Forbes

https://www.forbes.com/sites/louisbiscotti/2019/03/21/kraft-heinz-seeks-to-build-a-brand-new-world/#38369a5e19a2

Mar 21, 2019, 11:37am

Kraft Heinz Seeks To Build A Brand New World

Louis Biscotti
Contributor

Anybody want to buy a billion-dollar brand?

Kraft Heinz has been busy lately launching new products – and deciding what to do with some of its biggest, oldest brands. The company, amid much fanfare, last February rolled out its "Just Crack An Egg breakfast," which combines vegetables, cheese and meat to mix with an egg. Break an egg, add ingredients, and you have an instant breakfast. It was a big idea – and a big success.

Kraft Heinz was rewarded for its creativity: The product topped $50 million in its first year of sales. While Kraft Heinz is launching products and buying small companies, the firm also is busy selling – and not only on supermarket shelves. They say you have to break some eggs to make an omelet. In Kraft Heinz's case, that may mean selling brands, as it launches new products.

CNBC on March 13 reported that Kraft Heinz hired Royal Bank of Canada to evaluate a possible sale of Breakstone, the cottage cheese, sour cream and butter brand. This comes after Kraft Heinz reportedly tapped Credit Suisse to consider selling the Maxwell House coffee brand.

The company already sold its Canadian natural cheese business to Parmalat for $1.23 billion last year. And at the end of January, it closed on the sale of Indian brands Complan, Glucon-D, Nycil and Sampriti to Zydus Wellness and its affiliates.

What's happening at Kraft Heinz, while big in scale, isn't unique in food and beverage.

Investment in innovation is a positive trend for the marketplace. Kraft Heinz's Springboard program, for instance, seeks and supports promising young companies. Kellogg's has an investment arm. So do General Mills, Nestlé and PepsiCo. All created incubators to buy innovation, looking for small companies with big possibilities.

At the same time, companies are scrambling to sell assets or divisions that aren't particularly profitable or are outside their core competencies. This often follows mergers. Companies sometimes find pieces of the puzzle that don't fit, which means divesting and selling to someone else who sees promise and profits.

"The sale of this niche business fits into our overall global growth strategy," Kraft Heinz CEO Bernardo Hees said after selling brands to Zydus Wellness. He added that the company is "investing in and growing brands within our core categories."

Companies sometimes trim expenses after mergers, hoping to hold down costs as they grow. Kraft Heinz trimmed $1.7 billion, after taking on debt. While cutting costs can help following a merger, it doesn't necessarily boost profits. Kraft Heinz in the last quarter of 2018 took a $4.1 billion impairment charge on Kraft, $3.3 billion on Oscar Mayer, $797 million on Philadelphia cream cheese, $96 million on Velveeta and $84 million on ABC.

Hees said the company is seeking "to re-establish commercial growth of our iconic brands," as well as "turn around consumption trends in several key categories" and "expand into new categories." The company has said it will look at selling brands "with no clear path to competitive advantage."

Kraft Heinz two years ago tried to buy Unilever, only to see its offer rejected. How come? Unilever may have understood there weren't necessarily synergies that would help its brands. It's not just how well brands work, but whether and how well they work together.

The future may or may not be far away for Kraft Heinz, which just selected its second group of brands to nurture under its Springboard program. Kelly Reinke, who leads Springboard, said the company hopes the start-up can "help shape the future of food." The company is searching for more successes along the lines of its instant breakfast, as other big companies look for small companies with potential.

As Heinz turns 150 this year, Kraft Heinz also is focused on the future. Adding brands could be part of the solution, but not the whole enchilada. For old and new brands alike, one thing is key: making sure whatever you serve up is what consumers want today. And that, in the end, may prove to be the company's biggest challenge: staying contemporary in a changing world.