can affect the future.

Now let me add that while Paul's leadership as President has been exemplary, there are others before him who have made an impact on the industry that will be long remembered.

Legendary Men

This association has in its history a list of legendary men, both living and many who have passed away. Just to mention a few without being exclusive — how many decades will pass before the impact and contribution of Al Ravarino will become dim and fade in clarity? What of Harry Diamond and Henry Mueller? How about those present with us here tonight? When Lloyd Skinner's name is called, how long is the list of accomplishments and unselfish dedication? Manny Ronzoni's hashmarks for service stretch the full length of his arm and still he marches to the same drummer.

Other presidents with us tonight, each of whom deserves special mention for his accomplishments, are Vincent DeDominco, Vincent LaRosa and Nicholas Rossi.

A few weeks ago I spent a weekend with another of those living legends named Jack Wolfe. For those of you who may not be aware, Jack is well into his eighties and six weeks ago he shot a hole-in-one at the Hershey Country Club. For the benefit of newcomers, Jack Wolfe served as President of the Association for seven years throughout the period of World War II.

Thinking about this upcoming convention, I asked Jack who he thought had the most significant contribution to the well-being and vitality of the association. His answer will interest some of you for the man he promptly named was M. J. Donna. I would defer to Bob Green for thoughts about Mr. Donna. Sufficient here to say he was the first and only other executive secretary of the association before Bob took over in 1949. Speaking of Bob Green in terms of contribution, where would we be without the dedication and untiring effort of Bob and Fran during the past thirty-one years.

I then asked Jack for this reaction when I suggested the name of a past president and for starters I named Bud Norris. Jack's quick response was that Bud was a professional manager. He managed the Creamettes Corporation for the Williams family for many years. Bud was influential in the search that brought Ted Sills to the Association and he became president thereafter to oversee the Association's launch into the field of product promotion and publicity. Bud was a good businessman and a genuine fine person. Those of you present at the time will recall he attended the convention at Hershey three years ago.

The subject of professional management took Jack off on a new direction and we never got back to his personal impressions of his peers.

Men of Passion

Jack was an entrepreneur in the classic sense. He graduated from Girard College in Philadelphia and he fashioned a successful business life in the Macaroni industry over a period of 35 years. He spoke to me of one occasion on which he got in a lot of hot water during a speech to the Association. He referred to entrepeneurs in the macaroni industry as "men of passion." He had great respect for owners of family businesses, such as characterized most of the macaroni industry of his day. He had somewhat less esteem for certain so called professional managers or corporate employees and I gather he implied as much in his remarks. That did not set well with many corporate managers in the audience. Passion in the sense of dedication, drive and loyalty was not the exclusive province of entrepreneurs as far as they were concerned and I am sure the same feeling prevails today.

This industry has gone through quite a transition since Jack Wolfe's departure from the scene. Today we have a rich blend of entrepreneurs and professional management. We have the best of both worlds and it could not come at a better time. The long range planning assignment we have undertaken will bring a new element of discipline into our operations. We will gain great strength from the combination of talent we can bring to bear on this objective.

We really have the horses now to do this industry and, therefore, ourselves a great service. The job will be demanding. It will require resources from every member firm and our allies and associates as well. It will require a new and expanded level of participation from your organization.

When the call goes out, I trust all of you will respond willingly and enthusiastically. We have a mandate to fulfill and I'm counting on full support from each of you to meet the challenge and reach the goal. Let's get used to saying "Pasta Is Forever."

Herrick Thurston Viviano Gioia

Lester R. Thurston, Jr., chairman of the board of C. F. Mueller Co., Jersey City, NJ, was elected president of the National Macaroni Manufacturers Association at the organization's annual meeting in Portsmouth. Mr. Thurston succeeds Paul A. Vermylen, president, A. Zerega's Sons, Fairlawn, NJ. Mr. Vermylen has been president of N.M.M.A. the past two years. Also elected at the annual meeting were Joseph P. Viviano, president, San Giorgio Macaroni, Inc., Lebanon, first vice-president; Anthony H. Gioia, president, Gioia Macaroni Co., Buffalo, NY, second vice-president, and John D. Herrick, chairman, General Mills of Canada, Rexdale, ON, third vice-president. Ted Sattanny, president, food division, Prince Macaroni Co., Lowell, MA, was elected to the association's board of directors.

Cruising on the Viking Queen at Wentworth by the Sea: left to right, Donna Gioia, Paulette Viviano, Lloyd Skinner, Manny Ronzoni, Kathleen La Rosa, Fran Green, Mildred and Vincent DeDomenico and Nancy Vermylen.

Washington Meeting

Hotel Mayflower

September 18

THE ECONOMIC OUTLOOK

by Ross B. Kenzie

Buffalo Savings Bank, Buffalo, New York

We are in the downswing phase of a pretty serious recession. The statistics that tell it all are those that have been released for April. Here are some of the highlights:

1. A drop that occurred in the Index of Leading Indicators in April was the steepest decline in history — 4.8 percent;
2. New orders for consumer goods and materials fell sharply in April — a total 15 percent decline in just two months;
3. April's 625,000 annual rate for single housing starts was the fourth worst month in the 21 years records have been kept;
4. The 0.8 percent increase in unemployment in April was the largest one-month leap since January, 1975. In April layoffs reached .8 per 100 workers.
5. The 1.9 percent plunge in industrial production for April was the sharpest monthly decline since the 1973-75 recession.

Ross B. Kenzie

This has been building up for some time, and we cannot see recovery even beginning until 1981. The economy is in a brief lull. This was at first supposed to be a mild recession, then more severe, but not as bad as the decline from 1973 to 1975. Indications are that it will be as bad.

Comparisons

Here are some comparisons: Car Sales — worse because Detroit is reeling from the impact of high gasoline prices, a lot of unwanted big cars, and consumers' belt tightening.

Housing starts — both builders and buyers of homes have been stalled by record high interest rates and tightened money which are now easing. But, as a banker, I can tell you that the mortgage industry has been changed forever, and by the time this recession is over, the long term, fixed rate, conventional mortgage will be a thing of the past.

Unemployment — this is a lagging indicator. The last time it didn't reach its peak until two months after the economy began to recover. But right now it is expected to climb to a level of 9.3 percent at the end of this year and end up the worst since World War II.

Take-home pay — it seems like it is going up, but in inflated dollars it is falling. Earnings have dropped by an unprecedented 9.5 percent since the end of 1976. In April the blue collar workers' real spending money was lower than in 1962, 18 years ago.

Manufacturing — it looks better than it really is. It was hoped that because inventory was not in excess of demand as much as in the last recession there would be fewer production cuts and factory shut-downs. But, the latest information feels that manufacturers' stocks rose $4.1 billion in April while sales have declined sharply.

Farm income — farms have been severely hurt by weakening prices for livestock and grain and costs that are rising faster than the inflation rate.

Another factor contributing to this recession is the low ceiling rate. In the first quarter of this year people were saving roughly 3 percent of their disposable income — a low for 30 years. This has added more fuel to inflation and weakened the individual level of economic security.

Many smaller banks will go under or be acquired in the next few years. So you see, we are like you. We can't work without the dough.

So, to wrap up, this is where we are right now. This recession may easily be as bad as the slump of 1973-75, which was the worst recession of the post war era.

What does the present state of the economy mean for corporations like yours?

Food Industry Outlook

For one thing consumer spending on non-durable items such as food has increased. We already know that the food industry and probably the macaroni industry in particular is fairly recession resistant.

You have noticed the high cost of borrowing. The degree of monetary restraint that we are experiencing right now is unprecedented for the post-war period. This contraction plus inflation, have caused serious distortions in the income expenditure patterns of the corporate sector. For the first time since 1953 current liabilities (such as short term bank loans, open market paper, government loans, etc.) exceed current assets. This is one of the few times in history that the quick ratio has fallen below 1. Many companies are over-extended with short-term debt. This low liquidity ratio should force some balance sheet restructuring this year. The out-right pay down of short term debt will help but sizeable amounts may be funded in the long term market.

Labor Costs Up

Labor is also driving up corporate expenditures, particularly in inflationary times. Compensation per man hour will increase by 9 percent in 1980 and by 10 percent in 1981.

You probably have a decline in your profitability. Some companies are now running into deficit, which explains the heavy short term borrowing. In fact, if you adjust for taxes, inventory gains, depreciation, total investment and dividends, you get a net corporate deficit. This deficit was running at a $100 billion annual rate in the first quarter of 1980, compared to $37.8 billion in 1976.

One thing that economists hoped would help corporations this time was a relatively mild inventory cycle. But, it looks now as though this isn't going to happen.

The inventory sales ratio is lower now than in late 1974 at the worst point of the last inventory crisis. But in real terms, after adjustment for prices, the ratio is actually higher, and expected to increase. As a result there will be production cuts required to offset the loss of sales and demand and bring the inventory back down again.

Predictions

What are my predictions for the future?

The real gross national product probably won't pick up until the second quarter of next year, due primarily to the current slumps in the auto, housing, and farming industries. These sectors are important sources of final demand that have considerable multiplier effects on the rest of the economy.

Prime rate and money market rates have fallen since their earlier record high peaks. This sharp decline should continue through the year.

But, the benefit of recession and subsequent recovery will eventually be felt in financial markets. As liquidity is rebuilt by business and consumers, there should be diminishing tension in money markets. Further, but moderate, reduction in short rates would be likely. Investors have dumped quality long-term bonds in large quantities so far in 1980, in fear of world events and sustained inflation.

During the recession there will be lower inflation and bond yields, so that the bond market may improve later in the year.

There are enormous problems predicting even this far in advance, because the economy is so sensitive to unpredictable social and international developments. But there are patterns — environmental and political factors — that can determine the general direction of the economy.

Objectively, it is going to require a more favorable climate for business to get this economy going again, and without question, that has to involve at least some of the following moves:

1. Reconsideration of the regulatory system;
2. Tax concessions for venture capital;
3. Investment stimuli through investment tax credits and accelerated depreciation allowances;
4. Inducements for private savings;
5. A strong policy for curbing energy use.

Most likely, neither the full expansion nor full stagnation scenarios will occur during the next decade. It is probably going to be somewhere in between.

Even a well-intended move toward the expansion scenario would stimulate significant increases in private labor productivity and fixed investments. A tax cut would help. In itself, this could keep the economy growing for years.

Under those conditions here is an estimate of the rates of inflation and growth through the 80's following the end of the present recession.

The real GNP should increase by about 20 percent in the 80's, and inflation should be reduced. Again, this will occur only if policy moves toward expansion.

Review

In review, the present economy is in a steep decline. Recovery won't even begin until 1981, and then it will be sluggish. Corporations are too low in liquidity and too high in inventory. A classic problem of recession, although interest rates will eventually stabilize, the economy can only grow again if the climate provides incentives and tax relief.

We are headed for some rough times. What's the outlook, specifically, for the packaged food industry?

The stock market is a good indicator. Food stocks are less susceptible to the earnings drag of recession and have outperformed the Standard and Poor 500 on a relative basis in five of the six post-war recessions.

Part of the reason is that from about 1965 to 1978, the food industry benefited from uniquely favorable, demographic, social and macroeconomic factors.

For one thing, national economic policy at that time was based on consumption; consumer incomes rose steadily; there was in increased buying population due to the baby boom; commodity costs were stable; new products were easily introduced.

Times have changed. And so has the long-term forecast for the food industry. The factors that contributed to the growth of 1965 to 1978 no longer exist.

Long-run Outlook Weak

The consumer is realizing lower levels of disposable income due to high prices for energy and credit-related prices. The birth rate has also dropped which will have a dramatic long-term effect on the industry if it remains within current parameters. Also, there is consumer resistance to the introduction of new products and a serious shortage of retail shelf space.

So even though the food industry is basically recession-resistant, there is a weaker outlook in the long run.

Actually the food industry has reached an interesting point in its evolution. Almost 70 percent of the food marketing bill reflects costs of labor, transportation, packaging, energy, etc.

Packaging rose 12 percent last year and will increase again with increased petroleum prices. Transportation and energy costs have also risen sharply. But, there is still breathing space here, because of commodity prices.

Despite the partial embargo on sales to Russia, U.S. farm exports are headed for a new record this year. And, the broad index of commodity prices is now 1.7 percent lower than last year.

Plantings Increased

Plus, planting of durum and other spring wheat will increase plantings in 1980 by 1 million acres and may top 2 billion bushels — close to a record. In any case, barring any weather catastrophe, the outlook is for relatively stable prices and supply.

