

Market position and strategy for kraft foods inc



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According to Drucker, the vision answers to the question: ' what do we want to become?'Kraft Foods' Mission Statement try to describe the firm's vision for the future:

' Helping People Around the World Eat and Live Better.'

The firm justifies the vision saying that this sentence captures the essence of who the firm is.

It shows trough this sentence that the firm cares about customer's life and needs facilitating the cook in the daily life in order to offer more time to the customers to do what they want and also to help them to easily eat in a more healthy way.

According to Kraft web site:

' We're constantly looking for fresh ideas to improve our workplace, our partnerships, our communities and our world.

To make today delicious, we begin with our consumers.

We listen, we watch and we learn.

What we do.

We make delicious foods you can feel good about.

Mission

According to Drucker, the mission answers to the question: ' what is our business?'

The mission statement consists of three words according to the Kraft Foods Inc. Web site:

‘ Make today delicious.’

Their mission reflects who they are, just like the vision. They refuse to limit the firm to be just a business that sells food and try to meet consumers’ expectations and making food an easier, healthier, more enjoyable part of life.

Kraft Foods underlines the importance of health and wellness and also embodies all the ways we can eat and live better, eating easily and quickly in an environment of safety thanks to the Kraft’ services.

Values and principles:

According to Kraft’s web site, the firm uses values and principles to communicate customers what they can expect of the brand and to demonstrate their leadership, because they want to be recognized as a leading company able to attract customers and workers through ideas like:

Innovation – Satisfying real-life needs with unique ideas

Quality – Fulfilling a promise to deliver the best

Safety – Ensuring high standards in everything we make

Respect – Caring for people, communities and the environment

Integrity – Doing the right thing

Openness – Listening to the ideas of others and encouraging an open dialogue

They put consumers first because they want to strength the Brand Value propositions and new product innovations to drive faster top line growth.

They work simply, listening to the customers, but act quickly to increase the speed and flexibility in order to reduce costs for reinvesting in “ making famous” the brand & finding the right balance between the business’ and the employees’ needs to ensure that the work environment is flexible and supportive.

Strategies

According to Kraft’s Web site, the firm seeks to become a huge snacks powerhouse and unrivalled portfolio of brands people love, eat and buy.

According to an article of News Bites US Markets, 2010:

‘ The brands of the Company span five consumer sectors: snacks, beverages, cheese, grocery and convenient meals’

As advised by F. David, Kraft focuses its strategy on the complementary nature the company’s portfolio which is supposed to lead the brand’s growth: Delight global snacks consumers.

The world’s Consumers are looking for on-the-go options because they are always in late for something in work or just life. They’re also looking for simple indulgences and healthier options, which is a paradox because people

don't have time to cook in a healthy manner but they have to be healthy for the work and thin in the daily life.

Thus, Kraft provides delicious snacks to these consumers, like LU biscuits or wellness products in order to meet their expectations.

These iconic heritage brands are loved by consumers all around the world, according to a Nexis Source: ' Roughly 80 percent of these heritage brands hold number one or number two positions in their respective categories and are household names.'

In a leadership state of mind, the firm considers that, to win the market, the brand has to win on every levels of the chain: from the consumers to the suppliers.

So, according to Fred David example pg 104, to succeed, the firm counts on its values (explained in the mission statement) like safety, respect or quality and especially on the fact that the brand acts like an owner, open to the discussion but who decide at the end.

Through this image, Kraft also entrust the shareholders, and offers them interesting returns on their investment like:

Organic revenues growth of 5 percent or more...

Mid- to high-teens margins...

And EPS growth of 9 to 11 percent, according to the Kraft Foods Web site.

According to F. David, Kraft's Current Strategy for 2009 planned to evolve through a 'turn-around process' in order to follow the example of the sustainable growth. The result of the operation was that a lot of savings had been made due to the simplification of organisational structure and some closing.

The external and internal audit

The PESTLE

Political

The stability of the political environment

According to K. Blanchard, 2009, the decrease in company's results is due to foreign currencies, it could also be linked to the inflation and soaring of raw material and petroleum.

