H.J. Heinz Inc: Industry Analysis

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Introduction and Global Operations Overview

The Heinz Company is a global leader in the food industry. In the United States, the iconic bottle of Heinz ketchup is a familiar household staple. However, consumers may not be aware that ketchup is only one of dozens of Heinz products on the market, and the majority of the company’s revenue comes from markets outside the United States in Europe and Asia. With its headquarters in Pittsburgh, Pennsylvania, Heinz has offices located on six of the seven continents. Heinz focuses on marketing their products with an emphasis on health, wellness, and sustainability. Along with manufacturing high quality food products adapted to unique consumer traits in various regions of the world, Heinz also contributes generously to charitable efforts in parts of the world that need help most. Recently, Heinz received an award for ranking number one in customer satisfaction for the eleventh year in a row by the American Customer Satisfaction Index (Heinz, n.d.). “The Company,” as it calls itself, has high standards for the food it manufactures and for its corporate operations resulting in a role-model of a company raising the bar in global business operations.

History and Global Footprint

Heinz founder Henry John (H.J) Heinz created a foundation for company success by instilling values of team building, collaboration, innovation, vision, results-based operations, and integrity in his employees. By following his mission statement, “To do a common thing uncommonly well brings success,” Heinz has been successful at introducing new products to the market for over 140 years (Heinz, n.d.). The H.J. Heinz Company was founded in 1869 in Sharpsburg, Pennsylvania. It was incorporated on July 17, 1900, and grew to become a business partnership in 1905. Currently, Heinz headquarters are in Pittsburgh, Pennsylvania.
Heinz is striving to develop globally while positively impacting the world. Through its HeinzSeed program, the Company is promoting sustainability and supplying more than 30 countries with natural hybrid tomato seeds (H.J. Heinz Annual Report and 10k, 2010). This enables farmers to produce higher yields of quality tomatoes without genetic modification. It has been particularly successful in China, and the Company recently began a program partnering with the United States Agency for International Disaster in the economically afflicted Upper Nile region of Egypt. Heinz also partners with Lucy Liu as spokeswoman for the Heinz Micronutrient program to provide packages of powdered vitamins and minerals that can be mixed into normal meals for infants and children living in developing nations. The Heinz Microseed program has helped three million children fight the threat of iron deficiency, anemia, and vitamin and mineral malnutrition in 15 countries (H.J. Heinz Annual Report and 10k, 2010). The program was recently introduced into North America and Africa as it continues to grow, with a goal of reaching one million additional children by the end of this year. Heinz is committed to impacting the world through the Heinzseed and Heinz Micronutrient programs.

Industry and Products

As previously mentioned, Heinz is a global leader in the global market of food products. With sixty percent of its sales generated outside the United States, Heinz is an example of a company that has prospered from globalization (Heinz 10K Annual Report). The products that Heinz manufactures and markets fall under the three categories of condiments, frozen foods, and infant foods. Product availability varies around the world, as do the ingredients. For example, popular Heinz products distributed in the United States include Smart Ones and T.G.I. Friday’s frozen entrees, Pickles, Classico pasta sauce, and ketchup. Ketchup is also available in Poland, but it is made with different ingredients, is packaged differently, and is called “Pudliszki” (Heinz...
10K Annual Report). Heinz manufactures and markets products that meet the standards of individual countries, and the needs and wants of consumers in these countries.

Heinz’s innovative marketing techniques assist in generating product success in the global food industry. In February 2010, Heinz announced the latest addition to the Heinz Ketchup product line. The new “Dip & Squeeze” ketchup, which enables consumers to squeeze ketchup onto food by removing the tip of the small, ketchup bottle-shaped packet, or peel back the wrapper to dip their food in the sauce. In recent efforts to promote the new Dip & Squeeze product, Heinz purchased a used truck, installed a custom kitchen with double-stacked convention ovens, food warmers, sinks, and a freezer. The truck was branded with the project’s slogan, “Heinz Ketchup Road Trip,” and the campaign was pitched on social media sites including Twitter and Facebook. The road trip began in mid-November in Pittsburgh, spent Thanksgiving in New York, and will make its way to Philadelphia before a final stop down south in Dallas. Visitors to the Heinz Ketchup Road Trip truck receive a free serving of Ore-Ida crinkle cut fries or Ore-Ida sweet potato fries (both Heinz products) along with a packet of Dip & Squeeze Ketchup. Jessica Jackson, head of public relations and communications for Heinz North America, explains the on-the-go campaign was very fitting for the Dip & Squeeze Ketchup packets. She says, “Since it was really made for eating on the go, we wanted to create an environment where people could experience it on the go” (Vega, 2010).