Cost increases will be primarily in non-food costs which are more controllable. This means most food processing companies can show satisfactory earning gains in 1980 and 1981.

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Economic Outlook

(Continued from page 7)

This is important. It means that while most other sectors of the economy are being pinched, food manufacturers should be able to concentrate on productivity improvement, marketing, and cost control without being under pressure from escalating raw material prices. Right now is the time to make headway!

What advice do I have for the prudent businessman trying to make it through the 1980's?

As far as the food industry goes you are going to need to plan ahead to be well managed and take advantage of the short-term opportunity that is becoming available now.

You will have to manage receivables more carefully to ensure as much cash flow as possible now that capital is tight. You will also have to do your best to plan inventories, to try to avoid an imbalance. Unstanding shifts in the business cycle which are vulnerable to wheat supply, labor costs, etc. will be important in enabling you to predict key events that will affect your business.

Cut Your Costs

Cut your costs. Make your operation as lean and simple as possible both in terms of personnel and procedures.

With the tightening of available capital there will be more competition in both the debt and equity markets. There's only one pool of dollars, but there are plenty of American and European businesses anxious to participate. The companies in the best position in the 80's will be those with the most cash flow, who can generate the greatest portion of their financing internally.

Eventually we will be recovering from the recession and at that stage of the business cycle internal cash generation provides most of the financing required for renewed growth.

A lot of food processing companies have diversified successfully — for example, Quaker Oats which acquired Fisher-Price Toys in our region. But some companies diversified in the late 1960's into other fields that were expected to benefit from demographic trends and somehow didn't make it.

General Mills has a favorable diversification but has had problems with its Ship 'N Shore subsidiary. Nabisco has disposed of its troublesome operations like toys, West German cookies, and so on. And Beatrice Foods has divested its unprofitable stereo component and recreational vehicle industries.

Industries which are expected to do well in the next decade are drugs, housing, home furnishing, independent telephone systems, medical supplies, oil drilling, and pollution control.

Avoid these Industries

Stay away from restaurants, soups, broadcasting, beverage, aerospace industries, and electrical utilities.

During bad times, this can be a leveling factor for your total business interests.

Consider horizontal integration in the 80's This means joining better access to suppliers, distribution networks, processors. It can help you eliminate variables that can bring your prices up without warning and endanger your stability.

One of the few remaining avenues for growth in the industry is the international market. Don't ignore it!

World food plan statistics show that developing nations consume 55 percent of world grain and 36 percent of animal products in 1970. This will increase to 67 percent for grain and 59 percent for meat by the year 2000.

Food companies generally haven't been aggressive in developing these markets. Beatrice Foods is an exception with a compound annual growth rate of more than 14 percent overseas sales in the past few years.

Product Positioning

Seven ways to position your product:

1. Specific product features;
2. Benefits;
3. Specific usage;
4. User category;
5. Against other products;
6. Product class dissociation;
7. Hybrid bases.

Marketing is crucial. A lot depends on how you position your product. Positioning is the place a product occupies in a given market as perceived by the relevant group of customers.

By positioning your product, you are clarifying its use, image, etc. for your market.

I hear, for example, that you are trying to shake off the "depression" image of macaroni as a food, because it is more affordable than meat when times are hard. But, look at it this way — market from your strengths! Macaroni is delicious, nourishing, and economical! Emphasize the benefits and the specific product features.

By specific usage I am referring to something like Campbell Soup's idea to market itself as an ingredient for cooking.

Product class dissociation refers to difference in products from existing ones, like lead-free gasoline and tubeless tires.

Four basic strategies for change:

1. Reposition to appeal to new segment;
2. Add new target segments;
3. Increase size of existing target segment;
4. Change structure of market itself
5. No change.

Use Several Strategies

You can develop your marketing strategy in several ways if you feel you don't have enough market penetration. For repositioning, for example, here's a classic: Miller Beer was once for the occasional, affluent drinker — now it's aimed successfully at blue collar workers.

Number two — add new segments. Very difficult, but Johnson's has successfully marketed baby shampoo to adults.

Number three involves having people change their minds and adopt new beliefs — very difficult.

Number four — change structure of market itself. If a product is really new, perceived relationships will change and the characteristics defining market segments will also change. Example: The 35 mm camera, once perceived as difficult to operate has been repositioned by the Canon Automatic AE1.

Of course, there is the option of no change, but the market and world are changing, and like options for diversification and integration, careful marketing strategies may allow all of us to survive the rough years ahead.

Good luck to everybody.

ENERGY IN THE '80's — NO EASY DECISION

by Ronald D. McMullen

Regional Vice President for Amoco Oil Company, Baltimore, MD

At a time when gasoline prices are high and oil companies are being chastised for making too much money, I have been looking forward to this opportunity to present our side of the story.

I can assure you that what I want to discuss with you today is very real — in fact, far too real, considering all the time we've had to face up to our nation's energy problems.

However, before I take a closer look at those problems and some possible solutions, I want to establish one extremely important premise. Despite shortages of crude oil and refined products that occasionally make things difficult, there is still plenty of oil and natural gas to be discovered in the United States — not to mention the potential for the development of a wide variety of alternate energy sources such as coal, oil shale, synthetic fuels, and solar and nuclear power. The problem is that we are not producing enough of this domestic energy fast enough to meet unrestrained demand. Instead we have been importing more and more crude oil and finished products — at a cost that continues to climb.

Dilemma Not Surprising

Actually, there's nothing really surprising about this dilemma, it's something the federal government and the oil industry have been aware of for years. For example, in November, 1973, President Nixon offered these words in announcing a program called "Project Independence"; He said, "Let us set as our national goal — that by the end of this decade, we will have developed the potential to meet our own energy needs without depending on any foreign energy sources. Let us pledge that by 1980 . . . we shall be able to meet America's energy needs from America's own energy resources."

Obviously, our **biggest** energy problem has been one of too much **talk**, and not enough **action**. Because, despite all the rhetoric and headlines about the need for an effective energy policy, we haven't made much progress. In November, 1973, anyone who

Ronald D. McMullen

understood the economics, technology, and long lead-times involved in energy development, knew that energy independence by 1980 was impossible. But who would have predicted that when the deadline arrived, we would be worse off — substantially worse off — than we were when Nixon asked us to take the pledge.

President Carter has committed the U.S. to a ceiling on imports of 8.5 million barrels per day, which will help the situation. But the fact remains that our country now imports almost half of the crude oil and natural gas liquids it uses, compared to 23 percent in 1970 and 36 percent at the time of the 1973 embargo. Also, we're now about three times as dependent on Arab oil as we were seven years ago.*

What this means, of course, is that — regardless of the ceiling on imports — we are extremely vulnerable to future OPEC — instigated price increases and supply cutoffs. In fact, the only questions now seem to be: How much oil OPEC nations are willing to produce; what price they'll demand; and, indeed, how much they will be willing to sell us at any price.

In the Middle East and Africa, where eight out of every ten barrels of the free world's proved oil reserves are located,* we're seeing some sharp changes in policy versus previous years. No longer are these producing countries willing to increase their output just because they have customers eager to buy. For example, Saudi Arabia refuses to sell us oil that would be directed to our Strategic Petroleum Reserve. And when you think about it, it's difficult to fault their reasoning: For most OPEC nations, oil is their major resource. They have to look to their future as well as the present.

Furthermore, because the OPEC nations have complete control of their production, they also exert considerable economic leverage. That leverage made possible the quadrupling of prices in the mid-1970s, as well as the explosion of pricing we are still experiencing today.

The result, of course, is that our nation's oil imports bill has increased from "only" $3 billion in 1970 to some $60 billion in 1979. This year that bill is expected to total about $85 billion, with the prospect of reaching more than $150 billion by 1985.*

Obviously, from the standpoint of our economy and national security, we are not in a very enviable position. The supply problems we've experienced as a result of the political upheaval in Iran are only the most recent examples.

Coping With Supply

As you know, the petroleum industry has been trying to cope with these supply problems by allocating available fuels as equitably as possible among all customers. While this has not made our dealers or customers very happy, we have been successful in spreading the supplies around.

Of course, another important factor here has been conservation. With U.S. consumption of petroleum products down about 11 percent in the

* Source: American Petroleum Institute, *Basic Petroleum Data Book.*

* Source: Standard Oil Co. (Indiana) Economics Department.

(Continued on page 10)

Energy in the 80's

(Continued from page 9)

first four months of 1980 versus a year ago, it is obvious that the American public has been cutting back. As a result of this conservation — and petroleum industry efforts to rebuild supplies, crude oil inventories at the end of April were up about 13 percent compared to 1979. Also, gasoline stocks were up almost 19 percent; and due to the mild winter, reduced consumption, and conversions to alternate fuels, distillate inventories were up about 54 percent versus the end of April 1979.**

Therefore, assuming motorists and other consumers continue to conserve and there is no major disruption in crude oil supplies, there should be sufficient gasoline and distillate to meet summer demand. In the case of gasoline, that means the petroleum industry expects to be able to maintain at least the same level of supply as it did in the last six months of 1979 — or roughly 90 percent of 1978 deliveries. It also means no shortages or lines at service stations.

Problems Still Exist

Nevertheless — as encouraging as this news may be — it does not mean the petroleum industry is suddenly free of supply problems, especially when you consider our dependence on Eastern Hemisphere crude. In the event of another Iran-type supply disruption, those relatively high inventories my industry is now reporting would be drawn down quite rapidly.

Quite understandably, this possibility induces oil companies to continue to build inventories. And this results in a short term surplus and a serious potential shortage, both at the same time. As we've already learned several times the hard way, there's a very fine line between having too much and too little gasoline and other refined products.

We all wish something would come along to solve our problems since the most significant energy source for the U.S. today is oil. It accounted for 74% of the energy used in the U.S. as late as 1978 according to the USDA.

During one of his recent televised press conferences, the President of the United States emphasized that ⅔ of the world's oil moves through the Persian Gulf which includes the Strait of Hormuz, a choke point of this thickly traveled tanker route. So critical is the flow of oil from this area of the world that we are all aware of the positioning of U.S. naval forces in the Arabian Sea and Persian Gulf, the acquisition of agreements for military bases in the area and the statement by U.S. officials that an overt Russian move in this area would mean war.

We Are Fortunate

We are among the more fortunate oil importers of the world, landing about 8 million barrels a day or ½ total supply. In contrast, Japan imports virtually all its oil and E. C. nations are heavily dependent on imports.

Oil supplies are particularly important to the food industry which consumes approximately 16.5% of all U.S. energy. While the Washington regulators attempt to understand the food industry, it is difficult to comprehend the complexity of today's modern operations which are continuously changing. You know food on the farm is not food on the table. There is a long line of essential processes between. These are reasons why it's important for your Association to not only keep abreast of developments in Washington but to strongly represent your interests and requirements.

Source Has Shifted

One of the reasons our oil problem has become critical is not only that we are importing 3 million barrels a day more than 1970 but the source of this nation's oil imports has shifted dramatically during the last ten years. In 1970, the U.S. bought 71% of its foreign oil from two neighbors, Canada and Venezuela. Today Saudi Arabia and Nigeria are our leading suppliers followed by Libya and Algeria. The share of our crude oil imports supplied by these four nations has gone up from less than 11% in 1970 to 60% today.

These facts demonstrate conclusively that the only way we can reduce our dependency on foreign oil, is to produce more oil and other forms of energy within the United States and to conserve as much as possible.

The United States is the only industralized nation to have reduced oil consumption last year according to the latest information from DOE. The U.S. reduced consumption by 1% whereas Japan, for instance increased its consumption by over 2½% and West Germany by 3.1%, and France by 3.?%. Part of our conservation of course was forced when supplies of gasoline all dried up in some parts of the nation last summer.

However, the factor of conservation while important, can be overdone. OPEC can, for instance, reduce production to match the degree of conservation in the United States thus offsetting the hard won advantage. Nonetheless, conservation is essential in agriculture — throughout the food chain — and all aspects of American life. Whether you save a gallon a week or a gallon a day, the more we save the better for us as individuals and the nation.

Cannot Be Independent

But regardless of how much we save, we will not be able to increase production sufficiently to become independent. At best, we can moderate our import requirements and spread our purchases among multiple suppliers. This is the same policy Japan follows for its food imports. Japan buys about half its food just as we import half our oil.

Let's look at how much we can reduce our needs by dieting.

