BUSINESS 478

Section D 300

COMPANY SYNOPSIS FOR:

[KELLOGG COMPANY]

Group G

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Introduction

Kellogg Company (Kellogg's) is a multinational food production company that manufactures cereals, snacks and frozen foods. With its headquarters in Michigan, United States, Kellogg's has its roots in over 180 countries in North America, Latin & South America, Europe & the Middle East, Africa, Asia, and Oceania (Kellogg: history, 2013). In 2012, Kellogg's business reached an all time high of $2 billion in fast-growing economies[1] through organic growth, acquisitions and joint ventures. The business has growth 140% since 2001(Annual report, 2013).

Brief history

Kellogg's was founded by W.K. Kellogg in 1906 with the official opening of Battle Creek Toasted Corn Flake Company; however, the inception of the idea occurred 8 years prior to this. In 1898, while W.K. Kellogg and his brother, Dr. John Harvey Kellogg, were attempting to make granola, they accidently invented the corn flake (Kellogg: history, 2013). This accidental invention was taken further when the first company in 1906 was formed which consisted of only 44 employees. In 1914, Kellogg's Corn Flakes was introduced to a new country - Canada. Later the popularity of its cereal spread out even more. Factories were then opened in Australia, England, Mexico, Japan, and India (Kellogg: history, 2013).

Vision and Goal

Kellogg's' vision is "to enrich and delight the world through foods and brands that matter" (Kellogg: value, 2013). Specifically, its goal has always been to nourish families so that they can flourish and thrive. The company has achieved this goal by providing the world with a variety of great-tasting, high-quality and nutritious food (Kellogg: value, 2013).

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[1] Latin America, Asia, South Africa, Mediterranean and Russia

Breakfast Product Line Expansion

Even though Kellogg's is known for a multitude of products, it specializes in breakfast style items. Aside from its popular "Kellogg's Corn Flakes", the company has expanded its product base over the years and has invented a variety of other nutritional products. In 1915, Kellogg's introduced "Bran Flakes" as the first high-fiber cereal. This was quickly followed by the introduction of "Kellogg's All Bran" cereal just one year later. Subsequently, between 1942 -1945, the company brought to life another type of cereal known as "Kellogg's Raisin Bran". Most recently, in 2006 the company celebrated its 100 years of existence by introducing a new product - "Kellogg's Special K Bars" (Kellogg: history, 2013).

Professional Commitment

Kellogg's has always been very passionate about the products that it provides. It is a widely known fact that breakfast is the most important meal of the day; therefore Kellogg's has believed in delivering high quality food products that have been well researched. In 1923, Kellogg's became the first food company to hire a certified dietitian, who began defining the roles that different foods played in proper diets. Most recently in 1997, in line with its commitment to nutritional food products, Kellogg's opened the W.K. Kellogg Institute for Food and Nutrition Research. Here, scientists, nutritionists and engineers transform wholesome grains into great tasting food for the public to enjoy (Kellogg: history, 2013).

Collaborative Efforts

Kellogg's had collaborated with many different organizations and institutions in the past. For example, during WWII, Kellogg's proudly announced rations for the US armed forces fighting overseas. It also introduced the Raisin Bran to help the children in America to receive the proper amount of daily nutrition (Kellogg: history, 2013). Kellogg's had also associated with NASA and space travel. It was recruited to provide healthy breakfast for astronauts such as Neil Armstrong, Buzz Aldrin and Michael Collins during their legendary Apollo 11 mission to the moon (Kellogg: history, 2013).

Environment

Kellogg's is facing highly fierce competition with General Mills, Ralcorp Holding, Nestle, and other food manufacturing companies. Even though Kellogg's is the market leader by far, these companies are having similar product lines such as cereal and cracker in attempt to reduce Kellogg's' market share. Besides, retailers are offering more and more private label products that compete with Kellogg's. Without enough differentiation, Kellogg's 'products are difficult to be considered as high quality by comparing with other alternatives, which will impact the brand image and reduce profitability.

Current economy in the globe, especially in Europe, is still experiencing recession, which reduces and limits the purchasing power of consumers. Since consumers are becoming more price-conscious, the volume of sales decrease and that resulted in a reinforced price competition.