Geographic Coverage and International Sales Totals

The Heinz Company sales extend across the globe and generated about $10.5 billion internationally in the last year (Heinz 10K Annual Report). Heinz divides its markets into the five regions of North America, U.S. Foodservice, Europe, Asia/Pacific and Rest of World. The Asia/Pacific region includes Australia, New Zealand, India, Japan, China, South Korea,
Indonesia, and Singapore. The Rest of World region includes Africa, Latin America, and the Middle East. The $10.5 billion earned in the last year was the sum of North America’s $3,192,219,000, U.S Food Service’s $1,429,511,000, Europe’s $3,332,619,000, Asia/Pacific’s $2,007,252,000, and Rest of World’s $533,382,000 revenues (H.J. Heinz Annual Report and 10k, 2010). These totals indicate that North America is Heinz’s strongest market, closely followed by the European region. The Rest of World region includes many developing nations thus generated significantly lower revenue. A future agenda is the expansion of Heinz products in developing nations through the creation of useful, economical products and targeted marketing.

Emerging markets that Heinz has operations in include China, India, Latin America, and Russia. Heinz is also exploring new markets in the Philippines, Turkey, Vietnam, and Brazil. On November 30, 2010, Heinz announced that it would participate in the 2010 Credit Suisse Holiday Conference on December 7, 2010. During the conference, the Company will present an overview of Heinz’s strategies, results, and businesses around the world represented by Margaret Nollen, Senior Vice President, Investor Relations (The Wall Street Journal Market Watch) (H.J. Heinz Company to Participate in the 2010 Credit Suisse Holiday Conference, 2010).

Global Production, Distribution Facilities & Supply Chain

The Company owns a total of 67 factories and leases eight across the globe (H.J. Heinz Annual Report and 10k, 2010). In North America, 20 factories are owned and four are leased, in Europe 21 are owned and none are leased, in the Asia-Pacific region 20 are owned and two are leased, and in the Rest of World six factories are owned and two are leased.

Heinz’s intricate supply chain enables its products to command vast global coverage and accessibility. The products are sold through Heinz’s own sales organizations, through
independent brokers, and agents and distributors of chains, wholesalers, cooperative and independent grocery accounts, convenience stores, bakeries, pharmacies, mass merchants, club stores, foodservice distributors and institutions including hotels, restaurants, hospitals, health-care facilities, and certain government agencies (H.J. Heinz Annual Report and 10k, 2010). The Company has set a goal of delivering more than $1 billion in cost savings over the next five years through global supply chain initiatives designed to achieve economies of scale and reduce costs by leveraging people, process, and technology (H.J. Heinz Annual Report and 10k, 2010).

Multinational Market Regions and Market Groups

Throughout the varying entities of the Heinz Corporation at least one thing remains constant, high expectations pertaining to corporate and social responsibility. Their pride in responsibility, along with their strict outline of rules and business standards, allows for swift and easy adaptations to local and regional group regulations (such as: NAFTA, the EU, CAFTA, ASEAN, etc). Although countries and regions have differing health standards and regulations for food, Heinz avoids complications with the countries’ respective economic unions or organizations due to the Company’s nature of business.

If a firm in the food industry wishes to compete on a global scale, the foremost outside force it will contend with and adapt to is culture. One way in which a country expresses its culture is through food. Since cultures change from region to region, one can see that it would be virtually impossible for a firm competing on a global scale to have one product which transcends all markets and appeals to everyone’s preferences. Therefore, Heinz does not have one product that it must mold to different rules and regulations in order to sell it to different markets. Heinz competes on a global scale through the acquisition of companies that have already established demand for products in their market. These acquisitions enable Heinz to bypass the political red
tape which most companies introducing products into a foreign marketplace must overcome. Therefore Heinz does not have to adapt, but maintain, the business practices of the firms they acquire.

Although Heinz may not have direct involvement with economic unions or other similar organizations, 22 of their international locations are certified by the International Organization for Standardization (ISO). The ISO is, “a network of the national standards institutes of 163 countries, one member per country, with a Central Secretariat in Geneva, Switzerland, that coordinates the system” (FAQ, n.d.). Specifically Heinz adheres to ISO 14001 which provides firms with a framework in order to manage effectively their business in hopes of assuring employees and stakeholders that they are working for, or investing in, an environmentally conscious company. Their involvement with the ISO illustrates Heinz’s emphasis on the betterment of the environment, safety and well being of employees, and responsibility to stakeholders and consumers.

Cultural Issues

In the United States, Heinz is an iconic brand known for the distinct glass ketchup bottles that are a mainstay in restaurants around the country. The simple condiment has become a staple to pair with many different kinds of food and is seen as much of a necessity as salt and pepper to keep readily available. Heinz products as a whole have adapted and grown over the years to become well integrated with society’s needs.

In terms of global development, Heinz has succeeded in finding new ways of innovation in product offerings to cater to specific demographics. In order to accommodate to the tastes of the specific area, Heinz acquires an existing food company that has already proven successful in the market or shows potential for future growth. Recently, Heinz acquired Foodstar, a leading
Chinese manufacturer of premium branded soy sauces and fermented bean curd (Heinz completes acquisition of Foodstar, 2010). Foodstar has pre-existing brands that have been well established in an economy that is projecting an annual growth of seven to eight percent in the coming years.