Since OPEC oil prices began to climb in 1973, estimates of future U.S. energy consumption have been dropping rapidly. In 1975-76 for example, forecasts generally predicted that the U.S. would be using about 62% more energy in 1990 than we used in 1975. In 1977-78, however, projections lowered that figure to 51%. In 1979, some studies — which anticipate even higher oil prices and much more stringent conservation — have dropped the estimate further. These studies suggest we'll need around 44% more energy in 1990 than we used in 1975.

Forecasters agree that as oil prices go up, Americans will conserve more energy. But no studies claim that we'll be using less energy in ten years than we're using now. Even with stringent conservation, we'll need over a fourth

(Continued on page 14)

** Source: American Petroleum Institute, *Monthly Statistical Report*.

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Energy in the 80's

(Continued from page 10)

more energy because our population will be growing. And, hopefully, our economy will be growing, too — providing more jobs and a higher standard of living for more Americans.

But if we hold oil imports down to 1977 levels, as the President has promised, where will this additional energy come from?

Whenever you — as an American energy user — try to pick out a selection of sources from the energy smorgasbord you'll find that somebody thinks that a big helping of each kind of energy is unsuitable for you for some reason.

For example, you might want to help yourself to more oil from the table. With crude oil decontrol and existing taxes, the U.S. could be producing about four million barrels a day more by the late 1980s than we'd be getting under controls.

But many people apparently feel that some of the oil is expendable. They've said that as controls are removed, the government should take 80% instead of the normal 60% of the revenues that result from decontrol. With a new tax, the energy smorgasbord will offer us only half the oil that could come from decontrol — two million barrels a day instead of four by the late 1980s.

To make up for the missing oil, you look forward down the table.

What About Natural Gas

You move on to natural gas. You know that a gas decontrol law was passed the year before last, and you figure that there will be plenty of natural gas to fill your plate. But then you discover that the natural gas law was actually a complicated semi-control measure that sent producers looking more for lawyers than for drilling rigs.

You learn that the law made more supplies available by shifting some gas from the Southwest to other states — so you can get as much natural gas from the front of the table as you can choose from the back of the table. But the total supply hasn't been increased much. And until the lawyers straighten out the more than 20 categories of production, you won't be able to get all the natural gas that could be available.

So — a little anxiously now — you move on to coal. At first, you're relieved — there's so much coal that the table is straining under the load. And you know that a lot of that coal could be dug and burned right now. U.S. coal mines are operating at 100 million tons a year under capacity. And there are many industrial and utility boilers that could switch from oil to coal quickly.

But when you reach out happily to fill those empty spots on your plate with coal, the server raps your knuckles. "You can't use that coal," he says, "It's not 100% safe for everyone to dig, ship or burn. Take half a helping, but leave the rest until the environmental facts are sorted out." And he reluctantly gives you a few small lumps.

Maybe Nuclear Power?

Then you move on to the next selection — nuclear power. Again, the outlook seems promising at first.

The total installed capacity of all the reactors operating at the beginning of this year could provide the equivalent of about 1.3 million barrels of oil a day. Completing all the plants under construction would bring that total to the equivalent of four million barrels of oil a day. And building all the plants now in the planning stage would provide installed capacity equal to about five million barrels of oil a day.

That would provide a good share of the almost 30 percent more energy that we'll need even with stringent conservation.

But much of the nuclear energy selection has been taken off the table. There's a freeze on plants under construction, and timetables for many of those in the planning stages have been suspended indefinitely.

So you realize that the energy on your plate still won't meet your minimum needs. And, crossing your fingers, you turn hopefully to look for a large serving of synthetics and renewables.

But for the next ten years, not much energy will be here to choose from these sources. Some are still cooking. With others, the cooks are still working out the recipe.

Synthetics will almost certainly be making only a small contribution by 1990. Shale oil may be providing a few hundred thousand barrels of oil equivalent by then. But coal liquefaction and most gasification projects are still in experimental stages. And the outlook for renewable energy is even more uncertain. Solar installations — especially retrofits — will not be contributing large amounts of energy for some time. They're not generally economical now for small-scale use, and the technology for large-scale use hasn't been invented yet.

Gasohol Will Help

Gasohol will help. Many oil companies and cooperatives are selling it. Some farm producers plan to make their own. Gasohol is really energy conversion. If it makes dollars and sense, then by all means do it.

Over the next 20 years, many experts predict food prices will rise sharply because of production costs and demand. If it's a choice between food for people or gasohol, people come first. Based on the weather-population patterns of the past thirty years, there will be periods of severe world food shortages within even this decade.

After looking at all of these possible sources only one thing is certain — energy — regardless of the source — is going to cost increasingly more, both in 1980 and the years ahead.

Let's Be Realistic

But, let's get back to the realities of today's supplies of additional fuels given the current low-demand-high-inventory environment, you could normally expect that the rate of price increases would moderate in 1980 — as they did following the Arab embargo. The problem is that, if there is more political turmoil in the Mideast or yet another round of steep hikes in OPEC crude oil prices, this year could be a repeat of 1979. For example, Saudi Arabia and several other producing countries have recently announced increases in prices that had already been thought too high under current market conditions, and all of the OPEC nations reviewed their prices again during an oil ministers meeting in June. Furthermore, there is always the possibility of an increase in local, state and federal gasoline taxes — as President Carter demonstrated with his proposal for a 10-cent-a-gallon tax hike which, theoretically would have helped balance the budget.

In other words — even though I would like to be more optimistic about the outlook for prices — there are several factors that affect price, over which Amoco and the petroleum industry have no control: inflation, the actions of foreign governments, political upheavals overseas, and taxation by revenue-hungry domestic governments.

Despite such facts, however, legislators and government bureaucrats continue to try to tie the petroleum industry's hands. The most obvious effort recently was the so-called "windfall profits" tax, which is really an excise tax on domestic crude oil. The bill signed by President Carter started out as an element in his energy policy, but ended up — for the most part — as a vehicle for raising federal revenue. It is, in fact, the largest single tax bill in the history of the United States.

Bill's Initial Purpose

This excise tax was initially proposed by the President as a means of funding some $142 billion in energy programs, including greater emphasis on the development of synethetic fuels. However, the bill he signed will generate $227 billion in taxes. The incredible thing about it is that 60 percent of this revenue will go for undefined income tax reductions, 25 percent to reimburse low-income families for the cost of fuel, and only 15 percent for the development of alternate energy sources and the improvement of our nation's transportation system.

As the St. Louis **Post-Dispatch** commented not long ago, "the fact that Congress wants to give one-half of the tax away raises the suspicion that there wasn't much need for it in the first place."

And, of course, that's exactly my point. This excise tax is not needed, because crude oil price decontrol by itself will generate some $358 billion in federal taxes and royalty revenues over the next 10 years — a total which would far exceed the costs of all federal energy programs now under serious consideration. Now, however, the government is going to get the $358 billion, plus $227 billion in excise tax revenues, to spend any way it chooses.

Tax Hinders Exploration

Furthermore, no matter how the tax is applied, it will raise the cost of producing domestic oil and discourage U.S. exploration and production. Money that otherwise would be spent to establish new reserves and fund enhanced recovery projects will go instead to the federal government. The result will be a loss of billions of barrels of domestic oil — in the neighborhood of one to two million barrels a day less than would otherwise have been produced in the 1980s.

Unfortunately, the President tried to justify this new tax by insinuating that the oil companies could not be trusted to apply the additional income from decontrolled prices to domestic exploration efforts. But I think my company's record — which is typical of the industry — speaks for itself. In 1979, Standard Oil (Indiana) spent more than $1.5 billion on U.S. exploration and development — an amount equal to our total worldwide earnings. And this year we plan to spend even more. In fact, our 1980 capital and exploration budget has been set at $3.9 billion, which represents an increase of 30 per cent over total company spending in 1979.

Summary

To summarize: While it's obvious that we need to take steps to conserve fuel and develop alternate energy sources as rapidly as possible, we also have to reduce imports by increasing domestic oil and gas supplies. Our representatives in Washington refuse to recognize that because of the impediments they created, oil shale, tar sands, solar power, and other future energy sources probably won't be commercially feasible for 10 to 20 years. And therefore, like it or not, we're going to have to rely on petroleum products at least until the year 2000.

Considering that our foreign trade deficit is already much too high and that the OPEC nations continue to boost oil prices and threaten production curtailments, we cannot afford to waste any more time or money in facing up to these facts.

The decisions we make today and through the decade of the 80s will determine whether we remain the world's greatest industrial democracy. Therefore, at this critical point in our nation's history, we must cut our way through all the emotional rhetoric, put aside the search for scapegoats — and get on with the job at hand.

However, this is a challenge that is going to require not only the petroleum industry's best efforts, but also the understanding and cooperation of the public and true leadership on the part of our government. We've got to start making decisions based on the facts, not on the prospects for the next election.

Those decisions may not be easy — or politically popular. But they have to be made — and they have to be made now.

The Ideal Taxpayer

On whose backs is the fiscal 1981 budget being balanced? Some say the poor, and they are right if they mean the poor taxpayer. The proposed cuts in the budget are so modest that many perceptive observers have trouble finding them. Conversely, the anticipated tax increase for 1981 is $96 billion, the largest in U.S. history.

Some of the increase is law, while some must still be enacted. Some of it happens automatically. Some of it happen automatically, as inflation pushes tax payers into higher income brackets. And some of it the individual will pay through higher prices, rather than higher direct taxes. But it is all there in the official budget figures:

$38,000,000,000 individual income Taxes; $25,000,000,000 Social Security Taxes; $15,000,000,0000 Windfall Oil Profit Tax; $13,000,000,000 Gasoline Conservation Fees $3,000,000,000 Withholding on interest & dividends (if enacted); $2,000,000,000 Excise Taxes. TOTAL INCREASE $96,000,-000,000. That's an increase of $1,091 per taxpayer. Keep working.

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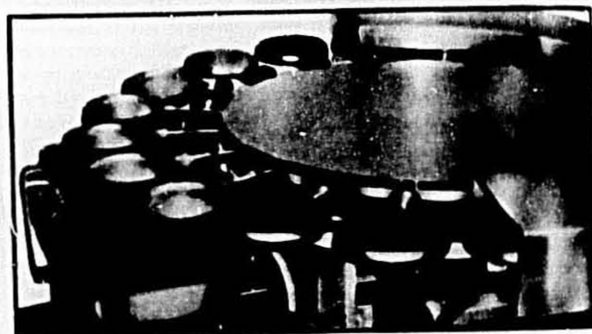
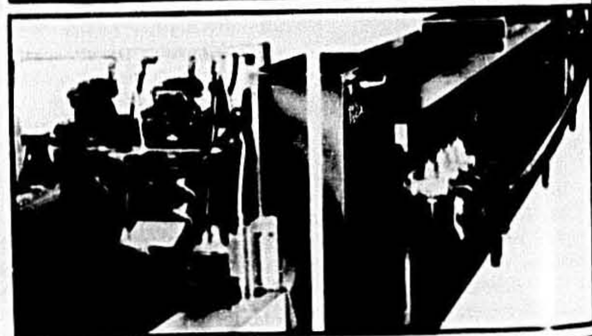
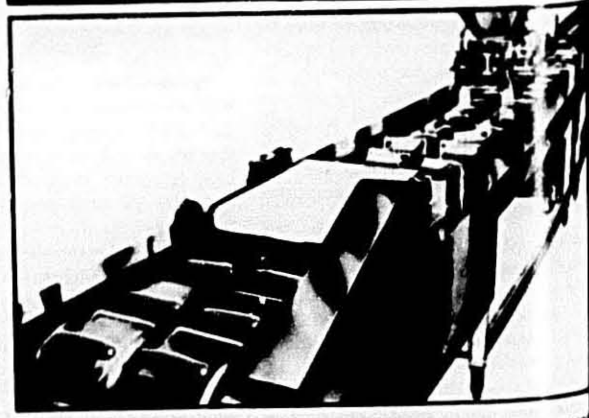


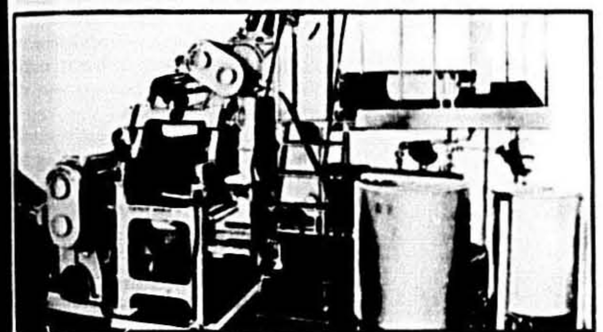
Clermont's Dough-Skin Processor
produces up to 600 per hour. Makes round skins from 4" to 9" in diameter, also makes square or other shapes by simply changing dough discs. Operates automatically, requiring only 1 operator.
Model No. MA-M-100-1