The unstable environment is another challenge Kellogg's has to confront. The costs of its principal raw materials such as wheat, corn, and soybean oil, are relatively unstable. The prices of these raw materials are subjected to government policy and regulation, weather conditions, and climate change. The circumstances are out of Kellogg's' control and hard to predict, which increase the difficulties of tailoring strategies to company's external environments. Kellogg's has to continually monitor the supplies and prices of its raw materials since the disability in preparing for the unforeseen situation will put Kellogg's in a competitive disadvantage.

Fortunately, the consolidated relationship between Kellogg's and its customers has influenced their cooperation positively. During 2012, Wal-Mart, the largest customer of Kellogg's, accounted for around 20% of consolidated net sales (Kellogg's, 2013). This worldwide consolidation is significant and is likely to help Kellogg's in generating profits by increasing the volume of sales.

Information technology has been an effective tool for Kellogg's to process, transmit and store information. However, the more Kellogg's relies on information technology, the more likely the technology failure will be devastating to the company. The information technology system could be vulnerable and exposed to various contingencies including natural disaster, telecommunication failures, computer viruses, hackers, and so forth. The technology failure will interrupt its business operation without doubt, causing the loss of revenue, reputation damage, or litigation. Therefore, it is very critical for Kellogg's in adopting multiple measures to prevent these risks and minimize their damages.

Current Situation

Product and Brand Categories

Kellogg's produces ready-to-eat cereals and convenience foods such as crackers, cookies, savory snacks, cereal bars, frozen waffles, toaster pastries and vegetarian foods and these products are manufactured in 18 countries and distributed in over 180 countries. It is the leader of the U.S. breakfast cereal market with around one-third (34%) of the market share (wikinvest, 2012). It also owns many famous brands including All-Bran, Special K, Rice Krispies Treats, Pop-Tarts, Keebler, Tony the Tiger and et cetera. Kellogg's recent acquisition of Pringles brand in May 2012 provided itself a platform for its growth in the global snack market. Pringles is currently sold in many different countries and in different channels that Kellogg's has little presence. This acquisition provides an opportunity for Kellogg's to expand its offer and add significant potential to both its established and developing markets.

Financial Performance

According to *Kellogg's 2012 annual report* (2013), Kellogg's has sale revenue of $14,197 millions in its fiscal year 2012, which is increased by $1 billion comparing to 2011. This increase is as a result of the acquisition of the Pringles brand and top-line growth (See Table 1). However, its underlying operating profit[2] decreased from $2,014 millions to $2,109 millions, which resulted from the increasing raw materials cost, product recall in the third quarter and increasing investment in brand building. Its share price increases from $2.39 to $2.68, which indicates that investors are having confidence in Kellogg's.

Table 1: Kellogg's' Selected Financial Data

Millions, except per share data	2012	2011	2010	2009	2008(B)
Net Sales	**$14,197**	$13,198	$12,397	$12,575	$12,822
Underlying Gross Profit as a % of Net Sales(A)	**40.1%**	41.9%	43.0%	42.7%	42.1%
Underlying Operating Profit(A)	**$2,014**	$2,109	$2,046	$1,959	$2,003
Underlying Net Income Attributable to Kellogg Company(A)	**$1,265**	$1,321	$1,286	$1,184	$1,182
Underlying basic per share amount(A)	**$3.53**	$3.64	$3.42	$3.10	$3.10
Underlying diluted per share amount(A)	**$3.52**	$3.62	$3.40	$3.09	$3.07

***Note.* Adapted from "2012 Kellogg Company Financial Highlights" by Kellogg's, 2013, *Kellogg Company 2012 Annual Report*. Retrieved from http://www.kelloggs.com**

Kellogg's' Strategies

Kellogg's remains focus on its core categories, including cereal, snack and frozen foods, and it sees this focus as an advantage. Kellogg's' strategy in 2013 is to "remain a global cereal leader," "become a global snacks player," focus on frozen" and "increase focus on emerging markets" (Kellogg's, 2013).