North America

In the United States, Heinz is the best-selling brand of ketchup in the country (H.J. Heinz Company, Inc., 2010). There are many ‘heritage’ brands associated with common condiments used by Americans. These include items such as vinegar, cocktail sauce, chili sauce, pickles, relishes, mustard, and Heinz 57® Sauce. In the past year Heinz has introduced 200 new products in the past year, including Smart Ones breakfast sandwiches and Ore-Ida microwaveable mashed potatoes. Heinz also developed a variety of frozen products from successful preexisting brands, such as T.G.I. Friday's by creating foods with similar tastes that customers can enjoy at home. Since the U.S. food market is heavily saturated, Heinz is focusing on developing new items from existing ideas to promote growth in the industry.

Heinz has been a part of Canadian culture for the past 100 years specializing in condiments, pasta sauces, canned beans, pasta, refrigerated dressings, and infant foods. Their largest presence in this country is in infant food markets; they have enjoyed the number one position in this market for 70 years (H.J. Heinz Annual Report and 10k, 2010). The Company offers a wide range of products, from Nature Infant Formula to toddler snacks. More recently, Heinz has begun to deliver these items in traditional and organic varieties to accommodate parental health concerns.

Europe
In the United Kingdom, Heinz is inextricably linked with British history and culture to the extent that it is believed to be a U.K. company. Items such as Heinz Baked Beans have become a century old tradition, along with other products such as HP sauce, Lea & Perrins Sauce, and Heinz Salad Cream. Heinz Salad Cream was the first brand developed exclusively for the U.K. market and was developed in their London kitchens in 1925 (H.J. Heinz Inc. 2010).

Heinz frequently uses the strategy of taking successful products and exporting them into markets where there is a vacancy. This is especially true in the European market. For example, Pudliszki is one of Poland's largest producers of ketchup and it is now offered in the United Kingdom. Also, Italy’s Plasmon baby food brand has become the “gold standard” for infant-nutrition products. It has dominated the marketplace due to the all-natural recipes as well as expanded lines of Baby Specials that parents seek. The Baby Specials line promotes easier digestion and contains hypoallergenic nutrients. Heinz also positioned this line in Russia and has experienced increased adaptation in this market as well (H.J. Heinz Inc. 2010). Transferring successful products into different markets is a common Heinz business technique.

Asia Pacific

Heinz has learned from experience that it is not beneficial to sell one product globally and expect high assimilation into different cultures. China and Indonesia are two areas that are growing rapidly and their culture is developing significantly. The Asian Heinz label reported a 44% increase in sales last year and is expected to continue to grow (Boyle 2008). In this region, Heinz sells beverage syrup and chili sauce and has acquired the successful soy sauce brand ABC. Since its creation in 1988, ABC has become the second largest soy sauce brand in this region behind the Japanese brand, Kikkoman. Heinz has also done a major overhaul in the packaging, flavoring, marketing, and distribution of these products to generate more than $200 million in
sales in the past year. To promote further growth and make the products more widely accepted in these cultures, Heinz has inspired chefs to create innovative recipes using ABC (Boyle 2008). Heinz has been successful in the Asia Pacific region because they have adapted to the unique tastes of the culture and have used innovative marketing techniques such as inspiring product-containing recipes.

Political and Legal Environment

The Company’s performance is impacted by political and economic conditions in the nations in which it operates. The factors and conditions include changes in applicable laws and regulations, including changes in food and drug laws, accounting standards and critical accounting estimates, environmental laws, and taxation requirements. Other factors include import and export restrictions, nationalization, hyperinflationary environments, terrorist acts and political unrest. Venezuela, a country included in the Rest of World market, is a country of concern for Heinz. This market shows potential for growth, but the political instability and hyperinflationary environment of Venezuela creates risk for market penetration and business operations.

Other political and legal factors listed by The Heinz Company that can occur and adversely affect financial results are disruption of supply chain, factors affecting the cost of production, transportation, and distribution such as increased energy costs; increased pension, labor, and people-related expenses; food safety issues, environmental, legal, tax and other regulations. Foreign currency exchange rate exposure, the failure to successfully integrate acquisitions and joint ventures into existing operations and the failure to gain applicable regulatory approval for such transactions or divestitures can also adversely affect the Company
(H.J. Heinz Annual Report and 10k, 2010). These factors are most frequently encountered when attempting to enter an emerging market.

On November 19, 2010, the H.J. Heinz Company reported higher second quarter operating income, net income, and earnings per share resulting from strong sales from growth in Emerging Markets and global ketchup (Cordiero, A., & Stynes, T, 2010). Emerging Markets were responsible for a 10.2 percent sales growth driven by infant nutrition products, ketchup, and nutritional beverages as well as increased pricing, primarily in Latin America (Cordiero, A., & Stynes, T, 2010). For the quarter, Emerging Markets were responsible for 15 percent of total sales (Cordiero, A., & Stynes, T, 2010). Globally, sales of ketchup grew 3.3 percent, led by Russia where Heinz is the number one brand (The Wall Street Journal Market Watch). However, currency movements adversely affected sales in Europe and Venezuela. In an online article from Bloomberg Business (Devereux, C, 2010), it was reported that sales from the European market decreased 5.2 percent year-over-year to $798 million primarily resulting from unfavorable currency effects. The report also stated that the Rest of World market saw sales decrease 19 percent to $120 million due to the devaluation of the Venezuelan currency late in the third quarter of Fiscal 2010 (Proactive Investors, 2010).