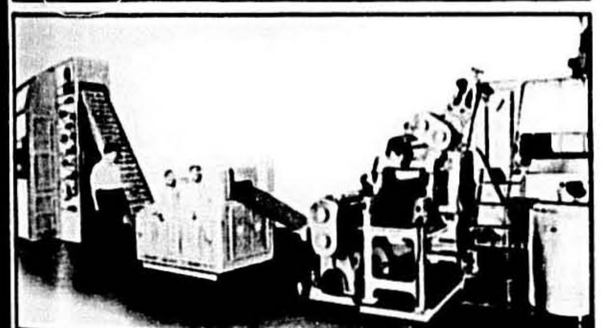
Clermont's Skin Oven
bakes 4,000 to 5,000 skins per hour—for Crepe Suzettes, Manicotti, Egg rolls, Blintzes or other similar products. Two rows of baking pans pick up batter and slowly passes through oven. Doughskins are removed by vacuum, conveyed to operator for filling with cheese, meat, fish, fruit, vegetables.
Model No. MA-M-200-2



Clermont's Automatic Crepe/Filling Machine
makes and fills Crepes, Manicotti, Egg Rolls, Blintzes, Cannelloni **automatically** at 2,500 to 3,000 per hour. Doughskins are baked, filled, turned and rolled into completed form and discharged ready for packaging at the rate of 2,500 to 3,000 per hour.
Model No. MA-M-300-3



Clermont's Sheet Former
receives dough ingredients, mixes and processes it through rollers to form an elasticity sheet that is used for products such as: Egg Roll Skins, Won Ton, Noodles, Matzoh, Salt Crackers, Cracker Meal Potato Chips, etc.
Model No. ASF-1



Clermont's Sheet Former/ Noodle Cutter
produces up to 3,000 lbs. per hour. Fully automatic: Mixes dough and forms a sheet of dough 20" or 40" as well as intermediate widths approximately ¼" thick. The sheet is then fed into the noodle cutter. Adjustable rate of production to 600, 1,000, 1,600 or 3,000 lbs. per hour. Complete facility is operated by one man!
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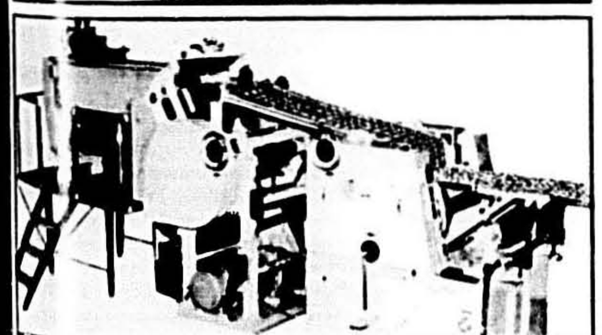

Clermont's Chip Machine
produces up to 360,000 potato chips per hour. Fully automatic, the machines receives, mixes all ingredients and feeds continuously in a straight line, a series of rollers which in turn forms a sheet to the desired thickness, then cuts and fries. Packaging accessories available.
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MANAGEMENT BY OBJECTIVES

by George S. Odiorne

Professor of Management, University of Massachusetts

In brief, the system of Management by Objectives (MBO) can be described as:

> A process whereby the superior and subordinate managers of an organization jointly identify its common goals, define each individual's major areas of responsibility in terms of results expected, and use these measures as guides for operating the unit and assessing the contribution of each of its members.

The logical beginning point in the organization for MBO is at the top. The sequence in which objectives will be set and reviewed comprises a rudimentary calendar of events which occur in the organization over a two-year cycle on a continuing basis.

I. HOW TO SET OBJECTIVES

The first step in goal setting is to define the ordinary calendar of events which must occur in the organization where MBO is to become the prevailing management system. This entails, as is shown in Figure 1, some events that occur prior to the beginning of the target year, and some events which will occur during that year.

Management by Anticipation

This term is used to describe those goal setting actions which are required of staff departments such as personnel, accounting, legal, traffic, finance, controller, and other staff functions.

Audit Information

This information, which includes program audits and overall reviews of the major strengths and weaknesses of each staff responsibility, should be reviewed to provide a basis for finding major opportunities and problems.

Five-Year Plan

The annual edition of the company five-year plan should be prepared for each of the major areas of responsibility. Thus the annual edition of the five-year personnel plan, financial plan and the like should be prepared

George S. Odiorne

at a period some three months in advance of budget submission. For a company on a fiscal year starting January, the close-off date for the annual five-year plan thus would be about July 1 of the prior year. This permits opportunity to revise budgetary planning, move resources to new uses, find new funding requirements and make decisions about the abandonment of programs or plans.

Annual Budgets

With audit information reviewed and the annual edition of the five-year plan written and circulated, the allocation of resources can occur. It permits more rational commitments of resources, including the use of Zero Based Budgeting for support services, and of Cost Effectiveness methods for facility and program decisions.

These three steps in Management by Anticipation are essential in the effective functioning of MBO in an organization. They provide for sound strategic objectives being in hand before efficient operational objectives are chosen. **Without strategic objectives stated in advance, measurable operational objectives may not be valid. You may simply be running a well-run bankruptcy.**

In formulating strategic objectives, the following points should be considered:

a. Strategic objectives should be stated in advance of budgetary decisions.

b. Strategic objectives should define strengths, weaknesses, problems, threats, risks and opportunities.

c. Strategic objectives should note trends, missions, and define strategic options, including consequences of each option.

d. Good strategic objectives will answer the question "are we doing the right things" in contrast with the operational objectives which define "how to do things right."

e. The emphasis in strategic anticipation staff goals need not necessarily be measureable but should use both words and numbers with clarity to define long-run outcomes sought. They are often established by groups such as the Board of Directors, management committee, personnel policy committee and the like. For example,

> "Apex corporation will become the leading seller of solid state monitoring devices in the field by 1983"

As shown in Figure 2, there are some specific questions which will be included in the strategic goals statements of every staff department and major unit.

II. HOW TO SET OBJECTIVES/ OPERATIONAL GOALS

At the beginning of the operational year, each manager and subordinate manager sits down and conducts a dialog on specific operational objectives for the coming year for the subordinate position. Prior to the discussion each reviews the present situation, the results of the most previous year, and some of the more likely requirements for change. Each thus comes to the discussion prepared to arrive at commitments and to assume and delegate responsibilities.

The boss is armed with information about budget limitations, strategic goals which have been agreed upon above, plus some information about actual results obtained the prior period.

The subordinate comes with some expectations and knowledge of his own performance strengths, weaknesses and problems as well as threats, risks and opportunities.

Management by Commitment

Operational management by objectives adds to the previous management-by-anticipation a new dimension which is a face-to-face relationship with the superior, and through that superior the organization itself . . . Management by Commitment.

Commitment means that the person makes some promises to somebody else whose opinion is important. This commitment is not general but specific, explicit, measurable and worthwhile

Responsibility means that the person accepts full accountability for the outcomes which will be produced during the commitment period without reference to excuses or exculpatory explanations. This doesn't guarantee that the responsible person can't fail for reasons beyond control, but regardless, assumes a results responsibility. This implies a kind of adult behavior, professional effort and mature self-control in engaging in one's work.

The superior is also committed. If the superior agrees in advance that the proposed operating goals are meritorious in advance, then those objectives must be agreed to be the criteria for judging performance at the end of the period. Such judgments could include salary adjustments and merit pay recommendations, bonus awards, appraisal, promotability notations and similar rewards for achievement. In accepting objectives in the beginning, the superior thus cannot apply capricious or ex post judgments.

The key to management by commitment is that the hard bargaining about what comprises excellence of performance is done up front, before the period begins and not after a year or so of effort.

The process by which the operating goals (commitments) are established consists of a dialogue and a memorandum. The dialogue is one in which each brings something. It is neither solely top down, nor solely bottom up, but a genuine discussion. It is most satisfactory when it is conducted on an adult-adult level rather than a parent-child model.

A RUDIMENTARY MBO STRATEGIC PLANNING CYCLE FOR BUSINESS OR OTHER OGANIZATION ON A CALENDAR YEAR OPERATION BASIS

Date	Event	Comments
July 1	Annual edition of the Five Year Plan and review of prior Year's Five Year Plan.	Responsibility of the top man and all major functional (staff) heads, assembled by planning department.
October 1	Budgetary submission to budget decision group (for the following year).	Upward from all units starting with sales forecast, cost estimates, and profit forecast to budgeteer.
	Review, revise, approve final budget figures.	Executive Committeeee.
January 1	Start the new budget year, release resources.	Issue detailed, approved financial targets in final form.
January 15 to February	Completion of individual operational objectives at all levels.	Sets standards for managerial performance for the year.
	Annual goals conference by managers of departments.	To share goals and devise teamwork.
	Annual Message to the President	To give a challenge.
April-July 1 October	Quarterly reviews of individual results against goals and adjustments as required.	All managers at all levels.
April 15	Audits—Including program.	Staff Departments
Monthly	**Meetings of the Executive and Finance Committee to note exceptions and make corrective moves.**	
Passim:	Position papers for circulation and discussion and policy committee actions as major issues are noted.	By staff experts or any responsible manager or professional or functional group.
July 1	Repeat the process.	

III. HOW TO WRITE OBJECTIVES FOR COMMITMENT

Operating objectives should comprise an ascending scale of excellence, by which the manager can administer certain ongoing concerns in managing managers. For the subordinate it should comprise a series of levels of excellence. As shown in Figure 3, this is best accomplished when the superior has criteria for making year-end discussions for purposes of compensation, personnel records, defining promotability and assignments, coaching and training subordinates, the administration of discipline and delegation.

For subordinate, these five questions should have been answered or resolved:

a. What is expected of me, let me know in advance.

b. What help and resources will be available to me in my work?

c. How much freedom may I expect, and what reporting times and forms should I assume?

d. How can I tell how well I am doing in my work while I am doing it?

e. Upon what performance bases will rewards be issued? This is best achieved by writing goals in three categories as shown in Figure 3. Goals are defined in three major categories and should be written to cover all three.

Category I. What the regular responsibilities of the position will be. These are the ongoing, recurring, repetitive and measurable objectives of the job such as dollar volume of sales or units per shift.

(Continued on page 24)

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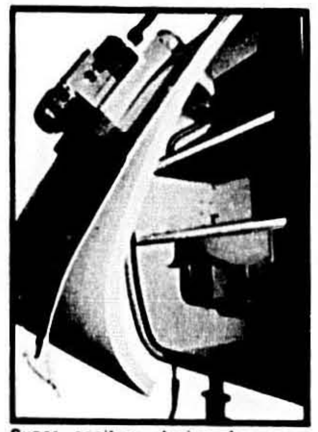

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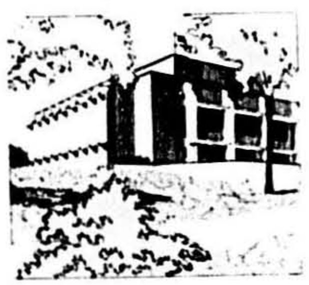


Peavey Food Group

Management by Objectives

(Continued from page 19)

Format for Annual Strategic Objectives Statements

1. Should be prepared three months in advance of budgeting decisions.
2. Should come up from below as proposed alternative strategies
3. Should be prepared annually at half-year.

OUTLINE	COMMENTS
I. Describe the present condition, statistically and verbally (add your professional opinion) on: 1. **Internally:** Strengths, weaknesses, problems? 2. **Externally:** What are the threats, risks and opportunities you see?	
II. Trends: If we didn't do anything differently in this area, where would we be in 1-2-5 years? (Do you like this possible outcome?)	
III. WHAT ARE THE MAJOR MISSIONS? What are we in business for? Who are clients? What is our product? What should it be?	

IV. WHAT ARE SOME OPTIONAL STRATEGIES?	What Would the Consequences Be? Contribution	Costs	Feasibility
1. Do nothing differently			
2. ______			
3. ______			
4. ______			
5. ______			
6. ______			

(Press for multiple options)

Recommended Action Plan: To be turned into OBJECTIVES

Category II. What are the major problems which should be attacked and solved in this position during the coming period? A problem is a deviation from a standard which persists or which somebody important wants to have fixed.

Category III. What innovations will be attempted? These are not reactive but proactive goals. They are improvements, betterments. Projects which will cause the organization under the subordinate's control to operate better, cheaper, faster, safer, at higher quality, or with greater dignity to people.

