



RECIPE FOR THE FUTURE

It is a turbulent time for **Kraft Heinz** and the packaged goods industry. But the global consumer giant says it has the right ingredients for growth. **BY AMBREEN ALI**

Big food has a big problem.

A host of factors—changing consumer habits and the rise of private-label dominated retailers such as Aldi—have pulled more than \$19 billion in revenue away from the United States' 10 largest packaged-food companies during the last three years, according to Bloomberg. Euromonitor International reports that U.S. sales in the sector will grow just 1 percent a year through 2022.

For The Kraft Heinz Co., these headwinds are blowing at a particularly challenging time. The company's stock price tumbled 40 percent during a 15-month period ending in May. It was a reflection of an emerging consensus among investors that the merger that brought Kraft



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The Kraft Heinz innovation center in Amsterdam.



and Heinz together might not deliver on its promise. Three years ago, when Kraft Foods Group and H.J. Heinz merged to create the world's fifth-largest food and beverage company, optimism was high. The deal, orchestrated in part by billionaire Warren Buffett and Berkshire Hathaway and 3G Capital, posed immediate returns for shareholders.

But many analysts have become pessimistic, predicting growth will be reliant on an M&A-focused strategy. In the last year, Kraft Heinz has announced acquisitions of several companies including Australian brand Cerebos. Its attempt to buy Unilever for \$143 billion went nowhere. And Campbell's Soup has been named by market-watchers as a potential target.

But, M&As can be risky bets for even the best of companies. According to KPMG, "Only about one-third of mergers, acquisitions and takeovers add value in North America while almost 70 percent actually reduce shareholder worth or, at best, are neutral."

Whatever growth strategy Kraft Heinz relies on, turbulence likely will be in the mix. But the company is ready because it is focused on long-term growth and is establishing a strong culture, says Melissa Werneck, SVP, global HR, performance and IT at Kraft Heinz.

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for, and it's essential that employees view the company's vision as their own," she says.

Enabling Reinvention

Shortly after the merger was complete in July 2015, executives at the new Kraft Heinz launched a vision for the future: To be the best food company, growing a better world. With that vision came five new corporate values: "consumer first, innovation, integrity, ownership and quality."

On day one, the company launched a long-term strategy to communicate the values to the entire company, starting with an all-employee meeting. The plan included the company's global intranet KHConnect, as well as a series of global conventions and town hall meetings, e-newsletters and small-group employee breakfasts with CEO Bernardo Hees and other leaders.

That level of ongoing communication is important because without it, space gets filled with rumors and speculation, Ms. Werneck says.

PHOTOS COURTESY KRAFT HEINZ

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At the same time, she says the company’s leadership works to model the change they want employees to adopt. “Our CEO believes in walking the floors, in talking to employees and managers. He talks about learning by listening to their ideas and getting unfiltered information about the business. It’s up to leaders to provide the right framework and ask the right questions in order to get the answers that move our business forward.”

The Long Game

Shortly after the merger was complete, the company cut about 2,500 jobs. The move was to “ensure we are operating as efficiently and effectively as possible,” a company spokesperson said, according to the *Chicago Tribune*.

But the layoffs, as well as other cost-cutting initiatives, have caused critics to say the company is more focused on saving money than sparking innovation. In April, Credit Suisse reduced its share price target for the company from \$77 to \$55, citing “serious doubts about the management team’s ability to generate sufficient product innovation to grow its collection of ‘retro’ brands in highly commoditized categories.”

While Mr. Hees acknowledges the toll the layoffs have taken, he told *The New York Times* it is an important step in generating “the resources so you can reinvest behind the brands, the products and the people. We believe we can create a lot of value for the long run by going through this.”

Ms. Werneck says that post-merger, Kraft Heinz is prioritizing fewer, bigger and bolder bets. To help drive those bets, the company recently launched Springboard, an incubator and accelerator for emerging food brands and products. And in May, Kraft Heinz opened a €90 million innovation center in Amsterdam that will seek new methods for growth.

Stand Behind Your Culture

Much has been made about the company’s

competitive culture since the merger. Credit Suisse analyst Robert Moskow described it this way: “Young executives take on a workload that exceeds that of any other company we have heard of in the consumer products industry.”

Ms. Werneck says that while Kraft Heinz’s culture, might not be for everyone, it differentiates the company by putting the emphasis on performance.

A fundamental facet of the culture is the setting of individual or team goals for each executive and salaried employee through the company’s Management By Objectives (MBO) system.

“Each year, our employees’ MBOs are developed as part of a broader process that aligns the work of everyone at Kraft Heinz in the right direction, cascading down from the annual objectives set by our board of directors for our CEO,” Ms. Werneck says. “We challenge our employees to create significant but attainable improvements that will help us reach our company’s top-level goals.”

For example, Ms. Werneck says that one MBO many senior leaders throughout the organization are committed to is “Deliver New Projects to Foster the Business.” Essentially, in some way, they are responsible for driving and building growth within their business unit or function, be it revenue management or e-commerce.

It is more than just talk. MBOs are reviewed and scored on a quarterly basis. And they often serve as a backdrop—literally—to focus teams on what matters most. “Our senior leaders, including our CEO, have their MBOs posted visibly on the wall,” she says.

It is an approach that encourages teamwork and helps Kraft Heinz quickly pivot its strategy in a fast-changing market.

“Fast-moving change is a reality in our industry. But our challenge remains the same: to deliver product innovation that meets consumers’ changing needs. Companies like ours that are adaptable have an edge in the marketplace.” **IQ**