Remain a Global Cereal Leader

Kellogg's sees the opportunities for cereal market to grow since cereal is a versatile food, which means it is not just breakfast but also snack for many kids. Beside, the population is aging and older adults tend to eat more cereal. Moreover, cereal is low in calories, nutrient-dense and convenient, which makes it a meaningful investment with potential growth. As a result, Kellogg's continues to expand its

[2] A non-GAAP measure that excludes the impact of pension and post-retirement benefit plans mark-to –market adjustments.

global cereal business, including relatively well-developed market like U.S., through brand buildings, innovation and health/ nutrition news.

Become a Global Snacks Player

Kellogg's' acquisition of Pringles provided Kellogg's a platform to reach to global snacks market. It also gives Kellogg's a supply chain model in Latin America, Europe and Asia Pacific. Therefore, Kellogg's' snacks business is not limited to produce only cereal bars and wholesome snacks anymore. As a result, Kellogg's is forming snack-focused teams that work on snack brands with board, cross-category strength in order to build a global snacks business.

Focus on Frozen

Kellogg's' frozen food business has generated $1 billion revenues in the North American market. This business is going to be expanded by introducing valued added and innovative new products. However, Kellogg's is not sure how far this business can be expanded.

Increase Focus on Emerging Markets

Kellogg's is experiencing strong market growth in India, South America and Brazil through its developing and emerging markets strategy. It also expands its business in China through joint venture with Wilmar International, one of China's largest consumer packaged-food businesses. This cooperation provides Kellogg's a good opportunity for potential growth in this important market.

Strategic Challenges

Facing the Price & Competitors' Challenges

Kellogg's is facing a dramatically price increase of the raw materials including corn, wheat and other agriculture commodities. A rapidly rise in energy price also contributes to high input prices by increasing the cost of transportation (Wiki Analysis, 2012). The increase in production cost has a great impact on Kellogg's operating margin, which result in a decrease in profit.

Kellogg's also confronts a fierce competition with its competitors, General Mills and Kraft, in core U.S. market. In order to be more competitive, they offer relatively low prices to attract more customers, including those who have low incomes. Since Kellogg's attempts to develop and expand its snacks business, it may also have to compete with experts in the other snack production lines.

Introducing New and Innovative Products

Kellogg's attempts to introduce new frozen food to its markets, which incurs a high R&D cost with a high risk in sales. As indicated in *Kellogg's 2012 annual report*, customer preferences are hard to predict, another high risk arises with the change in dietary trends and availability of substitute products (Kellogg's, 2013), especially in the case that Kellogg's is expanding its business internationally. Since the product is brand new, Kellogg's does not experience strong market growth in its existing markets and the emerging markets strategy may not be applied.

Pursuing a Positive Brand Image

Kellogg's' recent recall issue and misleading advertising claim attracted too much negative attention from the public, which potentially affect its future operation and sales. In 2010, Kellogg's recalled about 28 million boxes of cookies and crackers because of an unusual smell and flavor from the packages' liners that could make people vomit (Velasco, 2012). Unfortunately, Kellogg's did not take effective steps to prevent similar problems and some of Kellogg's cereal products were recalled again in 2012 due to the possibility of flexible metal meshes fragments in the food (Bill, 2012). Both recall issues affected Kellogg's' brand image negatively and offered its competitors an opportunity to take over its market share. In the same year, Britain banned Kellogg's' special K advertisement due to its misleading information about the calorific value. Kellogg's' poor brand image is a large hurdle for Kellogg's to expand its current market share and more effective governance procedures should be taken to prevent further similar events.

Picking the Right International Partners

Although strategic acquisitions, alliances, divestitures and joint venture are all commonly used effective devices of expanding international business, some of the business cooperation may not be able to successfully consummate favorable transactions or successfully integrate acquired businesses. In this case, Kellogg's recently expands its business in China through joint venture with Wilmar. Wilmar is famous with its expertise in consumer pack edible oils in China and its efficient low cost value chain. However, adjustment has to be made properly in integrating with Wilmar's value chain in order to maintain high product quality. Otherwise, the integration may lower the efficiency and effectiveness of the original production line and eliminate advantages of joint venture. Therefore, when choosing international business partners, Kellogg's needs to consider business strategy and capability of its potential partner.

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