IV. WHAT ARE SOME TYPICAL PERFORMANCE MEASURES?

Starting with the regular objectives Category I of the general manager and his key subordinates, the goals should lock the organization together through some key indicators. Figure 4 shows some sample objectives of an ongoing, recurring character of the division general manager. The indicators of the regular category for this position include such indicators as:

Dollar volume of revenue per month
Return on investment per quarter
Cash on hand at quarter end
Receivables, average age in days per quarter inventory, average dollar level over the quarter.
Budget deviations as % on capital budgets growth in dollar volume per quarter labor stoppages per year.

The indicators are never standard, but the indicators listed were found to be common among a sample of fifty general managers. A study of Figure 4 should highlight some of the features of operating regular objectives.

1. They are stated as outputs for a time period. Statements of activities are not objectives but means.

2. The actual number chosen as objectives should be stated in ranges. Start by defining the middle figure first, "normal realities." Let the subordinate set the optimistic or stretch objectives. The superior chooses the pessimistic figure. This figure comprises the **exception point** at which the subordinate knows that he should **notify** the superior that things are not going according to plan. The middle point is based upon history, upon estimates, industrial engineering studies or sales forecasts.

3. When deviations occur, the subordinate should know it before anyone else, should know why the deviation has occurred, have taken corrective action where it is possible, and notified and requested help from above early enough.

4. On the other hand if the subordinate is attaining the middle level (normal - realistic goals), he or she should be left alone to operate without interference.

Figure 5 shows what a page of written problem solving objectives Category II might look like. Usually committing oneself to one or two major problems defining;

the present level or condition
the desired level or condition
the time when it is to be corrected (brought to the desired level).

Category II objectives are also shown. This is a statement of the present condition, the desired condition, and some time frame for the proactive, innovative goals, perhaps including some stages of study or development.

Organizational objectives. The example given of the general manager's objectives, of course, must be supplemented by specific and explicit objectives for each of the key subordinates reporting to the general manager. The manufacturing manager might have these regular (Category I) objectives to which he is committed:

FIGURE 5

II. STATEMENT OF PROBLEM SOLVING OBJECTIVE
- A. Present condition or situation
- B. Desired condition or objective of the problem if solved satisfactorily
- C. Time commitments (always state as a range pessimistic, realistic, optimistic)

(Continued on page 26)

Management by Objectives

(Continued from page 24)

III. STATEMENT OF INNOVATIVE PROJECT COMMITMENT
- A. The present condition or situation
- B. Innovation to be attempted
- C. Results sought (conditions which would exist if the innovation were to work well)
- D. Time commitment (state dates, optimistic, pessimistic, realistic)

Average daily output per month
Units per shift per month
Indirect labor as a percent of direct per month
Factory overhead as a percent of total per month
Average quality reject rate per month
Warranty and policy costs per month
Step four grievances per quarter
Overtime hours per week per quarter
Hours of supervisory training per quarter

The sales manager, on the other hand, doesn't have the same as the general manager except for a few key result areas but rather defines those indicators which will cover the major indicators of output for a time period for his responsibility areas. These might include such indicators as the following:

Dollar volume per month per quarter
Costs of producing the revenue per month per quarter
New products introduced
Dollar level of bad debts per quarter
Days of sales training conducted per quarter
New customers added per quarter
Lost accounts per quarter

For each person reporting to the general manager, there would be indicators which are special to that position, but following a similar format. Indicators of output for the time period, stated in ranges, and including problem solving and innovative goals.

NAME________________ PERIOD________________

GENERAL MANAGER

REGULAR-BASIC INDICATOR OBJECTIVES

Responsibility	Level of Result Sought			
Output Indicator	Time Period	Pessimistic	Normal Realistic	Optimistic
1. $ Volume of revenue per mo.	Qtr.			
2. Profix: ROI	Qtr.			
$ voluume per mo.	Qtr.			
3. Cash at mo. end $	Qtr.			
4. Receivables: $ mo. end	Qtr.			
Days	Qtr.			
5. Inventory: No. end $	Qtr.			
Turn Over Days	Qtr.			
6. Capital Budget % Deviation	Qtr.			
7. Labor Problems—Step 4 Grievances	Qtr.			
8. Share of Market %	Qtr.			
9. (Other) ________	________			
________	________			
________	________			
________	________			

RESULTS SCOPE SHEET

Target No.	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	TOTAL
1.					
2.					
3.					
4.					
5.					
6.					
7.					
8.					

V. HOW TO AUDIT AND REVIEW OBJECTIVES

Periodic Audits

Two forms of review and audit are important in MBO. The first kind of audit is the periodic audit. This is a financial audit of a comprehensive nature usually based upon a sampling of the realities of the situation. It can be done by professional internal auditors, or by an outside audit group, such as a CPA. Not only should program audits be performed periodically for financial results and practices, but for program operations as well.

Personnel audits and manpower audits for such matters as affirmative action, replacements of key persons, compliance with company or organizational personnel policy and similar matters including labor relations should be included in periodic audits. Safety audits against OSHA standards done internally may prevent unfavorable audits by OSHA inspectors from enforcement agencies.

Other current practices of the best run organizations include new forms of audit of programs. They might include technical audit, community relations audit, public responsibility audits, purchasing practices audits, and legal compliance audits for anti-trust or patent protection.

Continuing Review

Every manager having made commitments should be doing ongoing continuous reviews of his own performance. These reviews are observation and notation of actual results against the statements of objectives to which one is committed. They are of shorter time period and relate to the shorter time periods in which supervisory management gets daily, weekly, monthly and quarterly reports of outputs.

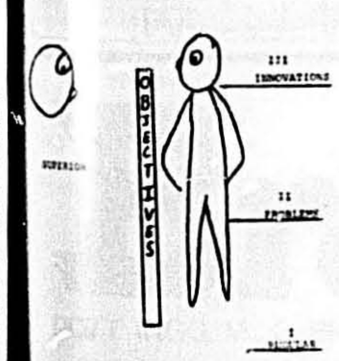
One of the major advantages of MBO is that it permits self-control by the manager against objectives agreed upon in advance. Self-control has some powerful motivational effects, for the tightest and most perfect form of control is self-control. Commitment is a means of motivation, which is considerably enhanced when self-correction is built into the system.

As shown at the bottom of Figure 4, the manager should be able to post his own actual outcomes on the original objectives and send a copy to his or her superior. The function of the superior is to respond with help and resources when requested, or when notified that exceptions are present.

Annual Review

At the end of each year, the superior and subordinate pull out the objectives prepared in advance and review actual results. This is a preface to defining new objectives for the coming year. Such discussion should be treated as important events. They should be done free from distraction, should deal with objectives, results, problems, deviations, and improvements needed. They should avoid personality discussions or adopting a manner which is exacting, hostile, judgmental or punitive.

With actual results against objectives in hand, the superior can make such personnel decisions as are required.



Crop Prospects

(Continued from page 3)

The North Dakota durum outlook varies widely, Mr. Goodfellow said. Despite the effects of drouth, current prospects would indicate yields of 17 to 18 bus to the acre, or more, he suggested. As of July 1, U.S.D.A. projected a durum yield in North Dakota of 15 bus, Mr. Goodfellow considered that estimate too low. He described topsoil moisture as generally adequate in north central, central and eastern portions of the durum area, but pointed out that subsoil supplies remain very short. In the counties of adequate topsoil moisture, yields of 23 to 25 bus to the acre, or better, could be harvested in favorable weather, Mr. Goodfellow said. Prospects in the western part of the durum area are for yields of around 15 bus, he said, pointing out that, although stands are thin, much of the acreage is on summer-fallow.

A substantial abandonment of poor durum fields, most on continuous crop land, has occurred and is continuing, Mr. Goodfellow said. He estimated durum acreage abandonment in the state at 15% against 9% as the U.S. D.A. July 1 forecast. With a higher yield-per-acre estimate than U.S.D.A., Mr. Goodfellow suggests a North Dakota durum outturn of around 65 million bus, given good weather, up from 60 million bus as of July 1 estimate of U.S.D.A.

Production of "desert durum" in California and Arizona was projected at 18,675,000 bus, more than twice 1979 output of 8,850,000 bus.

USDA Estimate

U.S.D.A. estimated 1980 durum production at 90,512,000 bus, down 16,142,000 bus from 1979 output of 106,654,000 bus. Additionally, carry-over on June 1 was 18,000,000 bus less than year earlier at 68,000,000 bus. Prices for durum surged to $7.50 @ $7.75, highest levels since November, 1974. Farmer selling was virtually nil, and mills bought only spot needs.

Durum Stocks Down; Peak Disappearance

Carryover of durum (included in all-wheat totals) on June 1 was 57,384,000 bus, or 33% less than 85,769,000 bus the year before and 14% below 66,891,000 bus on June 1, 1978. Durum disappearance during 1979-80 was a record 135,039,000 bus, up 18% from 114,450,000 year ago.

Stocks of durum held in North Dakota represented 77% of national total, against 80% in prior year and 72% in 1978. On-farm durum holdings in North Dakota accounted for 83% of state's total stocks, compared with 86% on June 1, 1979.

Hot Weather Boosts Egg Prices

Persistence of very hot weather pushed egg prices higher in July. Buyers were reluctant to enter the market at higher levels, but widespread attitude was that recent prices represented a bottom and that costs would continue to climb for the next several months.

Record temperatures in major poultry areas — consecutive days of temperatures over 100 degrees were not uncommon — raised concern that production could be sharply reduced. In some areas bird mortality was only an isolated problem, but in other places the losses were substantial.

Inquiry was active, but a number of buyers, including some bakers and mix manufacturers, were reluctant to enter a market dominated by the emotions of weather worries. At the same time other users remarked upon the potential dramatic change in fundamentals; since the beginning of the year egg markets have been burdened by over production, but devastating weather — with little or no relief in sight — could result in a significant reduction in output.

EGG PRODUCTS

July Price Range from U.S. Department of Agriculture.

Central State Nest Run $9.60 to $14.10.

Southeast Net Run $10.20 to $12.30.

Frozen Whole — 39¢ to 46¢.

Frozen Whites — 24¢ to 29¢.

Wried Whole — $1.49 to $1.74

Dried Yolks — $1.51 to $1.78.

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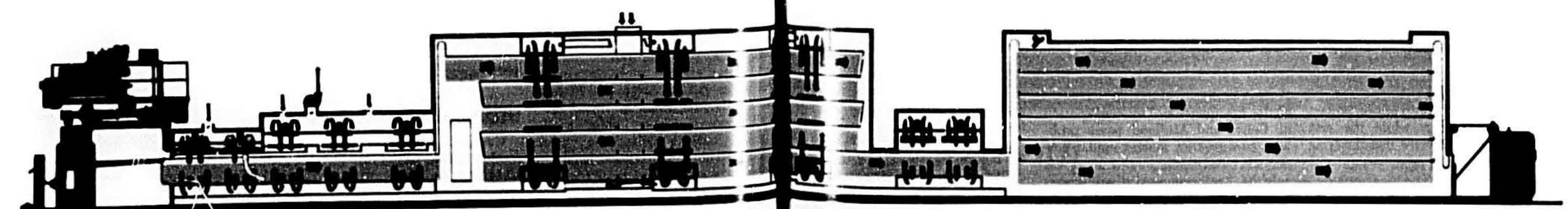

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Co-op Merger

from Business Week magazine

August 4, 1980

The proposed merger of three big Minnesota-based farm cooperatives—Grain Terminal Assn. (GTA), Midland Cooperatives, and Farmers Union Central Exchange (Cenex)—may foreshadow a trend to bigger and bolder mergers down on the farm. The three-way merger would create an agricultural marketing organization with annual sales of $3.1 billion, second in size among the nation's 7,000 cooperatives only to Farmland Industries Inc., with sales of $3.8 billion. As the co-ops see it, they need added heft to compete with private agribusiness giants such as Archer-Daniels-Midland Co. and Ralston Purina Co., but the sheer size of the merger plan is already raising antitrust issues.

Ironically, when Farmland was created out of a merger in 1977, executives of both Midland Cooperatives Inc. and Cenex told **Business Week** that such a merger was just the type to excite the wrath of Washington antitrusters. But now the executives feel that the competitive environment has changed and that co-ops must have access to economies of scale. The three-way merger under study would create an organization with strength in two areas:

GTA is the second largest grain-marketing cooperative, with hundreds of elevators across six upper-Midwest states. The co-op is also an international trading power through its joint ownership with 10 other co-ops of Farmers Export Co. Two-thirds of GTA's 1979 sales of $1.6 billion flowed from grain trading, while the rest came from such diverse businesses as milling, sunflower processing, and consumer foods.

