

**Dean's Executive Leadership Series - Pepperdine University / DELS
2007-2008**

**Transcript of Presentation by Robert Simpson, President and Chief
Operating Officer of Jelly Belly Candy Company – Part 2**

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The Graziadio School of Business and Management at Pepperdine University proudly presents the Dean's Executive Leadership Series. This podcast invites top business practitioners and thought leaders to share their view on the real world of business.

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Dean Linda Livingstone: I think I'm gonna go straight to questions from the audience and then I'll sprinkle in a few as we go along. We'll take a few minutes to respond. Okay. I saw the hand at the back right there first so we'll start with you and speak up so we can all hear. That'd be great.

Audience member: <inaudible>

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Robert Simpson: Oh, it's a great question. We had talked five or six years ago about stepping up and if we were going to be a global brand that we needed to find a place to manufacture the product. Duties and tariffs, shipping finished goods from here to there just wasn't working. It wasn't an effective business model, as you can well understand. So there are many choices: China, Pakistan, India, I mean, there were lots of choices, but Thailand came through for a number of reasons.

Number one, we own the dirt, we own the land, we own the building, we have title to it and they're our employees. We're not hiring contract manufacturing from somebody else to deliver to us. We own it all and they report to us and they will meet our exact standards so those are our employees. That's very important to us.

Number two is Bangkok or Thailand is the fourth largest sugar-producing country in the world and so we have access to sugar and we have access to tapioca syrup and tapioca syrup is non-GMO so we can make those products for Marks & Spencer and other western European countries that demand non-GMO product. The incentives that the Thai government offered were in a duty-free zone so we get to import and export duty free and we have business incentives that go out several years for training and establishing business there. When you add it all up, it just made sense for us to go to Thailand.

Dean Linda Livingstone: Can you tell us what GMO means?

Robert Simpson: Genetically Modified Organism, yeah. We don't know much about it here. It's a big ticket item in the U.K. God, in England, they're obsessed with it. Yes?

Dean Linda Livingstone: Right here and then we'll come over here.

Audience member: My company works with camps for children with diabetes. Have you explored producing your product in a sugar-free?

Robert Simpson: We do. We do make it in sugar-free right now, yeah. We have many of our flavors available.

Audience member: I didn't notice it in your presentation, which is why I was asking it.

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Robert Simpson: Ah, it's not a big part of our business but we do sugar-free in a number of our brands. One of the things that we found with sugar-free is that it does have a mild laxative effect so you don't want to eat a large quantity of it. <laughter> Does that make sense?

Dean Linda Livingstone: That's good to know because that would actually be much better than some of the laxatives that are out there. <laughter>

Robert Simpson: Yeah.

Dean Linda Livingstone: I'll have to remember that. Over here.

Audience member: I'd like to ask you: How do you plan to manage what seems to be a knowledge management program that's coming up? You mentioned that you have this expert, which is a number one, and there's nobody like him and the other who works with him, and, I mean, it seems that the flavors and the new things come from a core number of people. How would you continue to transmit their knowledge or replace them?

Robert Simpson: That's a great question. Yeah, I was half kidding about Ambrose. He is very important to us. There are a few people that are more important. We do have a number of food scientists that work for us. Our biggest source of flavor ideas come from flavor companies. We have 40 different flavor company vendors that we work with around the world and we're the first one when they want to try something new. We're the first ones who get to see any new essence or any new flavor profile because they know what we can do with it so we've got ourselves in a good position there.

You know, sustainability over a period of time as we're developing—it's just core to what we do. It's a very collaborative practice that we have and ideas surface from, like I said, our own employees and from a number of different sources and we just talk about it all the time. I don't think there is a meeting that we go to we don't talk about the next new idea, and so it's just ingrained in us and it's the expectation that we have. So I think we're doing a good job with the new people that come on board that understand that that's very much a part of their job description and their role, and the expectation we have as a company is always to bring those ideas forward. Now, obviously, we can't do everything with all them and part of our challenge is to identify the ones that we can truly do something with. Yes?

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Audience member: Can you talk a little bit about the idea of bidding process and then, once it's accepted, how quickly you're actually able to implement that into your stream of business?

Robert Simpson: Probably one of our core competencies, our biggest strengths, is our speed to market and decision-making processes. We're a very lean organization. We can move things, ideas, very, very quickly from R&D. We use our instincts and intuition. We've been at this a long time. We know intuitively when something will work. We don't have to go test it or try it. It's just something that's worked for us.

Once we decide what we're going to do, and we do this in a number of ways, our executive group gets together. We have a panel that does tasting together and we circulate ideas that way. Once we get it into R&D and they come back over, it moves very, very quickly. Because we control every aspect of the packaging design and the creative and the marketing, the promotion behind a product like that, we can turn things around in a heartbeat. I showed you the fruit snacks for Costco. It came from their idea to the shelf in five and a half months. That's a co-branded item at Costco and just to show you quickly we can do things. So we're real proud of that. I think it's the strength of what we do.

Dean Linda Livingstone: Related to that, you talked about being a lean organization. You told me earlier that you have 17 direct reports...