Emerging Markets

If a firm wishes to expand and maximize its growth potential it must analyze what markets they are currently in and which ones they have yet to enter. They should then determine which markets show the most promise for profitability and identify these as their emerging markets. According to the Business Dictionary, “emerging markets” are, “new market structures arising from digitalization, deregulation, globalization, and open-standards, that are shifting the balance of economic power from the sellers to the buyers.” For Heinz, emerging markets are
crucial because they generated about 15% of their 2009 total sales (H.J. Heinz Annual Report and 10k, 2010). Their primary emerging markets include India, Indonesia, Latin America, Poland, and China; sales in these markets grew by 8.8% in the fiscal 2009 year and continue to show expansion and growth (H.J. Heinz Annual Report and 10k, 2010).

According to the Heinz website one of the four keys in its business strategy is acceleration and growth in emerging markets (H.J. Heinz Annual Report and 10k, 2010). They seek to do this by investing for double-digit sales and profit growth, leveraging infrastructure and expanding distribution, winning the global customers, applying modern trade tactics, growing through health and wellness (as well as taste), and by leveraging themselves through innovation (H.J. Heinz Annual Report and 10k, 2010). On a macro level Heinz generally expands its company throughout the world through major mergers, acquisitions, and joint ventures. Heinz seeks companies with established products in the region they wish to expand to. Then seek to compose a deal where they can merge or acquire the company; thus attaining a low-risk market entry.

Understanding Heinz’s emerging market strategy is exemplified in the establishment of business in India. India has become one of the leading emerging markets for numerous industries due to its large population (1,173,108,018 people in July 2010), and advancements in technology, transportation, education, and government (CIA, n.d.). Since the culture and cuisine are exponentially different than Heinz’s home country, the Company has had to invest in products which will meet the preferences of the Indian consumer. In India, Heinz offers a variety of food products such as Indian chutneys, energy drinks, instant (or ready-to-eat and ready-to-cook) meals, and most importantly nutritional beverage mixes that enhance child growth and
development. The Indian consumer is health conscious thus one of the main sources of revenue for Heinz is its nutritional beverages.

In order to manage its Indian market Heinz must have locations for offices, factories, and distribution in India. Heinz currently has a head office in Mumbai, in addition to four branch offices, two factories in Sitarganj and Aligarh, and 119 distributors dispersed throughout India (Map, n.d). This complex system of management is necessary in order to be successful in a foreign market. This allows Heinz to decrease communication time between distributors and management, which could prove to be essential in problem solving. The dispersed web of Heinz factories and distributors decreases costs because it reduces shipping expenses. Having “in country” sites allows them to distribute their product with minimal shipping and transportation costs; and it also greatly shortens the distribution time.

India is only one example of the value of the emerging market to Heinz. Adaptation and implementation is necessary for the Company’s global success. Heinz has similar strategies, management systems, and customization of products throughout many other important markets such as Poland, China, Latin America, and Indonesia to name a few. Growth in sales in China can be accredited to major acquisitions of Foodstar, Long Fong, and their involvement in nutrition and baby foods. Poland hosts Heinz’s Pudliszki brand and is the country’s main food processor for prepared meals and also is its largest producer of ketchup. There are many examples as to how Heinz stays competitive in emerging markets. They continue to seek growth in these markets through acquisition, mergers, adaptation, research and development, local supply, distribution, and management systems, and through the implementation of high standards which must be adhered to by all segments of their large corporation. The future in these emerging markets looks promising for Heinz as they expect to maintain their #1 or #2 market
share in over 50 countries through an expected contribution of 20% of sales (from emerging markets) by 2013 (H.J. Heinz Annual Report and 10k, 2010).

Foreign Currency Marketplace

Currency exchange rates have a high impact on Heinz’s present and future focus. In emerging markets, acquisitions and foreign exchange translation rates had a favorable impact on the 30% sales growth in 2010 (H.J. Heinz Annual Report and 10k, 2010). For Heinz, assets and liabilities are translated at the exchange rate in effect at each year-end. Income statements are translated at the average rate of exchange prevailing during the year and translation adjustments are included within shareholders’ equity (H.J. Heinz Annual Report and 10k, 2010). To date, it appears that foreign currency exchange rate has not completely hindered Heinz from pursuing potential markets where they feel that their company would be well positioned.

North America

Due to the fact that H.J. Heinz Inc. is located in the United States, there are no currency exchange issues. During the FY2010, sales in Canada increased by 1.3% due to favorable Canadian exchange rates. This is an improvement over the past year where sales were down as result of the dollar weakening against the Canadian currency. This favorable exchange rate in 2010 also resulted in an increase in gross profit from FY2009 (H.J. Heinz Annual Report and 10k, 2010).

