

Kraft foods group - porter and pest analysis case studies example

[Business](#), [Marketing](#)



Executive Summary

The focus of this report is to conduct the Porter's Five and PEST analysis of Kraft Foods. This analysis would entail how effectively the internal synergies of the organization can be embedded with the external environment. In essence, 2014 has not been a profitable year for Kraft Foods. The report would inquire the reasons that led to poor performances as newly launched products could not generate any interest among customers. In this regard, the impact of technological innovation at Kraft Foods is under scrutiny in this paper. Since Kraft operates in a cut-throat market, the threat of substitute product is always present. Furthermore, the political affiliation with Kraftpac and the economic, socio cultural aspects that the company focuses on and the technological advancement in terms of products and processes will help Kraft gain its lost position in terms of sales.

Introduction

The global business environment is very competitive and for an organization to be able to carve a niche for itself in terms of brand recognition and revenue, it is important that the strategy of an organization is in sync with the with the business environment's internal and external factors.

The business environment's internal and external factors are the key to an organizations success as they help in keeping the organizations view point in perspective in terms of meeting the organizational aims and objectives in an efficient and lucrative manner.

As a result, the primary support of the aforementioned comes from the strategic viewpoint of an organization as, strategy acts as a guide. It

becomes critically important to think in a creative manner from a business and brand perspective to be able to keep a connection with the consumers and stay focused on achieving the business objectives through every quarter.

The processed foods industry is one of the biggest industries globally, the consumers of this generation are more aware of what food they are eating and where it comes from and how it impacts their health and its subsequent affects on the activities they perform.

U. S is the biggest market of processed foods and with giants like Kraft foods, Nestle, Kellogg, ConAgra Foods, Pepsi Co., Mars, Smithfield Foods, Hershey's, Dole, Tyson Foods, Dean Foods, General Mills to name a few are major suppliers of processed foods, the competition is significant as these companies also operate very successfully on a global level (Food Processing, 2014).

The above mentioned factor also signifies the fact that as the food industry is flourishing and the competition for the share of clutter is increasing. For that reason, customers are willing to spend more as choice of healthy food is directly connected to their health. In this regard, the lifestyle factors become critically significant for the customers in choosing from the best available healthy food. The lifestyle changes have in essence demonized the processed food in view of the fat, salt and additives added in the processed foods and drinks.

However, the state of the industry can be gauged form the fact that as reported in Food Processing with regards to food and beverage industry outlook, prepared by Kevin T. H & Dave F (2013), \$63. 3 billion worth of US

produced food and beverage products were sent off shore.

The food industry major players are adapting their product line with regards to the tastes and sensibilities of local tastes and cultures. In terms of best practices, the global standard is followed by food companies to create a positive image with regards to Corporate Social Responsibility initiatives (CSR).

Kraft Foods Group

Kraft Foods Group Inc. is one the leading U. S food processed companies globally and have an unrivalled portfolio of food and beverages ranging from, iconic cheese line, refrigerated meals, beverages, enhancers, snack nuts, meals and deserts (Kraft About Us, 2014).

The mission of Kraft is to be the best food & Beverage Company in North America and this motto has helped them create footprints on a global scale with outstanding success.

Every company is looking for brands that create an emotional relationship with the consumers and Kraft boasts more than 10 brands with sales of \$500 million and with estimated sales of \$18 billion, the future of Kraft looks bright in terms of sustaining the competitive advantage that it has created over its rivals Kraft About Us, 2014).

With a firm grip on its position in the processed food sector, the intent of Kraft is to further establish the business in those emerging regions which has loads of potential for growth and also sustain, maintain and increase business in already established markets as in North America 98% of households have Kraft products (Kraft Our Brands, 2014).

The analysis both from an internal and external business environment is of paramount significance for an organization of the size and magnitude of Kraft on a constant basis to be able to cope with the rivals in terms of adding new products, processes and technologies and also stay in sync with the consumers needs and wants.

Kraft is known as a socially responsible brand and their iconic brands starting from production processes, packaging and also supporting healthy lifestyle have been the mantra of the iconic organization (Kraft Responsibility, 2014). The processes adverse impact on the environment and how they can be reduced and a contribution to the society is also a key success factor for Kraft Foods Group with regards to sustainability, food safety and other associated aspects valuable to the organization.