As so-called supply cooperatives, Midland and Cenex purchase huge amounts of fertilizer, feed, and petroleum products — often from co-op-owned refineries and manufacturing facilities — that are resold through networks of hundreds of member stores. Growth-minded Cenex had sales of $1 billion last year in 13 states from Washington to Wisconsin. Midland's sales of $517 million were mostly concentrated in Minnesota and Wisconsin.

Improve Efficiency

Co-op officials argue that a merger would produce badly needed operating efficiencies. "There is a tremendous duplication of service," says Sigved T. Sampson, president of Midland. "Sometimes two or three co-ops are doing the same thing in an area." With farm income expected to plunge 30% this year and energy costs skyrocketing, adds Sampson, "we need all the savings we can get."

By combining crop marketing and supply services under one roof, the co-op officials figure they would have more marketing clout to use against their competitors from private industry. And with combined assets of $1.2 billion, the merged co-ops would significantly enhance their borrowing power, making it easier for them to finance expansion.

However, the proposed merger is already arousing the ire of some private competitors, who buy from and sell to the co-ops. "It would create an enormous consolidation of power," says Burton M. Joseph, president of I. S. Joseph Co., a Minneapolis grain trader. Other big farm marketers, such as International Multifoods Corp. and Peavey Co., could lose market share.

USDA Sympathetic

Agriculture Dept. officials have been sympathetic to co-op mergers. "The fact is that the disparity in size and market power between the cooperatives and (private) companies has been growing," says Randall E. Torgerson, Agriculture's deputy administrator for cooperatives. But whether the Justice Dept. can be so convinced is the big question The combination of Cenex and Midland poses problems because they market similar products in overlapping market areas. On July 16, Justice showed a willingness to flex its muscles by forcing two Northeast co-ops Agway Inc. and Agri-Mark Inc. to back down from a supply agreement.

Certainly there will be some co-op mergers in the 1980s. "We'll see the economic units get larger from now on to realize scale economies," says Midland's Sampson. Last March two Midwest co-ops, Illinois Grain Corp. and FS Services Inc., formalized a 10-year joint marketing effort by merging to form Growmark Inc., with annual sales of $2 billion. And last year Land O'Lakes Inc., the big dairy co-op, added nearly $1 billion in sales by acquiring a beef packer, Spencer Foods.

The Minnesota co-ops hold some powerful trump cards as they sit down to plan this merger. The heat wave in the Midwest and South, on top of the disruptive effects of the Soviet grain embargo, has made problems on the farm a political issue in an election year. Both Agriculture Secretary Bob Bergland and Vice-President Walter Mondale are native Minnesotans and friends of the co-op. Says Sampson: "Politically, the environment is right for merger."

Rhode Island Mill Project

A representative of Providence Milling Co.'s founders said it will locate on property leased from the state of Rhode Island, reports Milling & Baking News, ending industry speculation it would build its flour milling and grain elevator on land prepared by the city of Providence with federal funding, thus using such assistance to establish competition against existing milling operations. The company will finance construction with private capital, as was done with the durum mill and pasta manufacturing plant at Cando, N.D., which earlier this year obtained a federal guarantee on a minor portion of its loans.

Prince & Italgrani U.S.A

Providence Milling is a joint venture of Prince Macaroni Manufacturing Co., Inc., Lowell, Mass., and Italgrani-U.S.A., Inc., the Minneapolis-based subsidiary of the major Italian grain and milling company. Plans call for building a durum mill with initial daily capacity of 5,000 cwts, at a cost of $14 million, and an export grain elevator with storage capacity of about 3 million bus, bringing total project cost to $30 million.

In their initial announcement of the project in January the companies said the durum mill be a supplier of semolina to Prince's pasta manufacturing complex at Lowell, Mass., with excess production to be marketed to other pasta manufacturers. According to Anthony J. della Selva, executive

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R. I. Mill Project

(Continued from page 30)

vice-president of Italgrani U.S.A., the export elevator will originate grain, primarily corn and soybeans from Middle Atlantic states, for export into world markets.

The land involved is a former Navy installation at Melville, a port area in Portsmouth in the Narragansett Bay area. Earlier, the company was considering a location in the city of Providence which would have required some renovation prior to leasing.

Joseph P. Pellegrino, president of Prince Macaroni, discounted concerns about financing, stating "Our financing is pretty well set. The banks have all agreed they will put up the loans." He emphasized that the funding "comes from American banks and will employ Americans." The industry's concerns, he said, should be, "Will it benefit the American economy generally?

"The day that mill opens, its durum production will be sold out 100%" to Prince, Mr. Pellegrino said. As for millfeed, he said, the product will be sold within the U.S. or to foreign buyers.

Mentioning the plan of Italgrani to build an export elevator adjacent to the mill, he said "that company will be another Cargill' exporter out of the U.S.; it will improve the balance of payments."

Parallels

Parallels to the Providence project were drawn to the current construction of a pasta plant and durum milling operation at Cando, N.D., announced a year ago by Noodles by Leonardo, headed by Leonard Gasparre of St. Paul, Minn., a successful entrepreneur with numerous business interests.

An $8-million-plus complex, including a 2,000-cwt durum mill and a pasta manufacturing plant, is being built at Cando, mainly through private financing arranged by Mr. Gasparre. The city of Cando received $1,016,812 from HUD to purchase land and pay for utility services. Contrary to earlier public reports, only $1 million or 18%, of the $5,425,000 in loans negotiated by Mr. Casparre is guaranteed by the Economic Development Administration of the U.S. Department of Commerce. Two Cando banks loaned Noodles by Leonardo a total of $425,000 and the Bank of North Dakota, a state-owned institution, agreed to a loan of $5 million, against which about $3 million has been drawn. The balance of the financing has been arranged by Mr. Gasparre. The Cando project was well under way with Mr. Gasparre's private financing before the bank loans were utilized.

A D M Record

Archer Daniels Midland Co., Decatur, posted record earnings of $115,958,424, equal to $3.20 per share on the common stock, in the fiscal year ended June 30, 1980, according to preliminary unaudited figures.

The 1980 fiscal net is more than double the 1979 earnings of $56,415,210, or $1.63 per share. In the fiscal year ended June 30, 1978, ADM had net income of $56,597,000, or $1.72 per share.

Average number of shares outstanding in fiscal 1980 was 36,224,302, up from 34,575,500 a year ago.

Rank to Retire

Joseph Rank has announced his plans to retire as chairman of Ranks Hovis McDougall Ltd. at the end of next January. He will be succeeded as chairman by Peter W. J. Reynolds, who has been managing director and chief executive.

Mr. Reynolds will continue as chief executive of one of Britain's leading companies in flour milling, baking and a range of other food-related interests, including pasta manufacturing in the U.S.

Stanley G. Metcalfe, who has been managing director of RHM's Cereals Division, which primarily is the flour milling operation, has been appointed deputy managing director, effective this Aug. 1. He will replace Mr. Reynolds as managing director as of Feb. 1, 1981.

R. C. Loombe has been named managing director of RHM's Cereals Division, effective Aug. 1.

Mr. Rank, active in the management of RHM for 44 years and chairman for the past 11 years, will become president and will remain as a member of the board of directors.

Pasta Research Laboratory

A new $1 million pasta laboratory and warehouse will be added to Foremost-McKesson's Research Center in Dublin, near San Francisco, California.

The new food research capability will support Foremost-McKesson's new products program in the pasta and related food fields and will complement the company's already extensive food research and development resources.

Construction of the pasta pilot plant and 9,000 square feet of additional storage space adjacent to the existing research facility will start in August and will be completed in the spring of 1981.

Through its C. F. Mueller Company of Jersey City, New Jersey, Foremost-McKesson is the nation's largest pasta producer. The Mueller brand of macaroni, rigatoni, spaghetti and other pastas is distributed in 2[illegible] eastern states. Mueller is a division of the Foremost-McKesson Foods Group.

Foremost-McKesson president and chief executive officer Thomas E. Drohan said that the new pasta food lab will support the company's plans to develop new and improved pasta and pasta-related products as well as line extensions. "Construction of the new food research laboratory reinforces Foremost-McKesson's commitment to pasta products as the cornerstone to expansion in the proprietary food products business," he added.

Dr. Theodore W. Craig, director of the Foremost-McKesson Research Center, said the new laboratory and pilot plant will make it possible to evaluate ingredient and blending variations and to develop new products including both pasta and non-pasta-based products.

In addition to Foremost-McKesson's foods and food ingredient business, the company is in the drug and health care, wine and spirits and chemical industries. Last year Foremost-McKesson had sales of $3.7 billion.

Growth from Renewal

In its annual report Foremost-McKesson, Inc. calls the C. F. Mueller Company the "cornerstone of the Foods Group's grocery products business."

(Continued on page 36)

Growth from Renewal

(Continued from page 32)

Acquired by Foremost-McKesson in 1977, Mueller has been a steady contributor to earnings. At the same time Mueller made significant expenditures during the year to expand marketing of its branded products to the Midwest and Southeast. In addition, pasta operations were affected by heavy spending to upgrade a pasta plant near Chicago.

Mueller's full line of branded macaroni, rigatoni, spaghetti, and other pasta is sold in 22 eastern states which account for 60 percent of the U. S. pasta consumption, the report says. The company feels Mueller's prospects for growth are attractive. "Per capita pasta consumption in the U.S. is only 5 pounds a year (it's 66 pounds in Italy), and Mueller offers opportunities for both geographic expansion and product line extensions."

To capitalize on these opportunities, Mueller's marketing capabilities have been strengthened. In support of the group's long range commitment to build its grocery products business, its new product development unit was combined with Mueller at year end. This move was designed to focus the group's new product and marketing resources under senior management with in-depth packaged grocery products experience. One new product area under study is prepared pasta meals.

Borden Plans

Borden Inc. plans to lop off operations that account for 20% of its sales in a struggle to boost an unsatisfactory return on investment, according to a Wall Street Journal report.

While shedding units in the unpredictable commodity area, the big food and chemical concern said, it aims to fatten flagging earnings through acquisitions and new ventures.

The plan will take several years, and Wall Street analysts wonder whether Borden, which long has axed smaller units with low returns, will do better at replacing the latest major business scheduled for divestiture: fertilizer, sugar and bulk cheese.

Even Eugene Sullivan, chairman, concedes the program could produce flat earnings next year. Earnings in 1982 wil be average, he told analysts, while "the big pay off" will start in 1983.

Borden's plan to pare itself down follows similar moves by other big companies, such as [illegible]mark Inc., to divest acquisitions [illegible] years.

Borden said c[illegible]ity cycles and the high inventories required in the food segment exasperated it. "Financing them was never so burdensome" as today, Mr. Sullivan said.

"We think this is the time to invest our capital — in a slow economy when construction costs and quality are best," Mr. Sullivan said. Capital spending through 1985 will average $265 million a year, he said, or $110 million more annually than in the prior five years.

Fueling the spending increase will be $350 million expected from the disposal of operations that account for about 14% of earnings, including the commodity businesses, several smaller units and a Florida phosphate business recently sold to Amax Inc. Mr. Sullivan said the restructuring program can be done without significant outside borrowing, "subject to opportunities in the money market."

Will Invest in Pasta

Borden said earnings after the reorganization will remain split about 50-50 between food and chemicals. Chemical investments will go mainly into specialty chemicals, such as resins, packaging films and consumer products. Food investments will be mainly in snacks, such "main meal" foods as pasta and low-fat and shelf-stable dairy products.

With the new businesses, Borden hopes to nearly quadruple the 5.5% average return of capital in the businesses being divested, and thus boost its total return on stockholders equity to 18% five years hence from 11.3% at present.

"Most of the expansions are in fields we know or are already in," Mr. Sullivan noted. For example, Borden announced plans to build a $105 million polyvinyl chloride resins plant at its facility in Geismar, La., boosting company capacity for the product 60% to 800 million pounds a year. It also said $60 million will be spent to modernize ammonia production at the Geismar petrochemical complex.

Bordon's 1979 profit fell 1.3% from the year before to $134 million, or $4.31 a share, on sales of $4.31 billion.

Pillsbury Gains

Agri-Products operations of The Pillsbury Co., contributed both record sales and earnings as the company posted its ninth consecutive year of peak sales and income in the fiscal year ended May 31.

