Kraft Union Network

December 9, 2011

More than a hint of the future…

Kraft appointments hint at future

Rosenfeld to run global snacking business; North American chief to lead stand-alone grocery company

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By Emily Bryson York, Chicago Tribune reporter

December 6, 2011

Kraft Foods is beginning to show its hand, as the company prepares to split in by the end of 2012.

The future of Kraft Foods is beginning to take shape, as the company prepares to split into two businesses by the end of 2012.

On Monday, the Northfield-based packaged-food company announced what had been widely speculated: Chairman and CEO Irene Rosenfeld will stay on as chairman and CEO of the $31 billion global snacking company, and Tony Vernon, president of Kraft Foods North America, will be CEO of the North American grocery business it becomes a stand-alone, $17 billion company.

But there was also a surprise. Kraft is bringing in John Cahill, 54, a partner with Ripplewood Holdings, a private equity firm where Vernon worked for three years before joining Kraft. He has experience with corporate separations, having been chairman and CEO of PepsiCo Bottling Group when it separated from PepsiCo in 1999. PepsiCo has since bought it back.

While the announced appointments of Rosenfeld and Vernon tell us little about the future of what will soon no longer be Kraft, the ‘surprise’ appointment of John Cahill to oversee the financial mechanics of the separation may tell us a great deal about what’s coming.

Cahill held senior management positions at anti-union PepsiCo from 1989, including Chief Financial Officer, and was instrumental in designing the spinoff of the company’s major bottler, which became the separately listed Pepsi Bottling Group (PBG) in 1999. The spinoff was accomplished in language identical to the splitting of Kraft. It was about ‘focus’ (see Kraft to split itself in two – what does it mean for workers? at http://cms.iuf.org/?q=kraft_en

From ‘synergy’ to ‘focus’ – and back to ‘synergy’

PepsiCo sold the split to investors on cost savings, and used the split to pay down debt while the bottler borrowed to pay for the expansion of operations. PepsiCo retained a dominant share in PBG, set the price at which it sold the concentrate, authorized the size and type of containers and had the right to approve PBG’s 3-year financial plans.

PepsiCo ditched the 1999 language of focusing on the its beverages ‘core’ to justify the 2009 buyback of PBG in the name of…cost savings, the original rationale for the spinoff!

From 1999 to 2009, PepsiCo/PBG underwent a reverse evolution to that of Kraft from 2004-2011 (Danone/Lu and Cadbury acquisitions to breakup). Kraft is so far running the PepsiCo film in reverse, at a faster speed. It remains to be seen whether investors betting on a blockbuster will be present at the financial Academy Awards.

PepsiCo Brings Bottlers Into Fold in $7.8 Billion Merger

AUGUST 4, 2009

BY BOB BLANDEBURGO, Associate Editor, Money Morning

By Bob Blandeburgo
Associate Editor
Money Morning

In what looks to be a windfall for investors, PepsiCo Inc. (NYSE: PEP) yesterday (Tuesday) finally made a takeover offer that The Pepsi Bottling Group Inc. (NYSE: PBG) and PepsiAmericas Inc. (NYSE: PAS) found to be acceptable.

Pepsi will merge with the two bottlers for $7.8 billion, representing a more than 20% increase over the initial $6 billion offer that PGB called "grossly inadequate" and PAS said was "not acceptable."

Under the terms of the deal, PBG shareholders have the option of taking $36.50 per share or 0.6432 shares of Pepsi. Owners of PAS will get $28.50 per share or 0.5022 Pepsi shares.

The USD 36.50 a share paid to investors represented a 58.&% increase over the initial pricing of PBG shares – over a ten-year period in which the value of US stocks declined by some 10%!

Exploding Executive Compensation

Cahill was the top boss at PBG from 2003-2006. In his last two years at PBG, his compensation skyrocketed. In 2005, he took home USD 11 million in total compensation, including 8.57 million from exercising stock options. In 2006, his compensation hit 12.23 million, including 9.36 million in stock gains. PBG’s revenues that year totaled USD 11.85 billion. Compared to that, Rosenfeld’s 2009 compensation of 26.3 million on revenues of USD 49 billion looks almost modest.

So Cahill knows more than a little about splitting companies and milking the results for windfall gains. In 2008, PBG cut 4.6% of its workforce in North America, Mexico and Europe and lowered its earnings forecast.

In 2010, with the job cuts and the buyback of its major bottler accomplished, PepsiCo celebrated the cost reductions by pledging to spend USD 13 billion on buying back its own shares, and raised the dividend payout by 7%.

Slash-and-burn at Ripplewood

But Cahill had moved on – to Ripplewood Holdings LLC, a slash-and-burn private equity outfit which made its reputation pillaging the Long-Term Credit Bank of Japan (now Shinsei Bank) in a deal which netted investors a 600% return by saddling the government with the bank's bad debt (*see MF Global - canary in the (financial) coalmine? on the IUF website at http://cms.iuf.org/?q=node/1186*).

Ripplewood, described by the Financial Times as "one of the most secretive" private equity firms, has a distinguished record of ruining companies, including food companies, by loading them with debt.

In 1999, Ripplewood purchased the profitable Arkasas-based Meyer's Bakeries for USD 73.1 million. At the time of the purchase, the company had annual sales of USD 90 million and a healthy balance sheet. To fund the purchase, the company's entire assets were pledged as collateral for a USD 45 million bank loan. Another USD 10 million was borrowed from another investment fund, also using the company's assets as collateral.