Local taxation

Kraft is based in Switzerland, in Zug, this area is appreciated for the low rate of taxation. For example the income tax represents less than 16% of the benefits of the company. (F. Therin, 2010)

Government involved

Irene Rosenfeld declared in an interview of David Lieberman in 2010, 'I don't think there's any indication that having the government involved will necessarily make that a more effective process or have the desired outcome. There's ample evidence that we can in fact work together in a productive way, and that's a more effective way to address the issue.' This answer

illustrate that the government is neither apart from the policies of the company nor influencing strategies.

Social welfare policies

According to the Right vision news, 2010, ' People for the Ethical Treatment of Animals has been buying shares for seven years and now owns a piece of at least 80 companies, including McDonald's and Kraft Foods. It hopes to influence their animal welfare policies on such things as how chickens are slaughtered or buying pork from suppliers that keep pregnant sows in small crates.' That means Kraft should take social policies into consideration as it appears to be relevant in people mind and consumer behaviour.

Economic

Interest rate

According to an article of the Business Wire, 2010, ' Food companies continue to seek acquisitions and organic growth, particularly in the BRIC countries (Brazil, Russia, India, and China), to boost their overall growth rates. Proactive refinancing of upcoming debt maturities is likely to continue since companies are able to issue new debt at very low interest rates. Debt reduction is not likely except for Kraft and Ralcorp Holdings, Inc., since both companies increased leverage materially for acquisitions in 2010.'

Level of inflation

' Northfield-based Kraft and ConAgra, two big pork producers, have both raised their prices in recent months because of the market increase.' Janet Kidd Stewart explains this increase in 1996 by the inflation. As a food,
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bakeries, and biscuits producer Kraft is very sensible to the rate of raw material, corn, milk, flour, eggs.

Employment levels

According to Ellen Simon, 2006, when Kraft Foods bought Nabisco, 25% department was laid off on the same day in 2004.

Long term prospect

In a Just Food article, 2009, The Unite union, which represents Cadbury workers in the UK and Ireland, seems to be concerned that Kraft would not sufficiently invest in the long-term prospects of the business and its brands as it looks to reduce costs to service debt.

Exchange rate

Adapted from what Timothy McLevish (Chief Financial Officer) said in the Earning conference call in November 2010, Kraft Foods has a very complex portfolio of currencies, which explains why they are less impacted by just a decline in the value of the dollar or an appreciation of the dollar because we have a lot of our input costs.

Sociocultural

Lifestyle trends

In this part we have to take into account the issues of obesity, lack of sport, health, organic products, and natural medicine. According to Kristopher J. Blanchard, 2009, the rate of obesity in Canadians boys increased from 11%

in 1980's to over 30% in 1990's, and from 4 to 14 in Brazil. Those trends represent an opportunity for Kraft.

Demographics

With the current population ageing, seniors represent a huge share of the market, they consume healthy and diet products. Unfortunately children stay the target of Kraft's bakeries and biscuits.

Consumerism popular attitude

Kraft interest is following consumers' habits and adapt their products e. g. to get concentrated on food conforming the rules of religions.

Work and leisure

Managers target new segments like snacks, beverages, convenient meals. This strategy fits with the sociological trend that consists in mixing time for work or leisure with meal time. That allows Kraft Foods to get concentrated into quick and healthy food containing fewer calories or more vitamins to suits to any consumers needs. (K. Blanchard, 2009)

Technological

Level of research

In 2007, Alexis Douglas deals with the new research facility of Kraft Food based in Asia and the following strategies engendered.

' The research center will :

serve as its regional hub for food product and development service for its Asia units

include a pilot plant and packaging laboratory for testing new products and packaging materials

aimed to make the research facility a center for excellence in developing beverages'

Environmental

Environmental issue

Jonathan Horrell, corporate affairs director put forward Kraft's implication in environmental issue across the cycle journey, which " highlights the fact that we are taking a more active attitude towards environmental issues."

Ecological

The sustainable strategy of Kraft began with the raw material used, the methods use to produce, the transportation and ends with the packaging and rubbish recycling.

Lobbies

Danny Fortson, 2010, wrote that ' Greenpeace's war against Golden Agri has been fierce. (...) Kraft Foods also said that it will no longer buy its palm oil.' This can put forward the influence of Greenpeace over firms.

