

Hot products paying off for Middleby

Elgin-based firm concentrates on gear for kitchen

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With almost 180,000 jobs slashed in Illinois since 1999, many of the state's major manufacturers have been devastated by growing competition at home and abroad.

But Elgin-based food equipment-maker Middleby Corp. is not one of them.

Little known outside the restaurant business, Middleby has quietly become the world leader in supplying "hot side" kitchen equipment to far more familiar names.

By latching on to the growth of fast-casual chains, such as Potbelly's, and helping more-established fast-food players to retool, Middleby has become a key supplier of energy-efficient cooking technology.

So much so that almost everyone will have eaten something made by one of its toasters, cookers, and convection and conveyor ovens—whether it's the pizza bought at Costco, breakfast at Denny's or McDonald's, a meal from Kentucky Fried Chicken or Burger King, or a dinner out at Red Lobster, Olive Garden or Pizza Hut.

"People can't understand how we make so much money selling toasters and ovens," said Selim Bassoul, Middleby's president and chief executive. "But we are No. 1 in at least six areas, everything from convection ovens to toasters."

Middleby's brands, such as Toastmaster, Southbend and G.S. Blodgett, might not have the allure of their more illustrious cousins in the household-kitchen-gear

market, but they are found in almost every commercial kitchen.

Middleby began transforming itself in mid-1999, when Bassoul and a new management team took over and promptly decided to ditch Middleby's attempts to be a one-stop supplier of all things hot and cold in the kitchen.

After years of fighting to be a player in refrigeration and cookers, Bassoul focused Middleby on the \$1 billion cooker,

Concentrating on mastering the art of cooking has paid off handsomely, as net earnings in 2003 surged to \$18.7 million, up from \$6.1 million a year earlier. Sales rose to \$235.4 million from \$229.1 million.

The company reckons that one of every three cooking machines used in a commercial U.S. kitchen is one of its brands.

Investors, too, have been more than paid



Middleby chief Selim Bassoul revamped the company by focusing the company on products like toasters.

ovens and toaster business.

Its service engineers had struggled to keep on top of technological advances in both fields, and the company was working hard trying to keep pace with all the new things customers wanted for less and less in return.

Since letting go of the 30 percent of sales that came from selling freezers, Middleby has bagged a fifth of the domestic cooking-appliance market, and one-third of its revenue comes from overseas sales. As those fast-food chains have expanded rapidly across the globe, they have taken key suppliers such as Middleby with them.

back for their patience. The company's share price closed Friday at \$42.45 on the Nasdaq market, up fourfold from \$10.55 a year ago, making it one of the best performers among local stocks.

Takeover speculation

Many in the market think its success is such that a larger predator may come knocking.

"The price gains over the last few months reflect the possibility that Middleby will be an acquisition candidate," Richard Rossi, an analyst with Morgan Joseph, said in a recent note to clients.

Bassoul discounts such speculation,

preferring to concentrate on out-competing bigger rivals, including Illinois Tool Works Inc. and Enodis PLC, owner of kitchen equipment-maker Welbilt Corp.

Just as focusing on one side of the kitchen came with uncertainties, so did one of the company's boldest moves—its decision to pay \$95 million for rival G.S. Blodgett from Maytag Corp. in 2001.

The deal doubled the size of the company but was consummated just as the Sept. 11 terrorist attacks hit home.

Bassoul and his team had figured correctly that fast-casual diner concepts would grow rapidly. The Middleby management team also believed it would help the company to capitalize on changing demographics, which were fueling the growth of Asian and Hispanic eateries.

"These cultures tend to fry a lot of food," said Bassoul. "That's partly why our steamers and fryers are selling well."

By buying Blodgett, Middleby acquired conveyor oven, broiler and range technology that would vastly speed cooking times. This would be key to supplying the burgeoning new businesses and also help cater to chains that wanted to sell healthier food.

But the Sept. 11 attacks made the company's financial backers skittish, worried that the move was too bold a step in an economic slowdown amid the fear of more terrorist threats.

"We needed the deal to gain market share," said Bassoul. "It broadened our customer base and allowed us to gain great cost savings, and at the same time moved us into the fastest-growing segment of the market."

Bassoul quickly found alternative financing and threatened to do the deal anyway, a move that ultimately helped solidify the backing for the acquisition and got favorable rates from more-established banking partners, he said.

This no-nonsense approach has carried over into the company's operations.

Slashing costs

Middleby has cut the number of plants in the U.S. to four from six, saving \$15

million in costs per year and freeing up valuable cash to help pay back some of the debt that came with the acquisition.

"Middleby was certainly ahead of the curve," said Kevin Richardson, a vice president of the southeast division for Ryerson Tull, which supplies the bulk of the metal required to make the kitchen equipment. "It's been an evolutionary process. As Middleby has grown, we have grown with them. They are now one of our very best customers."

Shortly after taking over, Bassoul moved from using several suppliers to focus more on favored partners. By slashing the supplier base by 40 percent, companies like Ryerson have the confidence to be more flexible on prices, supply terms and shipping schedules, said Richardson.

Exploiting research

Underpinning this expansion has been an array of new products, developed largely in-house by an experienced team of research and development engineers. They are focused on cranking out at least eight innovations a year, said Bassoul.

"We have a no-excuse culture," he said. "We expect them to deliver, and they do because they are not trying to reinvent the wheel, just provide our customers with solutions that make sense."

Research and development engineers are challenged to make sure each significant technical advance can be patented, to give the company time to exploit its innovations.

New ideas also have to be affordable for the customer and for the company. That means fresh ideas must be easily rolled out and comply with standard procedures so Middleby's 28 product lines in four plants can adapt quickly to making the new products.

For years the company had struggled with searching for the next big thing in cooking or refrigeration. The search for a quantum leap meant that engineers could spend years developing a technology, which ultimately would be hard to manufacture and even more difficult to sell because it required a huge leap of faith on behalf of restaurateurs, said Bassoul.

Now, engineers focus on more tangible gains like techniques that will cut down labor, a critical cost to every fast-food operator. New equipment also must be at least 30 percent more energy-efficient, Bassoul said.

Such moves have been central to Middleby's ability to push through price increases on new gear, because they allow the company to easily argue that the new machines will pay for themselves in short order.

A perfect example is the company's latest cooking product, an energy-saving conveyor oven. Not only does it cook the food faster, but it also promises to save more than 60 percent in power consumption.

A typical pizza chain can spend as much as \$600 to \$700 per restaurant each month on electricity to power ovens. Cutting that by two-thirds has been an attractive draw for operators always looking to pare down operating costs.

"I was skeptical that the oven did what they said it did, at first," said one Illinois-based Pizza Hut franchise operator. But after testing one, he plans to switch several ovens over this year.

And even with the rapid innovations, the company maintains one of the best guarantees in the food sector, what it calls its "no quibble warranty."

If you buy a machine from Middleby, the company not only offers to take it back if it doesn't work, but also will get a service technician to fix any problems within three hours in most major U.S. markets.

That's one reason Bassoul is careful to make sure the new advances work and are easy to produce before products are rolled out. And to avoid the headaches of returns, he also is careful to avoid customers without a proven track record.

"We pretty much have a 100 percent customer-retention rate," he said. "That's not by accident. We are very careful to ensure the customers we supply are a good fit for what we do."

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