"In spite of the recessionary economy, the strength of our portfolio was again demonstrated by all three of our business groups being ahead of a year ago, including outstanding performances by Restaurants and Agri-Products," William H. Spoors, chairman, said.

Net income of Pillsbury in the year ended May 31 was $104.7 million, equal to $5.22 per share on the common stock, up 25% from $83.5 million, or $4.62 per share, in fiscal 1979. Net sales in fiscal 1980 totaled $3,032 million, up 40% from $2,166 million in the previous year.

Per share earnings are based on average of 20.1 million shares outstanding in fiscal 1980 and 18.1 million in 1979. Sales for the later years include only fourth quarter operations of Green Giant Co., which was acquired on a purchase basis effective Feb 28, 1979. In fiscal 1978, Pillsbury had net income of $71.3 million, or $4.1[illegible] share, on total sales of $1,70[illegible].9 million.

Record Sales

Mr. Spoor noted that the Agri-Products business achieved record sales and earnings despite the embargo on grain shipments to the U.S.S.R. Grain merchandising, he said, had a exceptionally strong year. Other Agri-Products operations include flour and rice milling, bakery mixes and feed ingredient merchandising.

Consumer Foods, while it experienced increased sales and earnings in fiscal 1980, was adversely affected in the fourth quarter by a weakening economy and high interest rates, Mr. Spoor said. Totino's Crisp Crust pizza had significant volume gains and strengthened its leading market share position, he said. Other domestic volume gains in Consumer Foods, he noted, included refrigerated specialty

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Pillsbury Gains

(Continued from page 36)

biscuits, cake mixes, ready-to-spread frosting, quick breads and brownies.

In the Restaurant business, each of the major components had record sales and earnings, Mr. Spoor said. He noted that domestic company-operated Burger King restaurants, contrary to industry trends, achieved real volume growth of 3% per unit. Steak and Ale's record year was highlighted by consumer acceptance of its Bennigan's Tavern restaurants, he added. At year end, Pillsbury's Restaurant business included 3,135 units.

International operations, Mr. Spoor continued, also enjoyed record sales and profitability in fiscal 1980, with volume gains in the U.K. and West Germany, and increased exports of consumer products.

Capital Spending Up

Mr. Spoor said that capital spending in fiscal 1981 is planned at $265 million, compared with $255 million in fiscal 1980. Approximately 80% of the 1981 total will be in support of restaurants.

Pillsbury, he stated, "enters the 1980's concerned about the nation's economy, but confident that our well-balanced portfolio of foods businesses has the flexibility to meet changing economic conditions."

Pillsbury in fiscal 1980 had earnings before taxes on income of $191.8 million, up 20% from $160.3 million in fiscal 1979. Taxes on income totaled $87.1 million, up 13% from $76.8 million.

In the fourth quarter ended May 31, the company had net income of $25.4 million, or $1.26 per share, up 15% from $22 million, or $1.11, in fiscal 1979. Fourth quarter net was increased by an additional investment tax credit of $3.5 million, equal to 18¢ per share, and an insurance recovery gain of $2 million, or 10¢ per share.

Fourth quarter share aggregated $810.6 million, up 16% from $700.9 million in the final quarter of fiscal 1979.

General Mills Gains

General Mills, Inc., posted record sales earnings and earnings per share in the fiscal year ended May 25, 1980, with all five operating groups contributing to the peak performance, E. Robert Kinney, chairman, said. Mr. Kinney attributed the record results to "continued broadly based strength from General Mills' balanced diversification and successful efforts to improve productivity."

Net income of General Mills in the 52 weeks ended May 25 totaled $170 million, equal to $3.37 per share on the common stock, up 16% from $147 million, or $2.92, in fiscal 1979. Sales aggregated $4,170.3 million, up 11% from $3,745 million in the year ended May 27, 1979.

General Mills in the 1978 fiscal year had net income of $135.8 million, or $2.72 per share, on sales of $3,243 million.

Mr. Kinney pointed out that the fiscal 1980 gains mark a 14th successive year of growth in sales and the 18th successive year of improvement in earnings before extraordinary items. The rate of increase in earnings per share of 15.4%, he said, compares to a compound annual rate of gain of 14.6% for the preceding five years.

Return on average shareholders' equity, at 17.6%, also was a record, he said.

Internal Growth

General Mills supported major internal growth efforts, during fiscal 1980 with record expenditures for advertising media, research and development and fixed assets, Mr. Kinney pointed out. Gross expenditures for plant and equipment totaled $196.5 million, up 28%, and research and development investments aggregated $44.4 million, up 19% from fiscal 1979.

Earnings before taxes on income in fiscal 1980 totaled $316.6 million, compared with $263.9 million in fiscal 1979. Taxes on income reached $146.6 million, up from $116.9 million a year ago. Interest expense in fiscal 1980 was $48.6 million, against $38.8 million in fiscal 1979. Total assets at year-end totaled $2,012.4 million, up from $1,835.2 million. Stockholders equity at the end of fiscal 1980 was $1,020.7 million, compared with $916.2 million at the end of the previous year.

N.M.M.A. Washington Meeting
Mayflower Hotel, Washington, D.C.
September 18

Hershey Reports Progress

Hershey Foods Corporation reported consolidated net sales of $283,958,000 for the second quarter ended June 29, 1980, compared with $249,939,000 for the same quarter in 1979. Income for the period was $11,[illegible]43,000 ($.83 per common share) compared with $10,475,000 ($.74 per common share) in 1979.

Sales in the first six months of 1980 were $615,717,000, compared with $527,787,000 in the first half of 1979. Net income in the first six months was $24,996,000 ($1.77 per common share) versus $22,827,000 ($1.61 per common share) for the same period last year.

Results of Friendly Ice Cream Corporation, acquired in early 1979, have been included in the consolidated results of Hershey since the beginning of February, 1979. Thus, comparative figures for the six months of 1979 include only five months of Friendly's operations.

"Our businesses continued to progress well in the second quarter," said William E. Dearden, Vice Chairman and Chief Executive Officer. "While we remain optimistic about our performance through the end of 1980, the uncertainties associated with the current economic recession, the continued high price of sugar, and the impact of the drought on flour prices give us cause for concern since these can more than offset the softening of cocoa bean prices," Dearden said.

San Giorgio Controller

Richard E. Bentz has been named controller of San Giorgio-[illegible]kinner, Inc., the pasta division of [illegible]ershey Foods Corporation. The app[illegible]ntment was announced by Joseph P. [illegible]iviano, president and chief executiv[illegible] officer of San Giorgio-Skinner, Inc.

Bentz, who has been cont[illegible]ller of San Giorgio-Skinner's Leban[illegible] plant since 1976, will now have res[illegible]onsibility for overall coordinaton [illegible]nd implementation of accounting [illegible]nd information systems for the [illegible]ivision. Bentz will also continue as c[illegible]ntroller of the Lebanon plant.

Before joining the pasta division Bentz was a senior financial analyst for the corporate financial analysis department of Hershey Foods Corporation. He holds a BS degree in business administration and an MBA i[illegible]

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San Giorgio Controller

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management science from The Pennsylvania State University. He has also served as an accounting instructor on the adjunct faculty of Franklin and Marshall College in Lancaster, Pennsylvania.

San Giorgio-Skinner, Inc. has pasta production plants in Lebanon, Pennsylvania; Omaha, Nebraska; and Louisville, Kentucky; and markets four pasta brands: San Giorgio, Skinner, Delmonico and P & R.

Buitoni Promotions

Rick Grant, General Manager, Food Service Division of Buitoni Foods Corporation has announced the promotion of John Kondratick to the position of Southwestern District Sales Manager. Kondratick joined Buitoni Foods, So. Hackensack, N.J., in January 1978 as Area Sales Supervisor for the New York/New Jersey area. His new assignment will cover Texas, Oklahoma and New Mexico.

Robert E. McQueen has been promoted to New England District Sales Manager. He had been Area Sales Supervisor for the Upstate New York area since 1978.

Wagner Myers has been promoted to the position of Eastern Regional Sales Manager responsible for Upstate New York, New England, as well as the Mid-Alantic and Southern Regions.

Marshall Foods Appointment

Marshall Foods, Inc., has announced the appointment of Dennis W. Nyrop as Egg Products Division sales and marketing director for the U.S. Central Region, which encompasses 14 central and southeastern states.

Nyrop, 39, has spend the past 10 years in sales and marketing of specialty foods and beverages for Food Producers International, a division of Beatrice Foods.

A resident of Plymouth, Minn., Nyrop will work out of Marshall Foods' sales office in Minneapolis.

G.M.A. Officials

James L. Ferguson, Chairman, General Foods Corporation was elected Chairman of the Board of the Grocery Manufacturers of America, leading national trade association of food and non-food products retailed through grocery channels.

Mr. Ferguson has been Chief Executive Officer of General Foods since 1973. He was elected president and chief operating officer, and a director of the company in 1972, after holding the positions of Executive Vice President and Group Vice President. Mr. Ferguson who joined General Foods in 1963, is a graduate of Hamilton College and Harvard Business School.

In addition to Mr. Ferguson, the GMA membership elected Robert M. Schaeberle, Chairman, Nabisco, Inc. as Vice Chairman; John H. Bryan, Chairman, Consolidated Foods Corporation as Treasurer; and R. Hal Dean, Chairman, Ralston Purina Company as Secretary of the association.

At the election which was held at the GMA Executive Conference, the association also announced six new members to its Board of Directors. They are:

—G. Michael Hostage, President, ITT Continental Baking Company

—C. B. Lane, President, Campbell Taggart, Inc.

—Edwin H. Shutt, Jr., President, The Clorox Company

—John G. Smale, President, The Proctor & Gamble Company

—Hubert M. Tibbetts, President, Thomas J. Lipton, Inc.

Organization Changes

Campbell Soup Company's board of directors has elected R. Gordon McGovern as the company's executive vice president and chief operating officer.

In his new assignment, Mr. McGovern will act as the president's deputy and, in the absence of the president, as chief executive officer.

In other action by Campbell's board, John M. Lindley was elected senior vice president. He will retain his responsibility as president of Campbell's Soups International, a post to which he was elected in 1975, and will report to the president of the parent company.

Reporting to Mr. McGovern will be Herbert M. Baum, vice president-marketing; Robert G. Calder, Jr., vice president; Richard J. Censits, vice president-finance and controller; William E. Harwick, vice president-administrative services; and D. A. E. Denton, vice president-research and technology.

From Pepperidge Farm

Mr. McGovern has been a corporate vice president at Campbell since 1976 and has served as President of Campbell's Pepperidge Farm, Incorporated, subsidiary since 1968. He joined Pepperidge Farm in 1958.

He is a graduate of Brown University and obtained an MBA degree at Harvard University.

Mr. Lindley joined Campbell's Canadian subsidiary, Campbell Soup Company Ltd., in 1955, later served as the Canadian firm's vice president and general manager, and in 1968 was elected its president.

He is a native of Ontario, Canada and holds a degree in agricultural science from the Ontario Agricultural College, University of Guelph.

Effective Aug. 1

The new assignments for Mr. McGovern and Mr. Lindley are effective August 1. Both of them have been members of Campbell's board of directors since November, 1979.

Taking Mr. McGovern's place as president of Pepperidge Farm will be J. William Petty.

Mr. Petty joined the Campbell organization in 1976 as president of its Champion Valley Farms, Inc. subsidiary. Last October he was appointed vice president — bakery at Pepperidge Farm.

Mr. Petty came to Campbell from the Timex Corporation where he served as vice president - marketing and sales, worldwide. He had held previous management positions with Associates Marketing Services, a Gulf & Western Industries, Inc. subsidiary, and with Proctor & Gamble's Food Division. He graduated from Dartmouth University with an AB degree in business administration.

Spaghetti Bash

On Saturday, July 12, from noon until 8 p.m. Gioia Macaroni Company of Buffalo served a spaghetti dinner to some ten thousand people. Proceeds were for the benefit of the Buffalo Philharmonic Orchestra. Guests were entertained with a pop concert.

FOOD LABELING AND INFORMATION AMENDMENTS OF 1980 TO THE FEDERAL FOOD, DRUG AND COSMETIC ACT

by Gary J. Kushner, NMMA General Counsel

Senator George McGovern, Chairman of the Subcommittee on Nutrition, has recently circulated a clean draft of his Food and Drug Administration ("FDA") food labeling bill (S. 1652) which was introduced last August This draft reflects the changes made in the proposed legislation following hearings at which food industry representatives testified.