Europe

During the fiscal year of 2010, transaction-related currency cross-rates in the U.K. hindered the Company’s gross profit margin (H.J. Heinz Annual Report and 10k, 2010). For the continent as a whole, gross profit declined to $1.25 billion largely due to “unfavorable foreign exchange translation rates and increased commodity costs (H.J. Heinz Annual Report and 10k,
2010). This also led to a large decrease in sales due to the unfavorable rate. The areas that were affected the most by this slide were the frozen food plants in Europe resulting from increased commodity costs and higher manufacturing costs (H.J. Heinz Annual Report and 10k, 2010).

Asia Pacific

In this region, foreign exchange translation rates were very favorable, which led to an $83 million gross profit increase for Heinz (H.J. Heinz Annual Report and 10k, 2010). Improvements in productivity also motivated this large increase. Operating income of the firm increased as a result of good exchange rates and an increase in marketing investments.

Venezuela

In Venezuela, Heinz has a currency control board that is responsible for the translation of foreign currencies. Concerning imports, Heinz has established good relations to obtain U.S. dollars for the official exchange rate for items such as ingredients, packaging, manufacturing equipment, and other necessary inputs. There is an unregulated parallel market for exchanging VEF to U.S. dollars, but this Company does not enter into such transactions. The official exchange rate has been fixed for several years at 2.15 VEF to 1 U.S. dollar, despite a large increase in inflation. Heinz has recorded a $62 million currency translation loss due to the currency devaluation (H.J. Heinz Annual Report and 10k, 2010).

However, even with these regulatory institutions in place to combat issues that may arise, the country of Venezuela is still a large liability. The government of Venezuela recently expropriated Owens-Illinois, the world’s largest producer of glass containers. Hugo Chavez claimed to the media that “[Owens-Illinois] was exploiting workers and damaging the environment”, which is why the government is taking over the local unit. In the media release, it was cited that Chavez even momentarily forgot the name of the company he was taking over.
This demonstrates that Venezuela’s dictator has ruthless motives that affect his decisions. Heinz must continue to monitor these developments in order to prevent incurring future damage.

Global Market Entry Strategies

Heinz’s primary method of market entry is through acquisition of existing companies in a particular market. The Company’s recent acquisition trends have involved BEMs (Big Emerging Markets) and the BRIC (Brazil, Russia, India, and China) countries. In June 2010, Heinz acquired Chinese brand Foodstar, a manufacturer of premium branded soy sauces and fermented bean curd, for $165 million (H.J. Heinz Annual Report and 10k, 2010). The acquisition of Foodstar provides a platform for Heinz to further grow the established soy sauces, bean curd, and infant nutrition products in China, and in other Asian nations. Heinz also acquired the Chinese based ABC Company, producer of ABC soy sauce. Heinz CEO Bill Johnson announced that Indonesia delivered 19% sales growth in ABC sauce sale proving the acquisition of ABC to be most beneficial for entering the Indonesian market and beyond. Following this success, Heinz is pushing for more Ketchup and chili sauces in Indonesia (H.J. Heinz F2Q11 Earnings Call Transcript).

Another acquisition the Heinz Company has shown interest in is Synutra International, a baby food company that manufactures in Maryland and distributes exclusively in China. The Company is further interested in acquiring baby food manufacturer Ausnutria based out of Changsha, China. Heinz CEO Bill Johnson says, “I see China in particular as one of the keys to unlocking future value for Heinz. Consequently, we are investing aggressively there to accelerate growth, especially in sauces and infant nutrition,” (AP, Bloomsberg Businessweek, 2010). Heinz is already the fifth largest producer of baby food in the world, and has started selling
infant formula in China and Russia this year. China and Russia are among the list of emerging markets that will account for 20 percent of revenue by the fiscal year of 2013 (Boyle, M, 2010).

The baby food market in China presents a tremendous opportunity for Heinz. The Company’s high-quality reputation is essential for new market entry. Past scares in the Chinese nutrition sector have created consumer demand for trusted products distinguished from other products by the advantages they can provide (Boyle, M, 2010). This directly applies to Heinz’s marketing of baby food and infant formula in China. Heinz CEO Bill Johnson says, “We know…that consumers in China on baby food will pay more for products that they perceive as premium products that offer benefits from a nutritional aspect to their children that other products don’t make.” India is another market providing opportunity for profit in the baby food industry. The Complan Nutri-Gro is a nutritional drink for babies and young children, and is part of the Complan nutritional beverage line of products by Heinz available in India.

Heinz is continuing to seek out acquisitions in emerging markets such as the Philippines, Turkey, Vietnam, and Brazil. The Company is focused on being well positioned in these emerging markets and others including India, Indonesia, Russia, and Latin America as the new group of middle-class consumers continue to expand.

Products and Services for Businesses and Consumers

Again, if a company is going to compete globally, adaptation is arguably the most important aspect of their business; especially in the food and drink industry. Heinz must be sensitive to the cultural differences in food preparation and consumption habits in order to reach full potential in different markets. This point is made evident by Warren Keegan and Mark Green when they said, “A solid understanding of food-related cultural preferences is important for any company that markets food or beverage products globally” (2008, p.114). With over 15 major
brands and hundreds of products, Heinz’s complete and “solid” understanding of cultural preferences elicits their success in more than 200 countries around the world. Heinz divides these countries into five major regions: North America, U.S. Food Services, Asia Pacific, Europe, and the Rest of the World.

