OVERVIEW OF KRAFT FOODS INC.

Presented to

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December 3, 2010

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Purpose of Report

This report will present a profile of Kraft Foods. The purpose of this paper is twofold: to provide an overview of the company and its current standings and also to discuss its potential future holdings to help an individual determine if this company is one in which he/she would want to potentially apply for employment.

Current Standing

Currently Kraft Foods is the largest food and beverage company in the U.S. and the second largest food producer in the world. In 2009, Kraft's 155 different brands generated $40.4 billion in net revenue with 29% of its sales distributions in Confectionary sales. The company profit rose from $13.8 billion in 2008 to $14.6 billion in 2009, with a 5% increase in its bottom line, netting $3.03 billion in income. Stocks peaked at $29.84 in 2009 with earnings per share at $2.03 – as of November 30, 2010 one share of stock sells at an average of $26.35 with a high price of $30.34 (Kraft, *2009 Fact Sheet*). Kraft's 2010 fiscal year ends December 31.

Outlook

Kraft will continue to provide products that meet consumer tastes both domestically and globally. Kraft plans to maintain its brand equity and to cultivate growth in its world markets. The company will expand upon its integration with Cadbury and maintain its sustainability globally and in its shareholder value. With its current standing as a strong leader in the food, beverage and confectionary industries, Kraft will continue to produce new products and draw positive profits, as well as creating a more cohesive work-culture with its employees worldwide.

INTRODUCTION

Since the early 1900s, Kraft has sold consumable products, becoming a household name. The company is the largest food manufacturer in the United States and the second largest in the world and distributes 155 different brands and products. Kraft's world headquarters is in Northfield, Illinois and its European headquarters is located in Zurich, Switzerland. The corporation has successfully sustained its marketplace and name worldwide by differentiating its products and capitalizing on its brands, target-marketing by culture and by creating subsidiaries to efficiently manage its businesses and deliver quality products to its consumers across the globe (Kraft Foods Online).

History

James L. Kraft (left) founded Kraft in 1903. Originally started as a wholesale cheese business, he took his horse and sold his products door-to-door in Chicago. In the first year, he lost both his horse and $3,000, but he persevered. The business eventually took off and his four brothers banded together with him to create J.L. Kraft and Bros. Company in 1909. The team pulled themselves together creating a marketing strategy and distributed circulars and advertisements to get their name out. By 1912, the company set up headquarters in New York, New York to begin international development. By 1914 Kraft had 31 different varieties of cheese available for sale throughout the US.

In 1915, Kraft had a breakthrough and invented pasteurized processed cheese. Because this cheese did not need refrigeration, Kraft had a strategic advantage over all other cheeses. A year later in 1916 Kraft patented this process and started selling the cheese to the Military as rations for the Army during WWI and later during WWII . This revelation allowed Kraft to expand, making its first acquisition of a Canadian cheese company in 1916 and beginning product expansions such as salad dressings, mayonnaise, and milk powder, also convenient during wartime. In 1924 Kraft was listed on the Chicago Stock Exchange and two years later it was selling on the NYSE. Acquiring their competition along the way, Kraft became the third largest dairy company in the US and had 40% of the market by 1930. That year Kraft was acquired by one of their largest competitors, National Dairy. By 1969 National Dairy changed their name to Kraftco Corporation and in 1976 it was changed to Kraft, Inc. By this time Kraft was selling their various products worldwide.

Kraft logo in 1969

Kraft continued to consolidate the United States dairy industry through acquisition and mergers, and is currently still doing so with the confectionary, food and beverage industry. One of the largest mergers in Kraft's History was in 1989 when Philip Morris companies merged Kraft with General Foods and then Nabisco Holdings in 2000. The most recent acquisition was of a British corporation Cadbury, in 2010 for $19.5 billion (Kraft Online: *Heritage*).