Waste disposal

Jordan Ammann, 2009, ' Fifteen months after its launch, Kraft Foods' manufacturing plant in Bahrain is making substantial headway towards its sustainability goals. The plant has achieved reductions of 25% in energy consumption, 50% in water consumption and 16% in waste from 2008. In 2009 the plant has targeted a further 5% reduction based on its 2008 average.'

Legal

Legal protections

Due to an Equal Employment Opportunity Commission's affair in which Kraft was sued, the company ' has agreed to train managers on laws prohibiting age discrimination.' (Reuters, 2002)

Consumer laws, right to consumers' products, components

According to Anna May Kinney, 2008, ' During September 2000, Kraft Foods Inc. scrambled to recall taco shells made from StarLink corn, a type of genetically modified corn unapproved for human consumption'. ' While it's true that the EU has approved some GMO crops to be grown and sold, they have stood firm in giving their consumers the right to know what they are eating and the right to choose GMO food or non-GMO.'

Internet

External vendors (European), attracted because of the difference in rates between the dollar and the euro

Barriers to entry, low or not

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The initial investment necessary, entrance fees, patents already in place, standards, protectionist measures, the image

Industry and established businesses, U. S are not famous for the wellness of the food, so foreign firms more famous for this type of market like Sweden or China can enter in the market.

Cultural barriers, globalization help to erase barriers as food tend to become a more international fashion / trend.

Porter's five forces model

Threat of entry : POTENTIAL ENTREY OF NEW COMPETITORS

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Environmental & sustainability concern

Social responsibility

Economic viability

Many consumers are cutting back on their spending by switching to store-brand products.

The power is strong when :

The customers are concentrated : a lot of consumers who want he same thing:

The suppliers are numerous and dispersed

There are alternative sourcing ; (Conagra)

The customer changes suppliers, the cost of transfer is low Conagra, same prices, nearly same products

There is a threat of upstream integration from the customer.

Suppliers : BARGAINING POWER OF SUPPLIERS

Rivalry among competing firms

1st competitor: Nestlé with international sales whereas Kraft only sales in North America

(CON AGRA in the U. S market)

HEINZ

SARA LEE

Restaurant, vending machines, foodservice providers, are competitors too, even if the brand is not strong/famous. (alternative competitors)

Weakness: Krafts don't produce beauty or others types of products like Nestlé or Conagra, whose are diversified (beauty , petcare, ethanol...)

Changes appareas in the competitors strategy => Conagra focuses now on food, stop ethanol and fertilizer, this is a new threat because Conagra will be even more competitive in the exactly same market.

New CEO since 2005 for Conagra, GARY RODKIN, new force => like a competitive advantage as a rival to ROSENFELD.

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Foreign rivals: monopoly con Conagra in the U. S but competitors also outside of the country ,

moreover, the \$ become increasingly high which is not good for the market because external products could be seen as cheaper .

The high price of petrol which up the value of raw material, give strength to the suppliers => bad thing for the industry which have to face a loss.

A low number of suppliers : a strong brand

Very specific / diferenciated products are facts that increases the price of the change of suppliers, so increases the suppliers power too.

Buyers : BARGAINING POWER OF CONSUMERS

Substitutes : POTENTIAL DEVELOPMENT OF SUBSTITUTE PRODUCTS

Wellness and health / obesity

Generic produces

Retailer brands

Wholesalers

Cooperatives

When the prices are increasing good for the subsitute because it will be more attactive.

Porter's value chain

The support activities

Profit Margin Administration

means infrastructure (leadership and management) and concerns the important persons of the structure

Human Resources management

concerns the decisions made concerning employees

Technology development

concerns the efforts and money invested for the future of the firm

Resource procurement

concerns the manner to find a product and supply the firm.

According to Fred David, this kind of organisation can be explained by the fact that it took time and efforts to follow the Phillip Morris plans, the firm had to know several changes, for example, the New CEO since June 2006 in Irene Rosenfeld which embodies the beginning of the changes in the firm and she is now the chairman of the Board. This change is relevant because she embodies the head of the firm with her position.

Thus, the management team is divided into 10 parts.