Robert Simpson: I must be crazy.

Dean Linda Livingstone: You must be, yeah. So talk a little bit about the philosophy that leads to a structure like that and why that's so effective.

Robert Simpson: Well, it works. First of all, I have a very strong staff that are responsible for all the functional parts of our business and they know what the expectations are and how to deliver to them. I just provide guidance and direction and a little bit of interaction but, for us, it's working across functional areas and I personally can break down all the barriers that can exist or might exist when you have layers of management or silos. It doesn't exist because we just don't allow it to. It's not an option whether you choose to work together collaboratively to deliver the expected outcome. It is very much an expectation that I have and so, wherever we run into those kinds of obstacles, we eliminate them very quickly.

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It makes everybody focus on the prize. It makes everybody focus on the outcome that you're looking for. I think it's to our advantage not to have the layers of management that are involved. It only complicates things and slows down the processes and creates bottlenecks. I hope that...

Dean Linda Livingstone: No, that's helpful.

Robert Simpson: I know it's not contemporary...

Dean Linda Livingstone: Probably not textbook but it works well for you all and it's...

Robert Simpson: It's hard to argue with our success.

Dean Linda Livingstone: There's sort of different models for doing this.

Robert Simpson: Yes?

Audience member: From an HR standpoint, how do you select people that will buy into your culture?

Robert Simpson: Yeah, that's a great question. You know, at Jelly Belly, our culture, it's not so much what you do, it's how you do it. So when I'm interviewing for key positions, and I sit in on most interviews, I'm using my own instincts and intuition to look for somebody who I feel is not self-serving, doesn't have a personal agenda, who wants to contribute to the benefit of the company and add value where they can and not look to advance their own personal agenda or take credit or place blame. They have to let go of all those things.

They have to let go of their ego. They have to be willing and free to accept the culture that we have in a non-threatening way and want to be able to maintain that those are the important values that we have as an organization. So if I sense that is not going to work, it just doesn't fit for their personality type, you know, that's what I'm guided by. I think all of our managers are guided by the same thing. It's how you do it. Yes?

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Audience member: I'm following up on that: How do you acknowledge people when they do something great? You don't want them to take, what did you say, don't take credit but don't blame but also how do you acknowledge them so that they feel really great about what they have done?

Robert Simpson: Yeah, recognition is important and I think that recognition is more meaningful when it's done in a very sincere, forthright manner and it doesn't have to be done in public but that's your job as a manager is to recognize. I don't like people that are raising their hand trying to draw attention to themselves or beat their own drum. I mean, that, to me, you know, I'm not saying I'm insulted by that but that's my job as a manager to know what they do and how they do it and what they've contributed. So I think all of our managers understand that and they recognize people for what they do in a very private way and make them feel good about their contributions and we celebrate together. I hope that answers your question.

Dean Linda Livingstone: I want to go back here to the back.

Audience member: As a family business, how do you deal with succession planning?

Robert Simpson: <laughs> That's a sore subject. <laughter> You know, one thing about-- I've only worked in family owned businesses. I can't tell you anything different. I worked at Raley's and it was family owned so there are so many parallels between the two. I mean, when I started at Raley's, there were 12 stores. When I left, there were 150 doing \$3 billion and so it was just this rapid growth. And it's hard when you go down to the next generation. When Tom Raley was alive, there were no issues. When Joyce Raley, she's the only kid, no issues. She has seven kids, issues, right? <laughter> And grandkids now. Big issues. <laughter>

Dean Linda Livingstone: Why do you think that this family has been so successful through six generations? Because most family-owned businesses don't make it past the third generation. Why have they been so successful? Are there any keys, do you think, to sort of that family and their values that have led to that?

Robert Simpson: Well, I think they never lost sight of where they came from. The one thing that they have is such a great respect for their heritage and what put them in this position, all the hard work that's gone before them. They're wonderful historians. I mean, the four kids and Herm have done a marvelous job of keeping track of all the stuff that's happened since the late 1800s, since their great-grandparents

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immigrated here. They're very proud of that fact and so there's this respect that they have. They have respect for everybody that's gone before them, their parents, certainly, and all the hard work and everything that has been done to prepare them for this opportunity, and then Jelly Belly came along in the late '70s and it was, you know-- that was their recognition and reward for all the hard work.

The kids today have a very common respect for each other and they all have very functional jobs. I was hired more for professional management to fit in and contribute where I can and to help them learn the business at a different level. I know what my role is and we all get along just fine. I couldn't ask for a better situation. They have a lot of respect for their father and everything that's gone before them and there's not a jealous bone in their body. I think that's what helps, too. They root for each other's success and that helps a lot.

Dean Linda Livingstone: That's great. We'll take these two questions and then we'll bring this to a close. So we'll start here and then go back.

Audience member: Well, Bob, first, thank you for a very entertaining presentation. I've got two brief questions. The first is, would it be true to say that your company has probably the most expensive dental plan in the world? <laughter>

Robert Simpson: Probably.