The company filed for bankruptcy in early 2004, listing $44.2 million in assets and $48.7 million in debt. The investor lawsuit filed in response to the debt-driven bankruptcy that year was a classic indictment of leveraged buyout-induced failure: "The short-term focus of the Ripplewood directors on resale of the company excluded attention to critical research and development, maintenance and operations issues." The few surviving bakeries were sold to union-busting Southern Bakeries as part of the bankruptcy settlement.

That was before Cahill's arrival, but the financial vandalism at Ripplewood intensified, culminating in the Ripplewood-led USD 2.4 billion buyout of Reader's Digest publishers in 2006 which put USD 2.2 million on the company's books. Three years they too were bankrupt.

Cahill has now moved on from Ripplewood to Kraft. So while Kraft management stumble over where to place products like Philadelphia cream cheese (a "power brand" with substantial sales outside North America – is it grocery or snacks?), the company has yet to disclose how it manages to shuffle the considerable debt it ran up acquiring companies before deciding to split itself.

The split involves packaging the snacks division as a growth ‘powerhouse’. So the debt will most likely be placed on the grocery division. The grocery division, on the other hand, is supposed to deliver steady returns to investors who insist that the payout grow faster than margins. Investor appetites can be appeased – for a time – by squeezing the cash flow, but only for a time. Outsourcing and job cutting to simultaneously pay dividends and interest on borrowings are not infinitely expandable. Of course the company could invest, in products, people and manufacturing capacity, bring outsourced production back in-house and build a new relationship with the unions representing Kraft workers. That would mean holding the dividend steady in order to actually invest, leveraging the company’s considerable brand power to build for the long term. But that risks antagonizing the big investors who are currently loading up on Kraft stock and expect a windfall from the split. In this scenario, opportunism dictates selloffs – in which case Cahill is there to manage things.

Before he moves on from Kraft, how many bits and pieces of the grocery division – the most likely target – will be sold off, to rival companies or to private equity investors buying up orphan brands.

Kraft unions should brace for tough bargaining.

Another Path to Jobless Growth - Licensing

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EUROPE: R&R Ice Cream secures Kraft licencing deal

By: Sam Webb | 5 December 2011

Own-label ice cream manufacturer R&R is joining forces with Kraft Foods to launch new ice cream brands across mainland Europe.

R&R will develop, manufacture and distribute an ice cream range of five Kraft brands - Milka, Toblerone, Daim, Oreo and Philadelphia - across Germany, Austria, Switzerland, France, Italy, Spain, Portugal, Netherlands, Belgium and Luxembourg.

The first products will be on sale in spring 2012. James Lambert, CEO and executive chairman of R&R Ice Cream says sales of Kraft-branded products could be EUR100m within five years.

Kraft is growing its snacks business in India without taking on a single worker, resorting instead to outsourcing and contract manufacturing. Kraft Foods has no manufacturing operations in India. Only the 5 Cadbury India plants acquired in last year's takeover are company-owned.

Precarious x 3: The layers of precarious employment beneath Kraft's Oreo biscuits and wafers http://cms.iuf.org/?q=node/1033

Now the Indian model is arriving in the UK. While production of, for example, certain Nabisco products in North America is outsourced to the cheapest (non-union) bidder, the company retains – for the moment – a degree of in-house manufacturing operations. But the tie-up with own-label ice cream maker R&R – a company constructed by private equity investors Oaktree Management in 2006 through the acquisition of two private label manufacturers, Richmond in the UK and Roncadin in Germany (the 'Rs' in R&R, to which French ice cream maker Roland was added in 2010) offers Kraft the possibility of expansion through nothing more than licensing its trademark brands. No plants, no investment, no payroll, and no unions (or at least no Kraft unions, since the relationship is constructed to avoid employer responsibility...).

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December 6, 2011 5:27 pm

Kraft to cut one in seven UK jobs

By Louise Lucas, Consumer Industries Editor

Kraft, the US food group which acquired Cadbury in a controversial £11.6bn takeover in January 2010, is to eliminate one in seven jobs at British chocolate factories including Bournville, the UK confectioner's heartland.

Kraft, which provoked a political backlash when it swooped on Cadbury, promised British politicians it would make no compulsory redundancies among its blue-collar workers for two years. That agreement ends next March. The reduction announced on Tuesday will be carried out through redeployment and voluntary redundancies.

More

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Kraft names new leaders after split

Kraft presses ahead with plans to

Kraft also unveiled a fresh £50m investment in the UK which, like the job losses, will be spread over two years. The money will also see the world's biggest biscuit maker make biscuits in the UK for the first time. Currently BelVita biscuits are made in France and Oreos in Spain.

Kraft: UK layoffs don't breach no redundancies pledge

Nearly simultaneous with the announcements of the top jobs at the split company and the licensing tie-up with R&R, Kraft announced that it would be investing GBP 50 million in its UK manufacturing operations…and eliminating 200 jobs over two years. That announcement coincided with a planned visit to Kraft's Bourneville plant – one of the three sites which will see jobs cut - by the UK parliamentary select committee set up to examine the mechanics and the impact of the Cadbury takeover.

At the time of the takeover, Kraft announced a 2-year moratorium on redundancies. The 200 job cuts are to be implemented beginning in March 2012, when the moratorium expires. In an official statement, Kraft contended that the pledge remains in force "Nothing in today's announcement changes these commitments in any way."

The union has a different view, namely that investment should protect jobs rather than eliminate them, Unite also criticized the company for making the announcement to the press, rather than to employees themselves.

According to Unite National Secretary Jennie Formby, “Our view is that if Kraft is investing £44 million for the expansion of its UK factories there should be no job losses and we will be strongly pressing for that outcome when we talk to management about this issue in the New Year.

“We are also concerned that the company continues in its refusal to share its mid-to-long term business plans with us and its refusal to say that there won’t be compulsory redundancies in the future.”