Kraft Union Network

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Preparing for split, Kraft North America cuts 1,600 jobs

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Kraft Foods Wages War On ~~Waste,~~ Jobs One Plant At A Time

As preparations advance for the big split – North American grocery and global snacks - Kraft is still struggling to sort out licensing, brand ownership and revenue flows between hybrid products like the new Cadbury-Philadelphia chocolate cheese spread which went on sale in the UK beginning February 1. Which of the two new companies' shareholders will claim what share of the profits? Who will gain the winnings from Global Snacks' distribution of Maxwell House coffee outside North America?

Snack or grocery? –ask a portfolio advisor

While the new management team brought in to oversee the split work out revenue flow and intellectual property spoils, and will ultimately have to figure out where to stick the enormous debt that paid for the Cadbury acquisition, the company is losing no time in cutting jobs. On January 17, Kraft announced the elimination of 1,600 jobs in North America, out of a total workforce of some 45,000. At the same time it announced better-than-expected fourth quarter results for 2011, beating its own targets with a projected 10 percent growth in revenue for the full year (final results to be announced on February 21).

Kraft celebrated the good results with this separate announcement, issued the same day:

"Throughout 2011, the North American business has been lowering costs to provide funds to invest in its brands. With leaner structures planned across both the future grocery company and the North America Snacks region, Kraft plans to eliminate approximately 1,600 positions throughout the United States and Canada over the next 12 months, primarily from sales, corporate and business unit areas. About 20 percent of these job eliminations are currently open positions.

"These planned workforce reductions do not include manufacturing facilities. With the impending separation into two independent companies, Kraft is continuing its review of manufacturing facilities to consider what's best for both new companies."

Sales and distribution operations in North America (once touted as generating 'synergies' through the Cadbury deal) will be separated and outsourced: *"To capitalize on its warehouse distribution strength, the grocery company will reorganize within the United States. Local retail support will be contracted to two leading sales agencies, with Kraft oversight and direction. Acosta Sales & Marketing will become the company's partner for grocery store and mass retail channel execution. CROSSMARK will continue to support Kraft in the convenience store channel."*

Management is moving house and slimming as it moves: *"When the North American grocery company is spun off later this year, it will reduce its U.S. management center locations from four to two. The Beverages business unit in Tarrytown, N.Y., and the Planters brand in East Hanover, N.J., will relocate to the Chicagoland area by December 2012. Most of the employees affected by these moves will have the option to transfer with their businesses to the future grocery company headquarters in Chicagoland. Kraft also will close its Glenview, Ill., management center by the end of 2013.*

"The future global snacks company will also have its headquarters in the Chicagoland area, with the choice of site currently under consideration. The North American region for the global snacks company will be based at the East Hanover campus.

In Canada, both companies will retain sites in the Greater Toronto area. The Kraft grocery business will stay in the current Don Mills offices, while the snacks business moves to recently opened offices in Mississauga. The Madison, Wis., management center will remain the site for the Oscar Mayer business unit."

Explaining the job cuts, the press release informs us that *"Throughout 2011, the North American business has been lowering costs to provide funds to invest in its brands."* It would be more accurate to say that Kraft has been lowering costs to provide funds to its investors. Capital spending as a percentage of Kraft revenue has been in decline since its 2007 spinoff from Atria. While taking on massive debt to fund expansion through

acquisitions, the company has increased its dividend yield at a considerably higher rate than the industry average (4.59 percent vs. a 5-year industry average of 3.48). It has done this even in the face of stagnating earnings per share.

Investors in the grocery business are being promised still further dividend hikes when the split is consummated. Bloomberg captured this perverse logic in a January 30 article (http://www.bloomberg.com/news/2012-01-30/kraft-s-brazil-chocolate-seen-as-template-after-spinoff-retail.html): “Following the spinoff, the $16 billion-a-year U.S. Grocery unit, as it is currently known, will pay a higher dividend to make up for slower growth.”

The slower the growth, the higher the investor yield, the greater the squeeze on workers – this is the message of Kraft’s “positioning the company for successful spinoff”. And they haven’t yet “completed their review of manufacturing.”

Workers in the snacks division, on the other hand, will be further squeezed in the name of funding growth for acquisitions in developing markets.

While Kraft splits in two, workers on both sides of the split should be building their defense against Kraft’s war on jobs – together, and one plant at a time.

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