In its home North American Market Heinz’s saw an increase of $124 million, or 4.1%, in consumer products in the 2009 Fiscal Year (H.J. Heinz Annual Report and 10k, 2010). According to the Company’s 2010 10k report, the North American Consumer Products market “primarily manufactures, markets and sells ketchup, condiments, sauces, pasta meals, and frozen potatoes, entrees, snacks, and appetizers to the grocery channels” (H.J. Heinz Annual Report and 10k, 2010). Some of the major trademarks operated in this region include: Heinz Ketchup, Jack Daniel’s, Chef Francisco, Ore-Ida, Bagel Bites, Weight Watchers, Boston Market, and T.G.I. Friday’s. The adaptation level in the North American market is limited since Heinz was founded in the United States and has established many of its original products in this region. With this said, Heinz remains competitive through continued research and development or acquisitions of new products and ideas. These products and ideas should reflect changes in consumer lifestyles; i.e. the recent move to ready-to-cook and microwavable meals due to the fast-paced American lifestyle and does not have much time to cook.

Heinz first entered the European market when the Company’s founder Henry John Heinz made his first international trip to England’s Fortnum & Mason in 1886, and has been a staple in the European diet since. This region of operation supports over 30 of Heinz’s trademarked brands including: Heinz, Plasmon, Weight Watchers, Aunt Bessie, Pudliszki, Amoy, and Lea & Perrins (H.J. Heinz Annual Report and 10k, 2010). Beans have always been an important food in the U.K. diet and have become one of the Company’s leading European segments. Heinz has had
continual adaptation in packaging its beans for the most customer benefit. They have moved from cans, to plastic containers, to smaller portioned containers (they resemble what Americans recognize as pudding containers) for faster and more mobile service, and now offer a refrigerator friendly container.

The European market has also provided success for Heinz’s Infant and Nutrition segment holding the number-one position in baby food sales in Italy and the United Kingdom (Infant Nutrition, n.d., para. 1). Heinz saw a demand for nutritional products, baby food, and other food products such as beans in the European market and took full advantage of their resources to meet that demand. They did not have to adjust corporate or business strategies, allowing them to maintain the same high levels of quality and standards across their brands. As reported in their 2010 10k, the adaptation to their product and brand lines in Europe has allowed Heinz to reach a total of $3.3 billion in sales, about 31% of total sales, in the fiscal 2009 year (p.26).

The Asia Pacific market is one of Heinz’s most productive and lucrative emerging markets. Geographically, this segment “includes the Company’s operations in Australia, New Zealand, India, Japan, China, South Korea, Indonesia, and Singapore. This segment’s operations include products in all of the Company’s categories” (H.J. Heinz Annual Report and 10k, 2010). Heinz gained entrance into the large New Zealand market through one of the methods discussed in section 5; acquisition. Heinz acquired the Watties brand, which has been a leading force in the New Zealand market since the early 1900s offering meals, sauces, beans, spaghetti, infant foods, desserts and fruit servings, in 1992 expanding their global reach (Watties, 1993, para 1). Another two of their emerging markets in this segment that required adaptation of product due to cultural preferences are China and Indonesia. Heinz has acquired two large brands in these areas, Long Fong and ABC Soy sauce. They have adapted their products to the local consumer tastes by
producing various forms of frozen dumplings, noodles, and soy sauce. The positive response to Heinz’s product in the Asian marketplace has led them to invest in new product development and stronger distribution methods which will decrease transportation costs and delivery time. With brands like Long Fong, ABC Soy Sauce, Watties, Glucon D, Complan, and SinSin the Asia Pacific market segment grew 23.3% in 2009; the most by any of Heinz’s four major segments (H.J. Heinz Annual Report and 10k, 2010).

Although Heinz’s fourth and final segment, “Rest of the World,” is rather ambiguous and may seem all encompassing, it is not as profitable because it only accounted for about 5% of Heinz’s 2009 sales (H.J. Heinz Annual Report and 10k, 2010). This division includes Heinz’s operations in Africa, Latin America, and the Middle East and is a relatively new division for Heinz with the first location being established in Cairo, Egypt in 1992. The region which shows the most potential growth for Heinz is Latin America and it did not appear on their 10k until 2005 (H.J. Heinz Annual Report and 10k, 2010). This new market allows Heinz to experiment and create new sauces and flavors. They have introduced their ketchup and other spicier sauces to appeal to the Latin American appreciation of chilies and spicy flavorings. Another product which has gained acceptance in Latin America, as well as most of the rest of the world already discussed, is the baby food and nutrition drinks and products. Heinz’s emphasis on health and nutrition is something that has helped them to adapt to various markets almost seamlessly. They devote large sums of money and time researching ways to promote healthy foods and provide nutritional value in their products because it is something that is valued, and almost expected.