<u>COMPANY CULTURE</u>

Kraft provides a work culture in which its objective is to maintain a work/life balance. The importance of achieving results, not processes, are just as important as getting a child to a doctor's appointment. Retaining good talent is less costly than employee turnover and although it cannot be preventable, a positive work environment encourages employees to want to improve and attain results. Examples of how Kraft commits and provides to their employees include:

- Flexibility – employees have the ability to establish work hours such as flex-time (which are established around standard workday hours), telecommuting, part-time hours (for certain positions), job sharing, and flexible work schedules.
- Paid Time Off – Vacation, the option to "buy" vacation, paid sick days and personal days are included in its benefits packages.
- Compensation and Recognition Programs
- Professional Development – Orientation programs, leadership development programs, diversity council sponsored career development events, performance appraisal and feedback for all employees, global core training curriculum are linked to career stages in professional development.
- Fitness Center – promotes health and wellness
- On-site services such as dry cleaning, oil changing, and dining services and convenience stores.
- Credit Union and banking.
- Dress code adheres to an "appropriate attire" policy, which gives employees the choice to wear either traditional business attire or to dress more casually.

Kraft has tried diligently to tune in to its employees needs to create a positive working environment. For example, in the company's IT department in its US headquarters offices in Northfield, IL, the offices were transformed from a cubicle-oriented environment to a bright and collaborative space where people can work on projects in teams and to promote more collaborative work environment. Kraft has always been a company with an evolving product line, but Kraft has also tried to improve the quality of life for workers. This can be a vital piece of maintaining a satisfied workforce as well as a vital piece of attracting fresh, new employees.

Leadership

Irene Rosenfeld is currently the Chairman and CEO of Kraft Foods Inc. Rosenfeld joined Kraft in 2006, with nearly 29 years of experience in the food and beverage industry. She started her corporate career in the advertising world after graduating from Cornell with a PhD. in Marketing and Statistics. She then worked for General Foods for many years until becoming CEO of Frito lay in 2004. Rosenfeld held that position until she joined Kraft, where she has been ever since. Some of her key accomplishments with Kraft include the restructuring of key businesses in North America and the rest of the world. She currently ranks second on Fortune Magazine's "50 Most Powerful Women in Business" list (Kraft Online: *Management Team*)

Along with CEO Irene Rosenfeld, CFO and Executive Vice President Timothy Mclevish is also a very important part of Kraft's management team. A Graduate of both the University of Minnesota and Harvard Business School, Mclevish joined Kraft in 2007 and took charge of the company's accounting and reporting, financial planning and analysis, treasury, tax, audit and investor relations. Before joining Kraft, Mclevish was Senior Vice President and CFO at Ingersoll-Rand Company Limited, an $11-billion global industrial products and services firm (Kraft Online: *Management Team*).

Corporate Goals

Kraft has set their sights on continuing to be a brand that people love as well as a powerhouse of global snacks. There are three strategies Kraft believes will be the energy to assist in future growth. The first is by delighting consumers globally and their busy lifestyles. Simple indulgences and healthier options are two main focuses. A second strategy of unleashing the power of Kraft Food's iconic brands will also be utilized. Nearly 80% of their heritage brands are household names and hold the number one or number two positions in their respective categories and Kraft will look to expand into new categories based of the popularity of the heritage goods. Finally, Kraft recognizes that customers, consumers, colleagues, communities and suppliers are the most important aspect of their business. If any of these critical pieces of Kraft's corporate puzzle were to be forgotten, the company would not be staying true to it's corporate roots: to inspire trust, tell it like it is, and to lead from both the head and the heart (Kraft Online: *Strategies*).

PRODUCT INFORMATION

Kraft is a company that prides itself on offering many types of brands and products in order to meet the tastes of all consumers. Although Kraft started out as a cheese manufacturer, it has grown into a diverse company with 155 different brands, most of which are present in 99% of U.S. homes (Kraft, *2009 Fact Sheet*). Kraft currently distributes 11 different brands that generate more than $1 billion yearly as well as 70 brands that generate revenues greater than $100 million. Another important fact about Kraft is that it currently distributes 40 brands that are over 100 years old. This shows that Kraft has been committed to quality since it's conception and places strong emphasis on sticking with products that work. As a whole, Kraft's products generated sales revenues of $48.1 billion in 2009 alone. Today, Kraft categorizes their products into six different groups: confectionary, snacks, beverages, cheese, convenience, and grocery (Kraft Foods: *2009 Fact Sheet*).

