Kraft Union Network

June 22, 2011

Strike action in response to planned layoffs at Kraft Belgium/Cash cow Tang in billion$ orbit

Workers at the Kraft Foods Belgium Halle Côte d'Or factory launched a 48-hour strike on June 20 in response to the management announcement that up to a quarter of the plant's 400 jobs could be eliminated in a restructuring operation that would see production of 3 of the plant's iconic products – Côte d'Or Chokotoff, Bouchées and Mignonnettes – transferred to Kaunas (Lithuania), Bratislava (Slovakia), and Wroclaw (Poland), respectively.

An official Kraft release confirmed the planned product transfers within the framework of a "strategic future" which would leave the Halle plant producing only Côte d'Or chocolate bars and tablets "within the European chocolate production network." The production transfers were described as necessary to "the long-term future of the plant in an extremely competitive market." In similar language, plant manager Paul Meuwis in a statement called on the unions to "partner with us to ensure the future of the Halle plant."

A closer reading of these statements suggests a rather more uncertain "strategic future" for the plant…Competitive pressures and rising commodity prices are again being invoked to justify the latest restructuring in a process which has become permanent, with Kraft also citing pressure from consumers switching to snacks under less cost pressure.

Kraft's communications with investors tell another story (see Are commodity prices to blame for restructuring and layoffs at Kraft?).

At the Q4 2010 conference call with investors, CEO Rosenfeld described the situation in Europe in these terms: "In Europe, we delivered another quarter of solid revenue gains with growth in each of our key categories. ***In addition, despite sharply higher input costs, Europe continued to expand operating margin."***

Executive VP and CFO Timothy McLevish told investors "In Europe, combined organic revenues increased 1.6%, fueled by our Power Brands, which collectively grew 6% across the region. In our Kraft base business, momentum continued as organic revenues grew 2.2%, overall, driven by two points from vol/mix gains. Moreover, revenue growth was broad-based with increases in each of our key categories.

"Chocolate grew low-single digits, driven by strong in-store marketing activities, promotional programs and new products. Toblerone and Milka each delivered high single-digit growth. Our Biscuit business grew, driven by the strength of our Power Brands, including double-digit gains by both Oreo and Belvita. Strong momentum in the chocobakery platform also drove vol/mix gains. "

Kraft's official summary of first quarter results for 2011 (entitled Kraft Foods Reports Strong Start To 2011) noted globally positive improvements in every financial category ("solid top-line growth in all regions", improvements in operating income and operating margins, etc.), and specifically noted "**Strong Revenue and Operating Income Growth in Europe".**

In sum, there is no evidence here that high cocoa prices were impacting negatively on revenue or margins – which are in fact growing!. Revenue has been maintained and even boosted, with the price/input ratios, according to Kraft, scheduled to deliver even more gains in the course of 2011. Nor is there any evidence that chocolate consumption, growing by revenue in all regions, is being crowded out by non-chocolate snack competitor products – market share continues to grow.

In its official announcements and investor conference calls Kraft has also referred to "unrealized gains" from hedging activities designed to deal with commodity price volatility. Details of these hedging activities, however, never make it into the SEC filings or the "information" presentations to unions and works councils. Unions should demand full disclosure of these activities as part of the right to information for collective bargaining purposes. The more Kraft loads up on unspecified financial products, the greater the need to know.

The fundamental truth is that restructuring is permanent; no workplace has a guaranteed future. Flip charts and power point presentations come and go as the restructuring announcements are staggered, but over and above the quarterly fluctuations in sales, input prices etc., the plans for shaking up post-Cadbury chocolate production in Europe were laid down in the blueprint hatched in the immediate post-Cadbury era with consultants A.T. Kearney. The consultant's scheme dissected and evaluated integrated Kraft/Cadbury production using "internal and external financial benchmarks", the key benchmark being the inflated increases in earnings per share (EPS) which Kraft promised investors would spring from the Cadbury acquisition. That plan is now bearing fruit in the form of accelerating job losses. The issue is not competition in product markets, where Kraft is more than holding its own, but competition on financial markets to win points with investors and beef up top management's stock options. In this situation, the logic of shareholder value confronts the logic of solidarity and the defense of employment.

A.T. Kearney has grown rich on dispensing restructuring recipes, earning some USD 900 million in 2008. While advising its clients on "reducing headcount", the company grew from 1,000 employees in 1989 to 2,000 in 1995 to 2,500 in 2007 to over 2,700 last year.

Tang powdered drink hits billion-dollar power brand status

Tang is now a Kraft billion-dollar "power brand" - the company's twelfth. The company website celebrates the event this with an animated rocket circling the globe, recalling the initial lift-off boost given to Tang sales by its association with the US manned space flight program. The rocket in the Kraft cartoon, however, has been stripped of its US insignia and sports only the Tang logo.

According to the Kraft announcement, "Tang attributes its entry into this elite pack to its growth in the company's Developing Markets of about 20 percent in each of the last two years." The key countries in the doubling of sales over the past 4 years were Argentina, Brazil, Mexico, the Philippines and the Middle East, which now account for some thirds of sales.

While the company website gives "A Billion Reasons to Celebrate", The Dow Jones financial news service has picked up the essential point that "Even at $1 billion, Tang is a small, though not insignificant, part of Kraft, which had $49.2 billion in 2010 sales.

"But in faster-growing developing markets, where Kraft's sales totaled $13.6 billion last year, it is more of a key player. ***It also sells at a gross margin that is higher than Kraft's average for emerging markets.***" [our emphasis]

In short, Tang is a growing cash cow for Kraft, generating a particularly profitable stream of revenue to draw on for lubricating the permanent restructuring in the other divisions.