As a result to comprehend and recognize the opportunities for Kraft it requires that the competitive process in the market is taken into account in a detailed manner.

Porter's Five Forces Model and a PEST analysis will be done to understand the Kraft's market position and future prospects effectively.

Porter's Five Forces Model

As elaborated by Henry A. (2011), in his book Understanding Strategic Management, the variables affecting an organization actions and reactions are dependent primarily on the competitive movement of competitors. For that reason, Porter's five competitive forces are the foundation for the formulation of an organizations business strategy. The attempt is to understand Kraft's business positioning.

The figure presented by Henry represent the model and the elements that are used for analyzing are bargaining power of the supplier, bargaining power of customers, threat of potential entrants, substitutes and rivalry among existing firms.

Henry A. (2011). Understanding Strategic Management. Chapter 3: 2nd Edition.

Threat of Potential Entrants

The food processed sector is full of heavy weights and as illustrated with regards to the competition in Food Processing list, the cost of entry is substantial i. e. from the production set up to the technological advances and the capital required for the aforementioned.

The threat is very minimal with regards to the entry of new players and making a major impact on the business of established players like Kraft.

With regards to Kraft with an array of brands earning millions in sales and the amount of communication the brands are exposed to the consumers on a daily level, it will be very difficult to compete on a major level.

However, there is always an option to enter a niche segment and focus on that particular targeted segment, in view of the advent and success of social media as a platform for marketing has given organizations with minimal resources to target a niche.

The presence of products on the retail space is also a challenge with organizations having limited resources as major players such as Kraft have major say since they pay for the space in the retail chains.

Rivalry of Competitors in the Industry

The competition is very high in the food processed sector in view of the fact that all the major players are equals in terms of resources and adoption of new technologies to improve their range and also increase the competitive advantage.

As stated on Food Processing (2014), the biggest market and players of processed foods is in U. S and the major competition & rivals that Kraft Foods Group has to be aware of are, Nestle, Kellogg, ConAgra Foods, Pepsi Co., Mars, Smithfield Foods, Hershey's, Dole, Tyson Foods, Dean Foods, General Mills to name a few.

The factors on which all the companies compete intensely are in essence product benefits in view of the consumer's preference for healthy lifestyles, innovation in terms of product line and products itself and most importantly taste, quality and price.

Kraft rivals presence is on local, national and international front and also the major rivalry is also based on the likeness of products in relation to other companies (Joshua L. S, 2011).

Kraft's recent initiative with regards to innovations efforts in supermarket's perimeter is paying dividends; the focus of Kraft has always been related to rivals actions, although Kraft have an enviable portfolio of brands.

" The first nine months of 2014 has been dismal in terms of sales and the net income fell 19% to \$1, 441 million, equal to \$2. 41 per share. Sales for the period declined slightly to \$13, 509 million from \$13, 623 million during 2013" (Keith N, 2014).

Marketing communication and a major focus on research and development is

at the heart of Kraft Foods Group with regards to sustaining competitive advantage against their rivals.

Threat of Substitutes

There is significant threat of substitute products replacing processed food products in view of the fact that with the lifestyle fad of health in full swing in the minds of the consumers, most products are perceived now as unhealthy companies (Joshua L. S, 2011).

The consumer base of Kraft Foods Group is immense and having a global fan base helps the brand counter substitute products in terms of Kraft's iconic brands that have been part and parcel of pantries and refrigerators of consumers worldwide.

The substitution is intensely concentrated towards pricing of different products in the Food sector. The success of Kraft is largely built on offering identical products at a reasonable price with quality.

. Bargaining Power of Suppliers

With regards to Kraft's operational capacity that entails a global level, the bargaining power of supplier is low.

With a focus on supplier quality of the purchased goods and services and an array of suppliers every ready to furnish the needs and wants of the group.

If a supplier tries to raise the price or reduce the quality of the services and goods they are dealt with severely in terms of legal ramifications by the group and the sector as a whole (Brad D, 2009) .

As elaborated by Joshua L. S. (2011), the operational decision of Kraft to split

into two publicly traded companies has even more lessened supplier's power.