Confectionary

Kraft classifies confectionary goods as candies, chocolates, cookies, and any type of dessert. These types of goods brought in approximately $13.7 billion worth of revenue for Kraft in 2009. This $13.7 billion in revenue made up 29% of Kraft's product revenue in

2009, making it clear that confectionary goods are an important aspect of Kraft's product offering (Kraft Foods, *2009 Fact Sheet*). Some of the confectionary goods that Kraft offers include Oreo, Milka, Chips Ahoy, Cadbury and Lacta. Oreo has consistently been one of Kraft's most popular products with sales all over the world and average yearly revenue of $1 billion. Oreo's original formula was developed in 1912, but today Kraft offers 49 different types ranging from Oreo Cakesters to Oreo Mini (Kraft Online: *Products*). This emphasizes how Kraft has continued to add to products that have had success while still maintaining the quality and taste that consumers have come to expect throughout the years from the company.

Kraft will look to utilize its 2010 acquisition of UK based confectionary producer Cadbury in order to secure growth in this category. If Kraft can successfully implement Cadbury products into their own product offering, then they will have a chance to take over some of the market share that Mars, Inc. currently controls with their successful line of candies.

Snacks

Kraft's snack food offering ranges from peanuts to chips and is the second most important product type being sold, with revenue of $10.4 billion in 2009. Snack foods also made up approximately 22 % of Kraft's product revenue in (Kraft, *2009 Fact Sheet*). Some of the products categorized in Kraft's snack foods include: Ritz crackers, Planters nuts, Triscuit, and Wheat Thins.

Beverages

Kraft offers various types of beverages, both hot and cold. Beverages are currently Kraft's third largest revenue source with 2009 revenue of $8.3 billion. This $8.3 billion made up approximately 17% of Kraft's product revenue in 2009 (Kraft, *2009 Fact Sheet*). Some of the most popular beverages that Kraft produces include: Maxwell House coffee, Tang, Kool-Aid, Capri Sun, and Jacobs coffee.

Cheese

Cheese was the first product Kraft ever produced, and was the staple good of the company for many years. However, in 2009 it was the fourth largest source of revenue for the company with $6.8 billion in earnings. Cheese made up around 14 % of Kraft's product revenue. Once again these figures how Kraft has diversified its product offerings so it does not have to rely on one type of good for it's income. Some of the cheese products that Kraft offers include: Kraft Deluxe, Kraft Singles, Breakstones, and Velveeta (Kraft, *2009 Fact Sheet*).

Convenience Meals

Over the past 20 years Kraft has strived to offer meal options that are quick and simple. With the increased pace of lifestyles over the years, Kraft has placed an emphasis on providing quality products that allow families to spend time together despite their hectic schedules. Convenience meals range from meals you can eat on the go to meals that you can cook quickly for one person or an entire family. Kraft's convenience meals generated $4.8 billion in 2009, which was 10% of the company's product revenue (Kraft, *2009 Fact Sheet*). Some of the convenient brands and products offered by Kraft include: Lunchables, Kraft Dinner, South Beach Diet, Oscar Meyer, and Easy Mac.

