

In The Spotlight: A well Kraft-ed European strategy?

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Kraft Foods has appointed former Coca-Cola executive Michael Clarke to head up its European business. The move sees Kraft separating its European operations from the rest of its international interests and could signal that the US food giant is looking to sharpen its focus in the region. Katy Humphries reports.



Kraft Foods announced the appointment of Coca-Cola executive Michael Clarke to head up its European business yesterday (15 December).

With a breadth of international experience and proven track-record of driving growth, Kraft says Clarke is the right man to steer its European operations.

"Mike brings a terrific mix of strategic, financial and operating experience. I'm confident his experience and strong track-record of results will build on our momentum in Europe," says Kraft chairman and CEO Irene Rosenfeld.

A Coca-Cola veteran of 12 years, Clarke has held a number of senior management positions at the soft drinks company, including - most recently - president of the group's Northwest Europe and Nordic businesses.

Clarke has worked in a wide variety of international markets - with both Coca-Cola and, prior to that, Reebok - including Europe, the US and developing markets such as Africa and the Middle East.

Clarke is filling a position that has been vacant since June, the company says.

However, significantly, Clarke will report directly to Rosenfeld, effectively separating the company's European business from the rest of its international operations.

According to Kepler Capital Markets analyst Jon Cox, the move could well signal that Kraft is increasing its focus on Europe.

"Europe has been a bit of a problem area for them. It [is] a pretty high profile appointment and the fact that he reports directly to the head of Kraft would seem to indicate that they may be focusing a little more on European businesses," Cox tells just-food.

Clarke will be charged with helping the Northfield-based food giant negotiate the economic downturn in Europe, where its business consists primarily of chocolate, biscuits and coffee.

Following last year's US\$7.2bn acquisition of Danone's Lu cookie and cracker business, Europe is clearly moving up Kraft's agenda and its managerial separation reflects this.

European sales in the first nine months of the current fiscal year have been greatly boosted by the Lu acquisition, rising by 54% to \$8.36bn.

Indeed, in the nine-month period, Europe accounted for about one-quarter of Kraft's total \$31.43bn revenue. Strong sales in Europe helped Kraft offset a 0.9% drop in volume in the US, despite increased investment in product development and marketing in its home market.

As Kraft reaches saturation in its domestic market, the world's second-largest food processor is increasingly looking overseas to fuel growth.

Speaking at the Lehman Brothers Back-to-School conference in September, Sanjay Khosla, EVP and president of Kraft international, said that the group was looking to increase its focus on core categories, brands and geographies.

Khosla indicated that it will narrow its focus geographically. Kraft is concentrating on driving growth in ten markets. The company categorises four markets - China, Russia, Brazil and South East Asia - as "growth engines" and six markets - Germany, France, UK, Italy, Spain and Australia - as "scale markets".

Kraft says that Khosla will continue to lead the businesses in developing markets, "which are a significant part of Kraft's future growth", reporting to Rosenfeld. He will also assume additional responsibilities for Kraft's global category teams in snacking and beverages in North America, Europe and developing markets.

In separating Europe from emerging markets like China and India, Kraft has brought the majority of its "scale markets" under one roof.

In its definition of European markets, Kraft has detached Western Europe from the emerging markets of central and Eastern Europe.

"Mr. Clarke will lead Kraft Europe, which does not include Russia and CEEMA (Central and Eastern Europe, Middle East and Africa). Russia and CEEMA are part of our developing markets segment," a spokesperson for Kraft tells just-food.

James Amoroso, director of **Amoroso** Strategic Insights, praises this distinction.

"Europe is a different kettle of fish to emerging markets, like India and China," **Amoroso** tells just-food.

"There are more similarities and therefore management synergies between Russia and China than there are between Russia and Germany," he emphasises

While **Amoroso** welcomes the move to sharpen Kraft's focus in developed European markets like Germany and the UK, he does caution that Clarke will have to tackle some "thorny issues" in Western Europe.

"There are two management issues in western Europe: how to re-engineer and reposition a product portfolio that is only tangentially relevant for today's health and wellness trends; [and] how to adopt and stick to longer-term consumer strategies in an environment where there is ongoing pressure for short-term performance," **Amoroso** says.

Overall, the move should benefit Kraft's European businesses, providing greater focus in a region that is distinct from the US company's other overseas interests in developing and emerging markets.

However, a number of challenges lie ahead for Clarke as he takes the helm in Europe. He will be responsible for breathing fresh life into Kraft's established brands while at the same time grappling with an economic downturn that is already depressing consumer spending: no easy task awaits.

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