As we can see with the map in Appendix A Heinz’s market is not centralized in one area of the world; as the founder Henry Heinz declared in 1886, “The world is our field” (Rest of World, n.d.). Heinz has been able to incorporate their strategies and business tactics in over 200
countries in four classified regions throughout the world. They did not find this global success with one specific product but through a large variety of products. The large product and brand mix that Heinz supports shows their understanding of the importance of adaptation to success in the global market.

Pricing Issues

For Heinz, sales from FY2010 benefited from combined volume and pricing gains of 2.1%, led by the emerging markets and the Company’s top 15 brands, most notably the Heinz, Complan, and ABC brands (H.J. Heinz Annual Report and 10k, 2010). Competitive product and pricing pressures in the food industry and the less than ideal financial condition of customers and suppliers could adversely affect the Company’s ability to gain or maintain market share or profitability. These conditions and effects on financing are often beyond the control of Heinz. Any significant changes in product prices, sales volume, or contractual terms may impact Heinz financially. These changes are most likely going to be motivated by the Company’s competitors that have “substantial financial, marketing, or other resources” that could bolster their product ahead of Heinz (Heinz Annual Report and 10k, 2010). Private label brands that are marketed and sold by certain retail outlets also represent pricing competition because they are priced so much lower (Heinz Annual Report and 10k, 2010).

North America

Net prices for the FY2010 in North America grew 1.9% as a result of price increases taken across the majority of the Company’s product portfolio throughout FY2009 (Heinz Annual Report and 10k, 2010). This increase in pricing was in part offset by increased promotional spending in 2010, specifically on the Smart Ones frozen entrees and also Heinz ketchup products. As a result of the pricing changes in 2010, volume of products decreased overall, but
mostly in desserts and frozen meals due to “category softness” and promotions from the competition. These decreases in volume also related to the industry-wide slide in restaurant traffic and sales in the United States (H.J. Heinz Annual Report and 10k, 2010).

Europe

For the European market, net pricing also increased as a result of the rolling increases from the previous year. Productivity improvements helped regulate the pricing fluctuations in these sectors. Volume overall was down one percent principally due to decreases in France from the rationalization of low-margin sauces, and increased competitor promotional activity on frozen products in the U.K. The volume for infant nutrition products declined in the U.K. and Italy, in addition to decreases in Heinz pasta meals as a result of reduced promotional activities (Heinz Annual Report and 10k, 2010).

Asia Pacific

The Asia Pacific region saw the largest price increase of 2% in the past year, reflecting current and prior year increases on ABC products in Indonesia, in addition to the carryover impact of prior year price increases and reduced promotions in New Zealand. This large increase was partially offset by a decreased net pricing on Long Fong frozen products in China as a result of an increase in promotional spending. Even with the large price increase, gross profit still increased for the past year due to the compounding benefits of productivity improvements and favorable foreign exchange translation rates (Heinz Annual Report and 10k, 2010).

Latin America

In the rest of the world, pricing increases led to a 23.1% increase in sales (Heinz Annual Report and 10k, 2010). This was largely due to due to prior and current year price increases in Latin America taken to mitigate the impact of raw material and labor inflation. As a result, gross
profit also increased greatly in these markets in Latin America, even with seeing an increase in commodity costs and also the value of the VEF lowering (H.J. Heinz Annual Report and 10k, 2010).

Supply & Distribution Chains

Heinz’s supply chain is currently a central area of the Company’s focus. With the recent acquisition of the Chinese brand Foodstar, Heinz is planning to invest heavily in the supply chain in China to stimulate distribution, growth, and innovation. Heinz was recently ranked in the top ten for supply chain management for the first time in the new Power Ratings (H.J. Heinz CEO Discusses F2Q11 Results, 2010). Heinz has also been making efforts to accomplish sustainable manufacturing practices that accommodate food safety while accentuating profitability. In fact, The Heinz Company will present at The Food Manufacturing & Safety Forum in San Diego from January 31st-February 1st, 2011 (SB Wire Public Relations Services).

The Company’s supply chain is affected by a number of factors including damage or disruption to manufacturing or distribution capabilities resulting from weather, natural disaster, fire, terrorism, pandemic, strikes, the financial and/or operational instability of key suppliers, distributors, warehousing and transportation providers, or brokers, or other reasons that could impact the ability to manufacture or sell products (Heinz Annual Report and 10k, 2010).

The Heinz distribution chain has expanded into new markets through its numerous acquisitions. For example, the Foodstar acquisition in China is also helping Heinz’s distribution channel reach further into the Asian market, particularly into Indonesia. As previously mentioned Heinz owns 67 and leases 8 distribution centers globally. According to The Company’s 2010 Annual 10k Report, Wal-Mart Stores, Inc. represented 11% of Heinz’s company sales (H.J. Heinz Annual Report and 10k, 2010). The 10k Report also explains that Heinz closely monitors
the credit risk associated with individual customers and to date has not experienced material losses.