Grocery

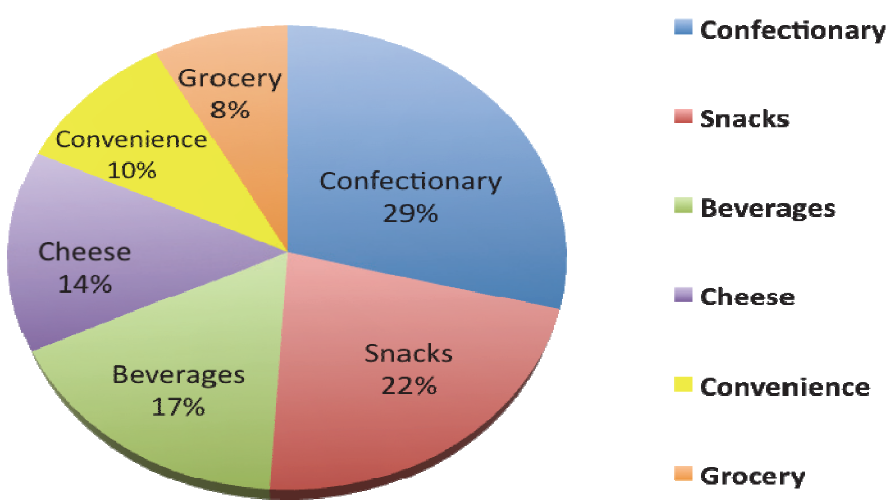
The grocery products that Kraft produces are goods that consumers use almost everyday. Kraft's grocery goods include toppings, mixes, and cooking powders. Grocery goods generated $4.1 billion worth of revenue for Kraft in 2009, which represented 8% of the company's revenue (Kraft, *2009 Fact Sheet*). Some of the most popular grocery goods that Kraft produces include Cool Whip, Miracle Whip, A1 steak sauce, Royal baking powder, as well as Starbucks packaged coffees.

Product Summary

Kraft will continue to expand their product offerings in all categories. Figure 1 shows the distribution of revenue for each product category in which Kraft competes. Currently, confectionary goods and snacks make up 51% of Kraft's revenue. The popularity and advocacy of healthy eating has helped Kraft expand these categories with new product additions such as low-carb pizza, all wheat crackers and snacks, and low calorie beverages. These products generate billions of dollars in revenue each year.

FIGURE 1

2009 SALES REVENUE DISTRIBUTION



Source: *Kraft 2009 Fact Sheet*

FINANCIAL REVIEW

Kraft had a fairly productive year in 2009 with increases in some key financial statistics. The company increased both profits and net income by from 2008. The earnings per share increased by 6% from 2008 and dividends per share of Kraft stock topped off at $1.16, a number that improved by 3% from 2008. Stock performance was fair with a high of $29.84 and a low of $20.81. Figure 2 highlights Kraft's financial performance for both 2008 and 2009 (Kraft, *2009 Fact Sheet*).

FIGURE 2

2008-2009 FINANCIAL REVIEW

Dollars in Billions (Except Per Share)	2009	2008
Net Revenue	**$40.4**	**$41.9**
Cost of Sales	**$25.8**	**$28.1**
Gross Profit	**$14.6**	**$13.8**
Net Income	**$3.03**	**$2.89**
Per Common Share		
Market Price per Hare (High/Low)	**$29.84/20.81**	**$34.97/24.75**
Earnings Per Share	**$2.03**	**$1.90**
Dividends Per Share	**$1.16**	**$1.12**
Shares Outstanding	**1,478**	**1,469**

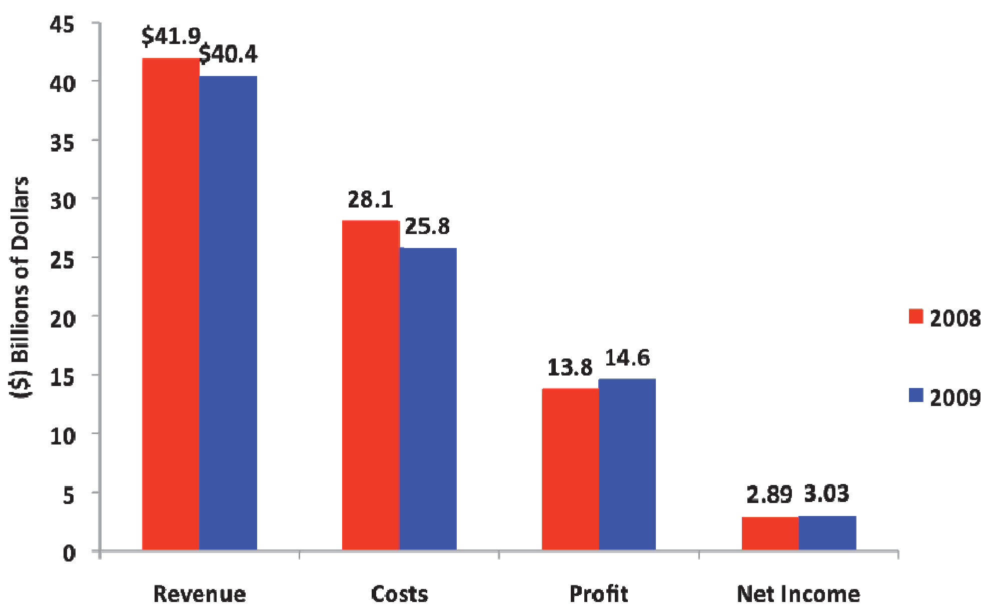
As shown in Figure 2, Kraft's revenue topped off at $40.4 billion, a number that dropped 3.7% from the year before. Although sales revenue dropped slightly, the amount of costs fell a staggering 9% from 2008's value of $28.1 billion. This significant drop in production costs can be attributed among other factors to the nearly 1,000 job layoffs the company handed out in 2009, but nonetheless the decrease in costs helped make up for the decrease in revenue.