The primary activities

Inbound logistics

Operation

Outbound logistics

Marketing sales

Services

(Kraf Food Inc, 2009)

The primary activities help the support activities to make their completion easier, like for example:

Inbound logistics

The Technology development managed by the segment of Jean Spence can help the Inbound Logistic by finding new raw material, or, according to the Kraft Munich website, improve new products like in Munich, the responsible for Product and Process development where food, Refreshment Beverages, Salted Snacks, Confectionery, Biscuits are always improved; or discovering an alternative to the problem of the rising price of petroleum which increases the cost of the raw materials and also the cost of transportation.

Operation

Human Resources managed by Karen May can help the Operations establishing a climate of trust and respect between employees in order not to slow down the production or avoiding the “ sicki” effect of a bad climate at work.

Outbound logistics

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The Resource procurement can help the Outbound logistics negotiating new or more advantageous contracts, for example group rates can be an idea if several subsidiaries like Oreo, Lu etc will be delivered by the same transport's firm.

Marketing sales

In order to be "proactive" address the evolution of trends like the dining out trend or health food trend, vitaminized drinks trend against the obesity, marketing can be supported by the technology development to develop new products or to help selling these products with the internet, because attracting web sites with games for subsidiaries like Oreo and The recipe Box for Kraft itself help the brand to be more human to sale more.

Also, according to a News Bites US Markets document of 2010:

thanks to the company's annual week of community service (Delicious Difference Week) organized by the Human Resource segment, Kraft's employees were a record numbers to participate as volunteers to help the nonprofit project. This kind of action help the marketing and sale segment showing to the customers how social responsibly the firm is.

Services

The Services segment Focus on the reputation and perceived value among the consumers, thus, the administration can be helpful taking the crucial decisions they have to be respectful, reasonable and ethic. According to F. David example pg 109, customers want the firm to understand them and accept the social responsibility, thus, when the board temporarily shut down <https://assignbuster.com/market-position-and-strategy-for-kraft-foods-inc/>

because of a risk of contamination, this action reinsure the consumer, enhance the positive image of the brand and support the Service segment.

Trough the web site, Kraft tries to come closer to the customers' culture and social identity, to show that as the people, the brand is able to evolve and be concerned by the environmental problems.

Internal strengths

A developed Strategy followed and understood by the employee, whereas Conagra has a vision, but no strategy and depends on operating companies and functional silos which is really risked and it lacks of internal cohesion.

So, more segmentation and prioritization than the competitors.

A developed Human resource management segment which aloud trust between employees & firm with some concepts like:

Policy of non discrimination , responsibility

Community Involvement

Compliance and Integrity

People and Diversity

Workplace Safety

This climate of respect and trust give to the employees the will to work well and to be the height of the firm's expectations.

A good and dynamic CEO /Chairman which has chosen a good organization and repartition of the support activities.

According to elements of the Kraft's web site, Mrs. Rosenfeld also helps to improve the corporate Reputation and Responsibility of the firm and thus aloud the firm to receive some prize like:

World's Most Respected Companies, Reputation Institute – 2009 (third consecutive year)

Corporate Reputation Top 10 (Canada), " Marketing" magazine – 2009 (second consecutive year)

Ozone Layer Protection Award, US Environmental Protection Agency — 2009

Banksia Foundation Agriculture and Food Award for sustainability practices, (Australia) – 2009

The New York Academy of Medicine awarded Kraft Foods for our long-standing commitment to health and wellness(2009)

Adapted from [http://www. zonebourse.](http://www.zonebourse.com/KRAFT-FOODS-A-13256/actualite-analyse/Un-spin-off-a-surveiller-18414/)

[com/KRAFT-FOODS-A-13256/actualite-analyse/Un-spin-off-a-surveiller-18414/](http://www.zonebourse.com/KRAFT-FOODS-A-13256/actualite-analyse/Un-spin-off-a-surveiller-18414/)
: International and Tough brands (Côte d'Or, Toblerone, Milka, Maxwell, Carte Noire, Tang, Jacques Vabre)

Strong advertisement trough years help Kraft's food to maintain the competitive advantage: According to F. David's historic introduction of the firm, ' A key to the success of Kraft Foods was James Kraft's commitment to

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“” using innovative advertising methods’. Now, this is steel an asset according to an article from the Lab Business Week, 2008:

The Kraft’s Director of Global Interactive Marketing has leaded some of the world most successful and awarded digital branding campaigns for the likes Altoids, Oreo or Planters. Because of this success the advertising industry has recognized Kraft’s accomplishment prestigious awards like ‘ Gold and Bronze Clio Awards(C), a Webby Award, Silver and Bronze One Show Pencils(R), a Gold EFFIE(R), a Silver ADDY(R), an ANDY Award, and a Cannes Lions.’