Bargaining Power of Customers

The bargaining power of customers is very high in the processed food sector; it could be interpreted that the consumers dictate the food market and the loyalty effect is very difficult to achieve.

This particular aspect also has a strategic standpoint in view of the fact that the food products become standardized and the switching cost for the customers is pretty low. It is for this reason, Kraft have strategically retorted to expansion in other businesses (Keith, N, 2014).

The healthy lifestyle aspect also has given the consumers a high bargaining power in terms of making Kraft Foods come up with special new lines for them in order to cater to their needs.

PEST Analysis

Political Environment

As reported on Kraft Foods Political Contributions and Lobbying Activity, (2014), Kraft also actively supports political activities in the U. S and has an entity named Kraftpac that focuses on taking position on policies on international matters.

The responsibility section on Kraft's website in essence gives light to the fact that the company is in tune with the needs and wants of the environment with regards to be a politically correct organization.

Kraft is making a sustainable difference by helping in protecting the resources through its ethical practices, sustainable farming projects and also

the climate change and environmental policy are also taken care of by Kraft effectively (Kraft Sustainable, 2014).

Economical Environment

The economic viewpoint of Kraft in the current scenario is still recovering from the shock that it suffered in the first nine month of 2014.

In 2012, Kraft Foods split into Mondelez International and that point of time the annual revenues were \$32 billion (Forbes, 2013).

The economic situation world over has been recovering and Kraft have suffered in view of the slew of competition, still Kraft as brand is still the most economically viable brand in view of the fact that it is the only American food based organization as stated in Reliable Plant (2013) to be a World Index Sustainability leader in the food processed sector.

On a more recent perspective the third quarter that ended Sept. 27, Kraft Foods' net income totaled \$446 million, equal to 75c per share on the common stock, and an 11% decline compared with the same period of the preceding year. The sales increased slightly to \$4, 400 million compared with \$4, 394 million during the previous year (Keith N, 2014).

Socio Cultural Environment

The socio cultural factors are critical for Kraft as an organization to remain sustainable and significant initiatives taken by the company to be known as a organization that is compliant and ethical in terms of their business operations.

Also a focus on the culture of their workplace and the more recent approach

towards contemporizing centre store brands, gives credence to the fact that Kraft is looking for new avenues to connect with the consumers through its innovative channels.

The sustainability section of Kraft is a evidence of how the company is integrating its participation from consumers, employees, stake holders and political entities such as Kraftpac.

Technological Environment

The dynamic nature of the food industry with regards to competition and is critical and majorly responsible for Kraft to keep its leading position as the brand of preference, with its innovative technological advancements in terms of taste and quality of products.

The contemporize aspect as discussed above is one aspect of technological advancement of Kraft as a group, speaking at Consumer Analyst Group of New York (CAGNY), the CEO Tony Vernon outlined innovation that is meaningful in view of the failure of 17 product launches in 2009 (Jenna. G, 2013).

According to Barry Calpino, VP of Breakthrough innovation at Kraft, the focus is on fewer, bigger and better ideas in response to the failures of 2009.

The aforementioned clearly implies that Kraft as an organization has been complacent in view of the success it has had and the current fiscal years performance gives credence to the fact that in the ever changing dynamic scenario needs a constant appraisal and analysis in terms of product development and an understanding of the consumer's requirements.

Conclusion

The opportunities for Kraft is to focus on newer markets and also get in touch with the consumers fad (health) and create new lines in view of the focused approach of fewer, bigger and better that gives Kraft the success it craves.

The threats for Kraft is from the other competitive forces in view of the fact that the product features and prices are more or less the same and it is important that the focus on product differentiation in terms of quality gets more visible.

The opportunity of health based food products also represents a threat with regards to newer companies focusing in a niche captures Kraft's consumer segment.

In view of the aforementioned analysis of Kraft Foods Group, the organization is still the leading food company globally, however in view of bad decisions the position is fragmented in terms of technological innovations and the lack of success is clearly hurting the management.

The focus should be on improving product features in terms of health perspective and with the influx of competitive products it is of primary significance to keep the pace in terms of improving and producing newer lines of food products.

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