Figure 3 shows that the profit trend for Kraft has been positive over the past two years. Profit increased for Kraft by nearly 6% from $13.8 billion in 2008 to $14.6 billion in 2009. CEO Irene Rosenfeld has stated that a consistent increase in yearly profit is very important for Kraft. Based on these statistics, it is evident that Rosenfeld has helped Kraft reach this goal.

Figure 3 also shows that Rosenfeld achieved another significant goal during the 2009 fiscal year when she led Kraft towards an increase in net income. Kraft increased its bottom line nearly 5% in 2009, increasing from $2.89 billion in 2008 to $3.03 billion in 2009.

FIGURE 3

2008-2009 FINANCIAL COMPARISON



GLOBAL DIVERSIFICATION

Over the past 30 years Kraft has grown domestically, but more importantly it has grown globally. As of 2009 more than half of Kraft Foods revenue comes from markets outside of North America. This number has chanced significantly from when the company was first founded, and heavily relied on sales in Midwestern America. Kraft currently has sales in approximately 160 countries around the world, with products in Brazil, India, China, and Mexico having significantly strong demand growth year by year. One of the most important reasons behind this foreign sales growth is that Kraft has done a great job in meeting not only the needs, but also the specific tastes of consumers in all parts of the globe (Kraft Foods Online).

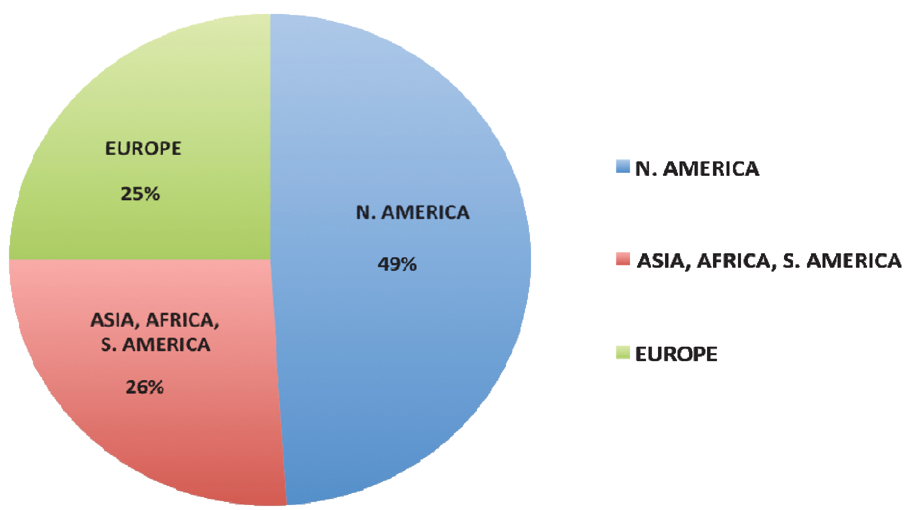
A specific example of Kraft meeting the tastes of global cultures is the company's utilization of the Oreo in China. When Kraft first introduced the Oreo to China in 1996, the Chinese were surprisingly not interested in it. They felt that Oreos were too sweet, their packaging was way too big for small Chinese families and on top of all of this, they were much too expensive for them to have considered in the first place. In 2005 Kraft took initiative and retooled their recipe for Oreos in China's marketplace. After significantly reducing the amount of sugar added and packaging them into snack sizes, Kraft delightedly watched their Oreo sales and popularity increase (Jargon, 2008). Kraft also took over market shares from competition in China, reducing Nestles' market share to one ninth of Kraft's share. As of December 2009, Kraft owned approximately 22.4% of China's $1.6 billion cookie market (Wai-yin Kwok, 2009).