Internal weaknesses

A low growth market and the impact of the commodity prices (milk, coffee, cocoa) which made the firm less competitive according to Fred David.

The fact that Kraft is a young firm in comparison with the main competitors like ConAgra which was built over several decades and which had made numerous acquisitions.

Kraft on the international as a negligible impact in comparison with world competitors like Nestlé. More, according to F. David, Kraft is ‘ just a food company’ which is not a competitive advantage in the world market.

Strategic capability

Because of the current economic conditions, F. David said that some analysts criticized Rosenfeld managerial approach because of the 2008 compensation, however, 2009 results show that she made the good choice.

In 2009 the net revenues of the company has soared compared with previous years. Despite the increase of the cost of sales that can be due to the inflation rates, the gross profit is better.

To keep and maintain the competitive advantage and moving forward, the firm has to focus on the coordination.

The problem here is that we can notice a lack of connexion between Kraft Foods Europe, Kraft International and Kraft North America. Even if the fact that the support activities are all bounded together is positive, this kind of grouping seems irrelevant if the company is regarded like two separate entities like North America Versus International and not like a single entity.

The objectives

The generic strategy and competitive advantage

Bowman's clock

Denise Dollimore, 2010, Slide Business Strategy

Generally speaking Kraft Foods is a producer of high value products (organic, healthy and specified). The company is not involved in any low cost strategy. All the brands are well-known and considered as the top of the product on the market. According to Bowman's clock the firm is focused on diversification and differentiation.

To get concentrated on this diversification Irene Rosenfeld agreed to modify firm's strategy, by simplifying the organizational structure. In 2009, savings have been realized, nevertheless it can also be explained by the closing of 36 plants and 19000 positions have been eliminated.

Adapted from Kraft Foods Inc., K. Blanchard, 2009.

Michael Czinkota, 2010, ' One can look at Kraft Foods Inc.'s recent acquisition of Cadbury PLC as evidence of a U. S. company's recognition that it needs to build both market share and management strength to be successful in global markets. In 2006, approximately one-third of Kraft's revenues came from outside North America. Cadbury boosts the international share of the combined company's business more than 50 percent.' Otherwise, this strategy illustrates that Kraft intend to differentiate its products and markets to maintain its international presence.

" We believe scale will be an increasing source of competitive advantage in both the confectionery category and the global food business as a whole," said Rosenfeld, in 2010, who pointed out that the tie-up will allow Kraft to become the world's leading confectionery company with a market share of 14. 8%. (Andrew Clark, 2010)

The assess of the strategy

As advised by Fred David (108-109), referring to the customer issue, more people are dining out which may adversely affect Kraft Foods as a grocery retailer. Further caused by mobile customers there is less time for preparation of food and therefore declining customer demand. Also the development of health foods e. g. products containing less trans fat or only organic ingredients could be a challenge for the company although Kraft Foods touched on this area in recent years. Whereas there is a paradox between the steady growths of packaged and processed foods because of

less time and high demand for healthy foods which is mostly to class with homemade foods.

‘ Customers today view food as an expression of their cultural and social identity and therefore asking a lot more from producers than just good quality.’

David is still talking about that this attitude causes to pay more attention to branding than quality because it can transfer a more emotional positioning, understand your environment and customers unique needs and taste, depending on their culture.

Moreover, competition is increasing because the market is attractive and has potential such as the increase of bargain stores or trademarks (Aldi).

Therefore it is difficult for Kraft Foods to raise their prices.

Further there are strategic issues in the supply chain such as cost efficiency matter. When the costs of petroleum are rising it causes an increase in raw material costs and hence rising production and transportation costs.