Audience member: And the second one is more interesting for me. What are your acquisition criteria?

Robert Simpson: Well, that's good. As far as dental work, yeah, I think that demonization of sugar, as we call it, you know, I think sugar is a good thing. You know, everybody in the group, it's a good thing. I mean, it's part of a healthy diet, right? <laughter> Just like ice cream. You don't eat half a gallon of ice cream so don't eat two or a four pound jar of Jelly Bellies. You'll be fine.

Dean Linda Livingstone: That's right. And don't let your children eat a four pound jar.

Robert Simpson: A little bit of sugar is a good thing. You know, and it's interesting. I think that that's such a media thing and, as we've learned about Jelly Belly and nutrition and become more focused on those things, I've learned a lot about sugar and I sat on the executive board of the NCA and I know that

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this is very much a media type of issue. It kind of comes and goes but it gets blamed for obesity now and hypertension and all those sort of things. The fact is that there is no spike and crash but that's the perception that's out there. There is a rise in glucose, blood level sugar, but it doesn't crash. It goes back to normal. If it crashes, it goes back, then you're really a diabetic is what the problem is. But there's always this perception of a spike and a crash and that doesn't happen. So that's just a misconception.

Dean Linda Livingstone: And your acquisition criteria.

Robert Simpson: Acquisition criteria. We don't have any. I mean, Herm's family, and these are family businesses, knew that family and the Sunkist brand is something that we all thought would be a good fit for us and it was a phone conversation and they had a handshake over the phone and said, "Work out the details."

Dean Linda Livingstone: Don't see business done like that much any more.

Robert Simpson: No.

Dean Linda Livingstone: We'll conclude with your question.

Audience member: <inaudible> The question is, you know, this is the first time I've been to a meeting like this where people have not really talked about competition. It seems that you may have a interesting background to that. You've not talked about any of your competitors. Is it because you're so focused to do the right thing for your customers that you don't worry about it? Or is there something behind that?

Robert Simpson: Well, that's a great question. We don't look in the rearview mirror, not much. A lot of people copy what we do and we do what we have to do legally to protect ourselves all over the world. As you all know, that's a big item. I spend a lot of time with attorneys doing that. But our focus is on the next best thing and we want to be the ones that discover that. So I can't say it any clearer than that.

In the candy industry-- I will tell you this: It's a unique industry in the fact that we all contribute to it and we root for everybody's success. It's not competitive like the beverage industry or any of those others that are just so at each other's throats. These are families that would help out. If we had a fire and our

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warehouse burnt down, we'd have 15 phone calls from companies saying, "What can we do to help you?" And we do the same for them. That's what's been done and that's the expectation.

I just went to the western candy conference and these are all family-owned and -run businesses and we socialize together. We went on cruises, you know? You sit at each other's table and you ask and you reconnect and build those relationships. It's mostly social. There was very little to do with the business part of the agenda for the whole conference but it's a unique industry in that way. But I think, for us to be successful, we need to do what we need to do and not worry about what anybody else is doing.

Dean Linda Livingstone: Wonderful. I'm going to close with one question I actually asked him is we did an interview prior to the reception and the event tonight and it will be podcast so you can go online or to iTunes and you can actually hear that. It was probably about a 25-minute interview so if you want to hear a bit more about some of these issues and some things maybe we didn't talk about in detail, you can certainly do that.

The concluding question I asked for him, I asked him on that and I'll ask him now, is related to kind of what we try to accomplish as a business school. Our mission, as I told you then, is to develop values-centered leaders and so share with this group what you did on the podcast just about what you see as maybe some of the core values that are important to you as a leader and that sort of drive how you make your decisions in the organization.

Robert Simpson: Yeah. Those are great questions. I don't really think of it in terms of leadership traits that we're strong in. I think that leaders lead by example. I mean, you've got to be willing to do it. The example I used for Linda was that our owner has built a culture there and he's done it by, if there is a paper on the floor, he'll pick it up. If something's broken, he'll fix it. Right then. If something-- there's a mess over there, he'll stop what he's doing and clean it up himself. He won't ask for help. He won't expect anybody to run over and help him. Now, that sends a very powerful message to the rest of the organization and there is nothing beneath anyone in there.

That's why I'm looking for a fit, that understands what their role is and that can fit into an organization that's built with that kind of culture, but we remember where we came from and appreciate all the things that we have today. So, for our leaders, it's to take that message and make sure that those expectations of people that we hire and that work for them understand it and the people they manage understand it and so to perpetuate that. That's what we're really looking for.

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Dean Linda Livingstone: Wonderful. Thank you so much, Bob. We really appreciate having you here and appreciate what you've shared with us.

Robert Simpson: Thank you.

<applause>

Dean Linda Livingstone: And, Larry, thank you for connecting us with Bob. We really appreciate that and it's so wonderful to see all of you here tonight. We hope that you'll come back to some of the events that we have coming up in the future and just appreciate so much your support of the school and the work that Larry does up here and we'll look forward to being back soon. So thank you.

Robert Simpson: Thank you.

Dean Linda Livingstone: Have a good evening.

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