Integrated Marketing Communications

Marketing thousands of products in over 200 countries means it is impossible for Heinz to extend the same themes and messages in all their advertisements. Their advertisements vary as much as their products do. The underlying concern when forming a global marketing strategy is culture. Culture defines who a person is and how they react to certain shapes, words, colors, sounds, and smells. It is imperative for Heinz to consider every style of advertising necessary to reach their consumer. One example Keegan and Green highlight is the difference between American and Japanese commercials. They make a broad generalization, yet accurate observation, when they say that American ads often utilize spokespeople (usually celebrities) and direct product comparisons. On the other hand, the Japanese audience responds positively to more image-oriented ads that appeal to the audience’s sentiment (2008, p. 410). Researching culture and paying attention to detail is essential for achieving affective advertising and marketing campaigns.

The more global a company becomes, the deeper their understanding of consumer response to their advertisements must be. Effectively communicating across the world presents a challenge and cannot be accomplished without an extensive integrated marketing communications (IMC) strategy. Since Heinz’s products are frequently-purchased and low-cost, their IMC strategy involves heavy promotion through reminder advertising (Green and Keegan, p. 398). Reminder advertising is defined as, “brief messages designed chiefly to keep a product in the mind of the consumer once the product is already familiar” (Business Dictionary, n.d.).
There are a few approaches to consider when deciding how to create advertisements. Company employees can create ads, hold contests for consumers to create ads, or hire outside agencies. Advertising agencies provide services such as market research, media buying, and direct marketing, as well as creating advertising (Green and Keegan, 2008, p. 403). Heinz usually hires external agencies to create and manage their advertising. The Company spent $375.8 million on advertising expenses in 2010. In 2008, Heinz hired AMV BBDO to run their advertising efforts in the United Kingdom. As Heinz soon learned, there are risks involved when hiring one of these agencies. AMV BBDO created a risqué advertisement in which two adult men were shown kissing. Though the ad was clever and no harm was intended, uproar ensued. After hundreds of complaints, Heinz pulled the advertisement, restricting it from airing anymore. Although they reacted swiftly by removing the ad, people had already been exposed to it and the brand image may have been tainted as a result. This example shows the importance of communication between Heinz and the advertising companies.

In addition to hiring advertising firms to handle local advertising campaigns and market research, Heinz occasionally holds a competition allowing their consumers to submit advertisements. The most recent competition was called “Top This TV Challenge: Part II” (Heinz previously ran a similar competition years prior) and challenged American consumers to make the next great Heinz America advertisement. The first place winner received $57,000 and two runner-ups were awarded $5,700. Requests for the commercial were simple: “Make us laugh. Make us cry. Make us say, “Wow! Why didn’t we think of that?”” (Top this, 2007.).

Having a successful integrated marketing communication strategy requires innovation, understanding of cultures, and proper inter-business relationships. Heinz has a reputation for creating effective, creative advertisements. The power of advertising is immeasurable and an
invaluable asset to any company utilizing it properly. To attain the full benefit, a firm must invest in understanding how various consumer markets respond to differing stimuli in advertisements. Part of Heinz’s core business strategy is to leverage their knowledge and personnel on a global scale. This involves acquisition of new employees with a variety of cultural backgrounds and sharing their knowledge and experiences with current Heinz employees. This, coupled with Heinz’s 30% increase in marketing spending over the last three fiscal years, will allow Heinz to support their leading brands with creative broadcasting, print and Internet advertisements, and greater point-of-purchase promotions (Heinz, 2009).

Global Operations Summary

In conclusion of researching H.J. Heinz Inc., this Company has expanded greatly over the past century into a multi-faceted entity holding a dominant market position in over 50 countries across the world (H.J. Heinz Annual Report and 10k, 2010). This is directly a result of implementing Heinz’s four key ideas that comprise the Company’s overall business strategy. These include growing the core portfolio, accelerating growth in emerging markets, strengthening and leveraging the Company on a global scale, and making the Company’s talent an advantage (H.J. Heinz Annual Report and 10k, 2010).

In looking to the future with the second strategy, Heinz is seeking to expand its offerings by focusing on emerging markets in countries such as the Brazil, Philippines, Turkey, and Vietnam where there is large potential growth. The Company is planning to take advantage of these opportunities mainly through mergers and acquisitions of preexisting companies. In order to be well positioned to expand in such markets, Heinz must also adapt their existing product lines to the culture’s needs and wants in conjunction with the labels they acquire.
It is likely that Heinz will encounter future challenges in dealing with political and legal compliance issues. With the majority of the Company’s growth coming from these arenas, Heinz must keep up with such changes. Failing to comply with foreign guidelines results in issues not only in a specific country, but also throughout the entire Heinz network. Adverse affects may include disrupting the supply chain; increased taxing that increases cost to consumers, and the possibility of losing the market.

While the majority of Heinz’s future success lies in these emerging markets, the Company must maintain its market leadership by focusing on continual improvements and innovation within existing markets. In order to remain competitive, Heinz demands the highest standards for all segments of the Company to ensure no division is neglected. If Heinz can balance both of these initiatives in the coming years, they are bound to continue their success in the food industry.
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