Kraft's extensive research on foreign markets paid off again in China after the company successfully modified the formula for Ritz crackers. Initially, the Chinese were not satisfied with the flavor, texture or pack sizes of Ritz crackers when introduced. Another problem was that cities in China had different preferences for crackers, with some wanting a small packaged snack and others wanting crackers in bulk. Kraft later adapted their formula and distribution methods to meet the needs of different Chinese markets and now rely heavily on Asian sales with China being one of the most important markets for the company (Wai-yin Kwok, 2009). In retrospect, Kraft views China as a market that has taught them how to focus, how to differentiate and how to innovate to meet the needs of consumers.

Kraft's growth is evident from the amount of time and effort put in to researching individual foreign markets. This research can be expensive, but the risk involved with introducing a product overseas can be even greater. This fact has lead Kraft to develop a global strategy which consists of forming a new global marketing and category development group to accelerate growth and global expansion, developing geographical based commercial units that would be responsible for driving strong results country by country, and developing key functions which would be world-wide in scope in order to increase the effectiveness and drive cost savings across Kraft's business system. These strategies have lead to a steadily increasing growth, which is pointed out in Figure 4 below. This pie chart shows that 51% of Kraft's revenue comes from foreign markets, with 25% coming from Europe and 26% coming from Asia, Africa, and South America. These figures show how Kraft has grown into a company that can compete overseas while marinating a strong market in the U.S.

FIGURE 4

2009 GLOBAL SALES DISTRIBUTION



Source: *Kraft 2009 Fact Sheet*

COMPETITIVE LANDSCAPE

SWOT Analysis

Strengths:

One of the biggest strengths that Kraft has is that it has the top selling product in a majority of the categories in which it produces goods. As stated earlier, more than 80 % of Kraft's revenue comes from products that are the top seller in their respective category. It is also important to note that 50 % of Kraft's revenue comes from products with a market share that is twice than that of the nearest competitor (Kraft, *2009 Fact Sheet*).

Weaknesses:

Kraft's has a history of acquisitions and mergers. Kraft relies too heavily on these mergers for revenue growth. These mergers and acquisitions can be very costly and if products from one company are not successfully integrated into Kraft's own products, failure to integrate products can result in severe loses.

Opportunities:

The recent health food craze can be very beneficial to Kraft. Currently, Kraft produces health conscious products such as The South Beach Diet line of dinners, but the company can expand even more into the low-carb and organic food markets. Kraft has the resources to enter these markets where eating natural and healthy foods is important.

Threats:

Competition from Nestle, Mars Inc., and Sara Lee has been rigorous for Kraft in the past. Nestle, the worlds largest food producer, had more than double the revenue of Kraft in 2009. Mars Inc.'s successful line of candy in the U.S., such as M&M's, makes it hard for Kraft to compete in the candy industry in America. Sara Lee's quality breads and pastries have also been quite successful in the U.S.

Market Competition

Nestle

Nestle is a food and confectionary distributor based out of Switzerland. Founded in 1866, Nestle is now currently the world's largest consumer packaged goods company and Kraft Foods number one competitor. Nestle more than doubled the amount of revenue earned by Kraft with a staggering figure of $108 billion. Some of Nestlé's staple products include Cheerios, Nesquik, Taster's Choice, Haagen-Dazs, Powerbar, and Gerber. Nestle bases it's success on bringing the most relevant and best products, and people to satisfy the growing need of health, nutrition and wellness that food and beverages can bring (Hoover's Online: *Nestle S.A.*).