Furthermore, corporate and brand reputation of a company are gaining more and more in importance which causes raising competition as well.

One more strategic issue could be the economic crisis which affects the consumer to spend less money than usually.

The issues of rising prices, increasing competition and customers are willing to spend less but want more in health, cultural and social identity cases are difficult to solve.

The solution could be to use synergies and identify cost drivers for higher cost efficiency. While offering diverse products, with strong branding fulfilling customer demand and differentiate from competition. Also keeping the brand reputation high by ensuring food safety programs are applied could be a possible approach.

The SWOT Matrix of KRAFT FOODS INC.

Strengths

According to Datamonitor (2010) Kraft Foods has a strong brand image and diversified product portfolio. Additionally, it operates in domestic and international markets. His well recognized brands with operations encompassing five core divisions include snacks with 37. 2% of the total revenues during 2009, beverages with 19. 9%, grocery with 10. 1%, cheese with 16. 8% and convenient meals with 16%. Replication of its brands is very difficult and only a few firms are able to imitate these. To maintain market leadership position needs launching new products with innovative ingredients. The brand Alpen Gold is very popular and leading chocolate brands in Russia.

Kraft Foods pays a great importance to research and development (R&D). The R&D is rising year after year and reached in FY2009 an expense of \$499 million. In addition the company has about 2400 food scientists, chemists and engineers. Therefore R&D supports to maintain a strong market position.

According to Datamonitor (2009) Kraft Foods has 316 distribution centers and depots worldwide, 303 in North America and 13 outside America in eight countries. Thereby company's multi-category distribution and consumer

awareness are its major strengths. This boosts the selling efforts through three principal sets of activities: consumer advertising in broadcast, prints, outdoor and on-line media; consumer incentives such as coupons and contests; and trade promotions for supporting price features, displays and other merchandising. Kraft Foods has two distinct distribution operations as follows: warehouse delivery and direct store delivery. This important strength qualifies the company to manage its inventory in a powerful manner.

Weaknesses

Refer Datamonitor (2009) Product recalling could be one of Kraft's weaknesses which were noticed particularly in march 2009. The voluntary recall in the United States of Planters and Back to Nature products containing pistachio nuts is the latest one. The reason was the potential to be contaminated with the Salmonella organism which can cause serious infections.

Kraft Foods operating margins, net margin and net profit margin is decreasing in spite of an increase in revenues since FY2006. Further company's operating profit fell from \$4, 154 million in FY2006 to \$3, 817 million in FY2008. The reasons for the declining include increase in input costs primarily related to higher raw material cost, unrealized losses in hedging activities, to energy derivatives – heating oil and natural gas contracts. Kraft Foods decreasing margins caused by inefficient cost structure could be a pressure on the company's future financial plans.

Refer Datamonitor (2010) additionally unfunded post retirement benefits would cause making periodic cash contributions which would reduce cash available for growth plans.

Also because of the Cadbury acquisition Kraft Foods debt burden has increased from \$5, 556 million to \$18, 990 million EBITDA. The increasing debt ratio will be a concern for the company's solvency and liquidity position.

Opportunities

Refer Datamonitor (2010) Kraft Foods new line of low-fat products causes to strengthen the market position of the company. The increased preference for fat-free and healthy food products in the United States drive Kraft Foods tapping into people's growing health and wellness concerns by its developing the nutritional profile of its snacks portfolio. For instance, introducing whole-grain versions of snacks, eliminating trans-fat in most of its products, reformulating fat-free cookies (e. g. launching low-fat Oreo) are remarkable opportunities. Moreover the company has four key opportunity areas that meet consumer needs such as weight management, nutrient delivery, performance nutrition, and natural and organic Reducing the sodium in many of his products, launching the South Beach Living line in the US.

According to Datamonitor (2010) Kraft Foods tries to strengthen its portfolio recently through acquisitions and divestitures such as the flavored water and juice brand assets and similar trademarks. Furthermore, the company

decided to sell the Artiach biscuits business in Spain to Panrico which caused an ongoing focus in Spain to grow its portfolio. (Source 1 Datamonitor)

Moreover the US coffee sector grew in the recent years and accounts for 70.8% of the total US drinks. K