

# Sara lee retrenchment strategy



In order to focus on being more profitable in designated industries, Sara Lee reduced its business units in 2006. A total of eight businesses had been retrenched and divested, which included, direct selling, U. S. retail coffee, European apparel, European nuts & snacks, European rice, U. S. meat snacks, and European meats and Sara Lee apparel (site case study). Sara Lee expected to obtain approximately \$3 billion net after proceed from divesting those businesses. Five of Sara Lee's divest businesses had negative net profit margins as well as negative operating margins. Four of the five businesses had a negative margin greater than 10%. The other businesses were declining in revenues at an accelerating rate, prior to the strategic decision to divest in them. One of Sara Lee's strategic goals was to increase sales by two percent in addition to increasing the profit margins to 12% by the year 2010; a company goal to increase sales nearly \$14 billion. In order to do this, Sara Lee had to focus solely on the goods, beverage, and product household industry, areas where profitability flourishes. This also allowed the organization to follow a strategy that would provide them with the necessary resources to increase corporate profits, as opposed to being unprofitable before. Since 1939, the Sara Lee Corporation has maintained their vision which identifies they want to and plan to be the first choice to their customers and consumers all over the world by innovative ideas, and continuous improvement (Sara Lee website). Sara Lee's mission focuses on delighting consumer's every day. Sara Lee has also employed a differentiation strategy, and diversifying by acquisition.

What was very creative on the organization's part was launching an initiative called Project Accelerate. In 2008, Project Accelerate was launched and is a

program designed to reduce costs and increase productivity. To do this, the company had to focus on overhead cost, reform its supply chain and outsource. This program was projected to save up to \$400 million by the end of 2012. In 2010 alone, Project Accelerate saved Sara Lee nearly \$180 million. Within a three-year period, management also bought back close to \$3 billion in common shares (site case study). Unfortunately, by the end of 2010, Sara Lee only obtained revenue of just \$10.8 billion. The company then dissociated the international household and body care business. Sara Lee continued its same strategy: employing broad differentiation strategy. It does not specify in this case study or on their website if the goal was to have the lowest priced products, but the idea of differentiating from other brands allow Sara Lee to show value of their brand and provide high quality products. After the retrenchments, Sara Lee focused more on food & beverage, and food service, in which their fresh bread sales, for an example, increase to over \$600 million within a three year time period. This increase was due Sara Lee's grocery-store and fast-food restaurant leverages. Sara Lee had a strong market share in that particular area of the industry and eventually beverage profits increased, international products increased, and low-calorie desserts met the needs of consumers all over the world. Since Sara Lee has a successful business strategy that focuses on product innovation and customer demand, its products have been successful in many business markets. In addition, displayed under the "Sara Lee's Matrixes," Sara Lee's retrenchment strategy of their 8 business units have help the business future prosperities.

Strategically, Sara Lee's decision to retrench eight business units was in the best interest of the company, and as a result they have strong, successful products in food within many retail and food-service industries. In addition they were also able to have a strong meat service business, which yield to cost savings without compromising on quality and customer, consumer, and company relationships. As far as the beverage and bread products, Sara Lee is near 50% of their profits; and selling to local retailers can expand successful profitability through international countries such as North America and Europe, who are heavy bread, coffee and tea consumers.

Gearing back to the case study, Sara Lee's intentions was to retrench business units that were not useful toward the direction that the company wanted to go. Doing so allowed Sara Lee to focus more on food, beverage and household products. Their objectives were met and continually to meet by the increasing sales, profitability and even market shares through their competitive pricing, strong brands and innovation ideas/concepts. One recommendation includes Sara Lee focusing on beverage products internationally. Sara Lee can start out by selling beverages to local retailers internationally and model closely behind their strategy for their food-service industries and utilize the knowledge and network gained from that.

The second recommend includes focusing more on North America because they contributed to the 86% of the profits back in 2010. So Sara Lee must re-evaluate the profitability in selling those single-serve coffees pods (Senseo) and gear them towards the United States. A third recommendation would be Sara Lee expanding its household products, not body care products. Sara Lee should tap into and expand its air freshener brand because there is a great

market share for it in the United States and Europe. Consumers automatically assume that the air fresheners will be of similar smell to the desserts and breads that Sara Lee makes. Can you imagine walking into a house that smells like warmed apple pie, or banana nut bread? Air fresheners can satisfy consumers who indulge desserts as they have a sweet tooth, or consumers who refrain from many desserts for dietary reasons, but would definitely enjoy the aroma around the house. Another household product could be insecticides that can be useful and affordable in many countries, including Africa. Providing this product can help improve farming, which trickles down to the items that we eat, a food-service & beverage industry that Sara Lee plans to continue its markets and profitability in. Introducing new products to the market can refrain from any significant loss in business units currently and in the future.