Mars Incorporated

Mars Incorporated is a globally owned confectionary producer. The company was founded in 1911 by the Mars family and has been run by them ever since. Based out of Virginia, the company has expanded globally with famous products such as M&M's, Milky Way, Snickers, and Juicy Fruit**.** Most recently, the company has posted revenue of $30 billion (Hoover's Online: *Mars Inc.*).

Sara Lee

Sara Lee is a global consumption goods producer based out of Illinois. Formally organized in 1939, the company distributes products in nearly 180 nations. Some of the most notable products being distributed by the company include: Ball Park Franks, Jimmy Dean, Hillshire Farms, and Sara Lee signature baked goods. The popularity of Sara Lee products brought in approximately $13 billion in sales (Hoover's Online: *Sara Lee*).

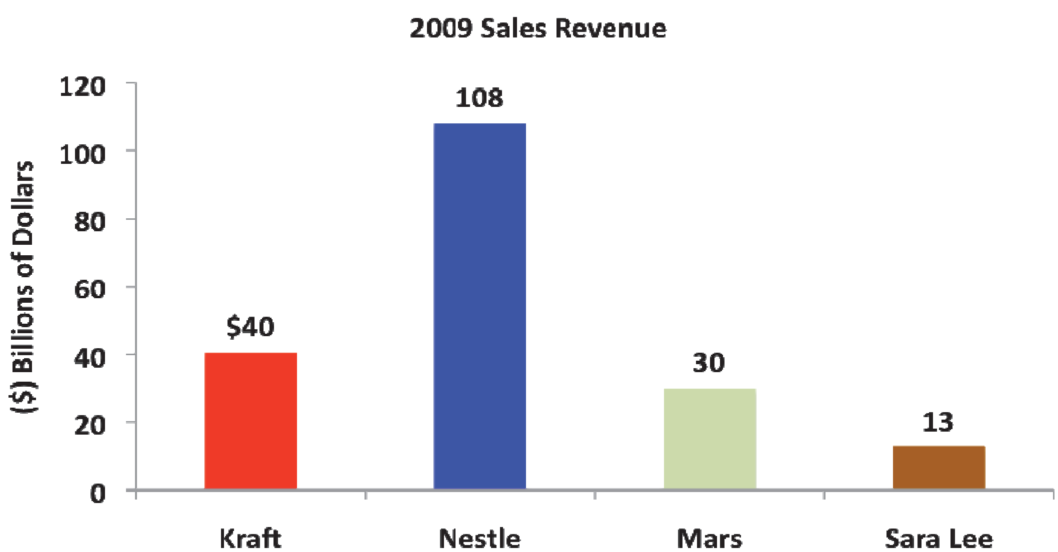
Analysis

Kraft competes in very competitive industry. The company faces competition from not only large corporations like Nestle, but smaller corporations like Sara Lee. This competition makes it a necessity for companies such as Kraft to create new and innovative products year in and year out.

Although Figure 5 shows that Kraft is very far behind Nestle in terms of sales revenue, Kraft's globalization strategy has lead to the selling of the company's products in 160 countries, while Nestle only maintains sales in 130 countries. This shows that Kraft's presence is more felt around the world, even though the company's revenue figures are nowhere near that of Nestle's. Figure 5 also shows that Kraft maintains a strong margin of revenue over Mars and Sara Lee, which are some of Kraft's two largest competitors in the U.S. with very popular products between the two.

FIGURE 5

COMPETITOR COMPARISON



Source: *Hoover's Online*

CONCLUSIONS

Kraft's performance in 2009 solidified the company's status as the largest food, confectionary, and beverage producer in the United States. Kraft has consistently shown that it can grow and adapt to the tastes of individual consumers not only in the U.S. but also around the world. Kraft's 2010 acquisition of Cadbury will hopefully help the company achieve income growth in the confectionary category of goods. Kraft will also utilize it's resources to produce products that are not only high in quality, but healthy too. Kraft will look to the future with wide eyes as they continue their growth throughout the world, while consumers wait anxiously to see what delicious treat, nutritious snack, or hearty meal awaits them. With quality products, great leadership, and consumer support, Kraft should have no trouble continuing it's growth of profit and net income in the years to come.

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