A clean draft of the USDA companion bill (S. 1651) has not been circulated at this time because the FDA bill contains provisions, such as national uniformity, that are of particular interest to the food industry but which will not be a part of any USDA bill.

The following is a summary and analysis of the major provisions contained in the clean draft.

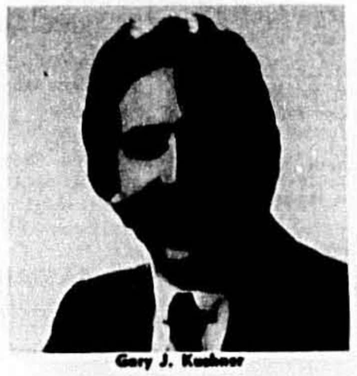
Section 2, Declarations and Findings

This section now focuses on the ingredient and nutrition information system as opposed to nutrition labeling alone. This change, proposed by industry, indicates recognition of the fact that the total information delivery system, including labeling, is essential to achieving the purposes of this bill.

The new draft also recognizes the role that all foods and nutrients play, not simply macronutrients and other dietary components, in impacting on human health. Also added to these findings is a recognition of the need to convey this information in a "readily understandable" fashion.

Section 3, Ingredient Labeling

Under this new section, food fabricated from two or more ingredients (other than spices and flavoring) must list on the label each such ingredient by its common or usual name in descending order of predominance by weight. Spices and flavorings may be declared generically unless the Secretary of Health and Human Services ("Secretary"), by regulation, requires specific individual declarations after a finding that such disclosure is necessary to protect the public health. This exemption from mandatory disclosure



Gary J. Kushner

of all spices and flavoring represents a change from S. 1652 since it now includes spices.[1] However, as in S. 1652, specific colors are not exempt from disclosure by this bill.

Ingredients present in food at levels less than 2% may be declared at the end of the ingredient statement without regard to predominance by weight. This represents a change from S. 1652 which established the threshold level at 5%. Obviously, such a change is not favorable to industry since it would require order of predominance listing of an increased number of ingredients.

Secretary's Functions

This bill provides that the Secretary may, by regulation, define the conditions under which ingredients may be listed in the alternative, e.g., "may contain". Additionally, it authorizes the Secretary, by regulation, to permit added nutrients to be designated in generic terms by which the nutrients are most commonly known to consumers.

The new bill directs the Secretary to permit continued use of a label after a reformulation, caused by an unexpected change in any non-characterizing ingredient, unless disclosure is necessary to prevent deception or protect the public health.

With respect to characterizing ingredients, the bill contains a new provision which grants the Secretary discretion to require disclosure either (1) as a part of the common or usual name of the food, or (2) in the ingredient statement, or (3) as part of nutrition labeling but **not** in more than one place. Current common or usual name regulations promulgated by FDA requires that such information be disclosed on the principal display panel and I anticipate that this policy would continue to be employed by FDA under this bill.

Section 4, Nutrition Labeling

The bill codifies present legal requirements that nutrition labeling is mandatory only if the packaged food is fortified, or if a nutrition claim is made. However, with respect to other packaged foods, the Secretary is given discretionary authority to require, by regulation, that nutrition information be disclosed where "important and useful to the health of consumers".[2] Any nutrition information to be required under this grant of authority must take into account the cost and benefits of providing such information, the ability of consumers to understand and use such information; the different characteristics of particular foods and the different characteristics of particular subgroups in the population.

Existing nutrition labeling regulations shall remain in effect until the effective date of the standardized reference on the nutrient composition for that particular food is developed or until such regulation is revoked. Thereafter, any new nutrition labeling regulation must take into account the above factors before promulgation. No such regulation shall be issued until ninety days after the Secretary reports to the Congress pursuant to Section 8 of this bill.

The bill further directs the Secretary, after consultation with the Secretary of Agriculture, to allow "to the maximum extent feasible and appropriate" the use of a standardized reference on nutrient composition of food that designates representative nutrition information at the most appropriate point of measurement for specific ingredients in food products.[3]

The standardized reference will be used to determine compliance with nutrition labeling requirements after appropriate initial validation. Where the Secretary determines that the amount of a nutrient in a food is significantly different than the labeled amount, on a continuing basis, he shall determine the cause. If the information in the standard reference is found to be inaccurate the Secretary shall correct it. If one or more of the manfacturers are found not to use good manufacturing practices they shall either revise their practice or revise the labeled nutrient amount to bring it into conformity with the food.

Additional Provisions

The bill further provides that, for purposes of assisting the Secretary of Agriculture in maintaining the standardized reference, the Secretary, may, by regulation, require the submission of relevant data and information from manufacturers, packers and distributors. While this information shall be deemed a trade secret, it does represent a marked departure from S. 1652 and the Federal Food, Drug and Cosmetic Act in terms of records access accorded the Agency.[4]

The bill provides that in lieu of relying on the standardized reference a food manufacturer, packer, or distributor may develop its own information with regard to a particular food or product and base its labeling upon that information.[5]

The Secretary is also permitted, after consultation with the Administrator of the Small Business Administration, to exempt from nutrition labeling requirements or initial validation requirements certain manufacturers, packers or distribtuors which he determines based on the annual sales of all their products divided by the number of those products should be so exempt.[6]

For non-packaged foods, i.e., restaurant-served and fresh, the Secretary is directed to encourage voluntary programs unless a nutrition claim is made for such product, in which case nutrition labeling would be mandatory.

Section 5, Open Date Labeling

This section would deem a perishable or semi-perishable packaged food misbranded if it failed to show either a sell date, best quality date, or expiration date. These dates are to be determined by the manufacturer, packer or distributor pursuant to regulations issued by the Secretary.

Perishable or semi-perishable food would be that food which has a high probability of spoilage (decay or other deterioration) or significant loss of nutritional value within 60 days of packaging when stored under recommended or usual storage conditions. This definition would exempt macaroni manufacturers from having to comply with open date labeling under this bill.

This bill also provides flexibility, by way of regulations, to permit use of terms synonymous with "sell date" as well as color coding or other markings to identify a category of foods if it effectively conveys a "sell date."[7]

Section 6, Effective Dates of Food Labeling Changes

The Secretary is directed to allow, by regulation, a reasonable time for continued use of existing labels after final orders requiring food label changes have been published. He is directed to designate a uniform effective date for all food label changes which shall be no less than three years apart for all regulations promulgated during the intervening period, unless an earlier time is necessary to prevent a substantial deception or substantial risk of illness or injury[8]

Section 8, Studies, Demonstrations and Evalautions

The Secretary is permitted to approve proposals to undertake studies and demonstrations or initiate such studies or demonstrations on his own, to ascertain the most effective method of organizing and disseminating the ingredient and nutrition information that is or may be required to be placed on food labeling.[9] The bill particularizes the methods of conveying such information as well as the food constituents of concern.[10]

The Secretary is directed to prepare a written evaluation of any demonstration he conducts or which is conducted after his approval within 180 days of receipt of information from such demonstration. Within two years after the date of enactment of this Act and after evaluation of the demonstrations approved by the Secretary he shall submit a report to the Congress detailing proposed actions to be taken to implement the requirements established under this Act. The Secretary is precluded from initiating any administrative action until 90 days after this report is submitted to Congress.

[1] Unlike S.1652, this draft does not specifically require that flavors must be designated as artificial or natural. Whether this indicates acceptance of the European concept of "nature-identical" substances or whether it is simply a drafting oversight should be discussed with Chris Hitt.

[2] Unless a food is fortified or a nutritional claim is made for such food, no packaged food would be required to bear nutritional labeling until such food was in the standardized reference on nutrient composition of foods to be maintained by Secretary of Agriculture.

[3] This language indicates an unwillingess, at this time, to accept industry's argument that "point of pack" is the appropriate place at which to base these determinations.

[4] Failure to submit the required information relating to nutrient composition of any food ingredient or food product would become a prohibited act thus subjecting such manufacturer, packer or distributor to the full range of FDA enforcement remedies including criminal prosecutions and injunctions.

[5] Upon petition such information could be integrated with the standardized reference. This provision specifically focuses on further processed foods with unique nutrition profiles.

[6] Obviously this language provides no objective standard with regard to the threshold levels for granting such exemptions.

[7] A food labeled with a "sell date" may be sold after such date if it does not otherwise violate the provisions of the Act.

[8] In essence this codifies current agency practice at FDA although new uniform effective dates are published on a yearly basis.

[9] Specifically emphasized in this draft are point of purchase (P.O.P.) materials and reference books. Neither approach appeared in S.1652.

[10] Proteins, fats, carbohydrates the components of fats and carbohydrates sodium; cholesterol; dietary fibers and vitamins and minerals.

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Food Labeling Amendments

(Continued from page 43)

Section 9, Development of the Ingredient and Nutrition Information System

Unlike S. 1652, the new draft directs the Secretary to solicit the view of food producers, manufacturers, packers, or distributors and other groups concerning nutrition and ingredient labeling.

Section 10, Consumer Education Program on the Use of Labels and Labeling

The Secretary is directed to develop, test and implement a program of consumer education to help achieve the purposes of this bill. It expands upon a similar requirement contained in S. 1652 by particularizing those food labeling matters about which consumers must be educated.[11]

Section 11, National Uniformity in Human Food Labeling

This bill contains a declaration of Congressional intent to require national uniformity in food labeling, packaging and ingredients.[12] It prohibits a state or any political subdivision from establishing or continuing in effect any requirement relating to labeling, packaging or ingredients which is in addition to or different from the provisions of the FD&C Act. It also authorizes concurrent jurisdiction on the part of any state or political subdivision for the purpose of enforcing requirements identical to federal requirements.

The bill does provide, however, that upon application and after notice and oral presentation of views the Secretary may, by regulation, exempt the state or political subdivision from this section if it can be shown that such a change is (1) required by compelling local conditions; (2) does not unduly burden interstate commerce; and (3) does not cause the food to be in violation of the FD&C Act or regulations or interpretations issued thereunder. It also permits the states or political subdivisions to propose that FDA adopt, by regulation, existing or proposed state or local requirements.

[11] A goal of this program, among others, is to educate consumers that ingredients are listed in descending order of predominance by weight. The requirement contained in S.1652 for placing such a statement on the label has been, as a result of industry testimony, deleted from this draft.

[12] This section represents one of the most dramatic and important departures from S.1652. Among other things it mandates national uniformity not only with respect to labeling but *also* packaging and ingredients. Unlike S.1652, it no longer permits a state or political subdivision to establish or continue in effect a label or labeling requirement concerning a sell or use date. Moreover, the bill now requires that before a state or political subdivision could be granted an exemption from federal labeling, packaging or ingredient requirements, it must demonstrate that such exemption would not unduly burden interstate commerce.

Partners for Co-op Promotions

Nielsen Clearing House, the nation's leading coupon processor, has announced the development of MATCHMAKER™, a listing service designed to help consumer product manufacturers find other manufacturers with similar promotional objectives.

Matchmaker is a bimonthly publication which contains offers by prominent companies who seek potential partners in such promotional activities as cross-couponing or a print media tie-in. It also gives subscribers the opportunity to enter listings to find compatible partners to share the costs of their programs.

The annual subscription includes six bimonthly issues plus three free listing in upcoming issues. The system improves efficiency through cost sharing and the results can help maintain continuity and frequency in brand support programs while keeping costs under control.

Information concerning publication dates, subscription rates and other details are available by contacting: Marketing Dept., Nielsen Clearing House, 1900 North 3rd Street, Clinton, Iowa 52732, 319-242-4505

Hamburger Is King

Hamburger is still king according to Institutions Magazine "1980 Menu Census: Profile of a Dining Nation." Cheeseburgers, hot dogs, and BLT's continued strong in popularity. Key menu trends from the survey of 4,000 foodservice operators: Freshness was the key menu-merchandising concept – increased concern with costs – preferred portion size options – growth has slowed dramatically for ethnic foods, particularly Chinese, French, Italian and Mexican. Meat dishes in order of ranking included: hamburgers (1), cheeseburger (4), roast beef (18), ham sandwiches (19), spaghetti (28). French fried potatoes ranked first as the best selling menu item.

INDEX TO ADVERTISERS

Coming Events:

N.M.M.A. Washington Meeting
Mayflower Hotel, Washington, D.C.
September 18

National Macaroni Week
October 9-18

International Durum Forum
Ramada Inn, Minot, North Dakota
November 11-12

National Food Brokers Association Convention
Las Vegas, December 5-10

N.M.M.A. Winter Meeting
Boca Raton, Florida
February 4-8, 1981