Emerging market growth sees food giants salivate

By Zeenat Moorad

12 Aug 2011

As incomes in emerging markets rise demand for packaged food has food and beverage makers scrambling to tap into the lucrative growth market.

Last May, Switzerland-based Barry Callebaut opened its first chocolate plant in Brazil, near Sao Paulo in Extrema, Minas Gerais.

A little later in the year, the world's largest food company by revenue, Nestle opened two premium chocolate production lines in Russia's Samara region and

about the same time Italy's Ferrero announced its plans to set up a US$125 million manufacturing facility in Maharashtra, India.

Africa too is attracting global candy and confectionery makers.

Kraft SA has invested 160 million rand in a pilot skills programme in its sub-Saharan African operations as it positions itself in Africa's increasingly

competitive fast-moving consumer goods (FMCG) market.

Its parent, US-listed Kraft Foods last week said it was splitting its business into two: a global snack business that would punt products like Cadbury

chocolates and Oreo biscuits into fast-growing emerging markets and a higher-margin North American grocery business that will pay superior dividends to

shareholders.

Kraft, whose brands include Philadelphia cream cheese and Miracle Whip salad dressing, paid US$22.2 billion to acquire Cadbury Plc last year to become the

second-largest food company in the world.

It is believed that the Cadbury acquisition boosted the business and allowed for the split, which was first considered in 2007 but could not be sustained as

the snacks business wasn't large enough to stand alone at the time.

The company, led by CEO Irene Rosenfeld expects to conduct the split before year-end 2012, with a tax-free spin-off of the North American grocery business to

shareholders, meaning investors will get the benefit of both companies.

Rosenfeld, who took over the company in 2006 was recently ranked second by Forbes on its most powerful women list, ahead of Oprah Winfrey.

Ildiko Szalai, senior food analyst at Euromonitor International, said that the split was intended to help the company achieve the next stage of its ongoing

restructuring process, since its acquisition of Cadbury.

"Between 2007 and 2010, Kraft has undertaken a major restructuring of its packaged food operations after making two significant acquisitions: Cadbury in

confectionery and Danone in biscuits. The company also sold off divisions falling outside its identified growth areas, namely its US frozen pizza and Post

cereals businesses.

"With the completion of the Cadbury acquisition, Kraft has clearly and consistently outlined its strategic aim to become a 'global powerhouse in snacks,

confectionery and quick meals'," he said.

However, he pointed out that there remained some rather large operations that had become strategic misfits.

"One large but ill-fitting division is the company's dairy operations, which has remained untouched during the recent restructuring process and only falls

partially into Kraft's present focus on snacking. That said, even after the integration of Cadbury, dairy comprises about 17% of Kraft's overall packaged

food retail value sales, equal to some US$10 billion," he said.

According to Szalai, given that these business units somewhat narrow geographic market reach, their limited potential to generate dynamic growth in mature

markets that have also been strongly impacted by the global recession and the fact they do not sit well with the company's current strategic priorities, has

led Kraft to cleave them from the dynamically performing global snacks business.

"The major competitive strengths of both new Kraft entities continue to centre on the strong brand equities within their respective portfolios, their

established consumer base and their operational infrastructure.

"Although the North American grocery business will face challenges in terms of sustained and significant growth in a currently sluggish market, it is still

large and affluent enough to generate a strong revenue stream. Meanwhile, the global snacks business will have to continue expanding into both new and

existing markets in order to remain globally competitive over the long term," Szalai said.

In terms of its global snacks business, Kraft said 75% of revenues would be from snacks around the world, and approximately 42% would come from developing

markets, including a diversified presence in "numerous highly attractive emerging markets".