

Kraft Foods: Ukraine, Eastern Europe and Central Asia

**A View of the Global Crisis:
Threats and Opportunities,
Implications for Management
as a Science and as
Education**

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Kraft Foods successfully manages a large and seemingly diverse Area of 12 countries from its Kyiv, Ukraine HO



Economic context and Business Model Performance of Kraft Foods in Ukraine and other EE and CA markets

- **Economic Context of Ukraine: challenging laboratory**
 - Among fastest growing economies, rapidly expanding middle class, despite deficit of oil and gas, 12th largest in 1989 into deep depression/recovery, regaining like scale in 2007 but lower ranking
 - Decreasing level of state interference in economy, shrinking bureaucracy through slow reform, government efforts at responding to business after 2004, shortage of business educated professionals
 - Re-orientation in trade and business: membership in WTO, growing relationship with EU, focus on emerging economies vs problematic CIS with unstable free trade environment
- **Kraft Foods Business Model developed in Ukraine**
 - Board of Management: strong functional expertise/individualities, tightly integrated among functions, absence of ex-pats, strong continuity
 - Marketing: balance of international (learning from markets in further evolution) and local brands (full responsibility, benefit ladder to TVC creation)
 - Sales: focus on Traditional Trade, emerging Modern Trade, very large Field Sales Force, partnership with distributors, close cooperation with Key Accounts (local and international)
 - Model for Kraft in Latin America, Asia Pacific
 - Very close coordination among Marketing, Sales, Trade Marketing

Economic context and Business Model Performance of Kraft Foods in Ukraine and other EE and CA markets (continued)

- Success of Ukraine business: driven by continuity of experienced strong, competent team
 - Initial core team development: 1995-1998 internal staff development, own "MBA" program, operating business as a "live management game"
 - Professional recruiting: 1999 onwards
 - Training and development: functional and professional
 - Academic strength: 17 MBAs (IMI, KMBS), 20 MAs, 7 Candidate of Science, 2 Doctorates
 - Stretching assignments: two VPs in CEEMA Region HO, Directors Finance, Marketing in CEEMA BUs, lower level assignments in Region/Chicago HOs/other BUs
 - Experience in 1st wave New Market countries as basis for 2nd wave
- Business Performance: rapid growth
 - from \$4mn in 1994 to \$400++ mn in 2008
 - from one country to twelve
 - from one category to four/five, leader in market share in three (chocolate, coffee, salted snacks), new in two (biscuits, cheese) , agronomy program for 60,000 tons potatoes
 - No.1/No.2 in EE and CA after late start from behind
 - fastest growing BU in Kraft in three different years

Economic context and Business Model Performance of Kraft Foods in Ukraine and other EE and CA markets (continued)

- Stages of expansion: richness of experience, learning by doing, codifying and propagating
 - Ukraine experience through depression, crises, growth cycles in collective memory:
 - 1994/1995-1996 depression
 - 1997-1998 recovery
 - 1998/99 crisis,
 - 2001-2004 slow growth/authoritarian politics
 - 2005-2008 fast growth
 - 2008-2009→ ?: crisis
 - Business start-ups:
 - Moldova 2001
 - Belarus 2003
 - Caucasus 2005
 - Central Asia, Mongolia 2008

Among countries in Area, commonalities and development stages provide for synergistic development but require serious skills and HR resources

■ Development phasing

- All emerged at different stages of development from collapse of Soviet Union – no roadmap for transition from state capitalism to market capitalism, different paths to different goals
- All are pacing in groups with sequential applicability of Ukraine business model
 - Ukraine as market for development and application of successful model: 1995-2001
 - Eastern Europe: Belarus, Moldova, Caucasus lag by 5 years: 2001-2007
 - Kazakhstan, Mongolia lead Central Asia group: 2008-present

■ HR resources

- Transfer experienced managers from Ukraine to seed business in EE. After experience in EE, transfer next generation to CA
- EE: structural shortages of trained, experienced functional and general managers, similar to Ukraine in 2000
- CA: more acute shortage, resembles Ukraine in 1997
- Internal training and cross-functional, cross-country experience
- Strong cooperation with business schools in Ukraine, start cooperation with business schools in EE, CA

Current Global Crisis: Threats and Opportunities: Case of Ukraine, EE, CA - Manifestations

■ Manifestations of Crisis

– General observations

- Crisis onset was sensationalized by media – comparisons to 1929
- Stimulated states to aggressive regulatory, fiscal, and monetary measures
- Business, companies may have over-reacted: A&C cuts, price boosts, layoffs
- Consumer scare (offset by social safety net in EU)

– Crisis in Ukraine: worst performing economy (as per Bloomberg below):

- Heavy impact as with most exporting economies + banking paralysis
- Hryvnya: worst performing currency in world (-45% vs USD), compounded by USD deval vs Euro → expensive FG imports, raw materials and intermediate
- GDP: sharpest contraction in Europe (-20.3% in 1Q)
- Inflation: highest in Europe (-15.3% in August)

– Crisis in Eastern Europe, Central Asia:

- varied but less than Ukraine
- reduced worker remittances biggest issue
- greater price elasticity of demand

Current Global Crisis: Threats and Opportunities (continued) - Threats

Threats

- Demand function impacts
 - Consumer purchasing power: response to recession and to deval offsets
 - Pricing of complements/substitutes, competitor actions
 - Input prices, devaluation as cost driver and pricing response
 - Responsiveness to A&C
- Management issues
 - Experience vs. inexperience with crises, relevance of experience
 - International companies: HO needs and expectations
 - Local companies: financial soundness
- Challenge of accurate Threat Assessment
 - Meltdown vs. sharp financial panic: duration, depth, recovery
 - Competitor actions/reactions: advertise, price, retrench/expand
 - Consumer reactions: price/income elasticities, effect of A&C/Trade Marketing, shift to value vs brand loyalty
 - Government actions: currency controls, protectionism

Current Global Crisis: Threats and Opportunities (continued) – Opportunities and Outcomes

■ Opportunities

- Opportunities to capitalize on mistakes, weaknesses of others to
 - rapidly grow business, market share
 - gain skilled managers from firms with difficulties
 - strengthen strategic partner relations: distributors, key accounts, supplier
- Common mistakes/unavoidable actions by international/local firms during crisis
 - Shift to prepayment for customer/distributor orders → maintain/expand credit terms for stronger distributors → go for shelf space, presence, stocks
 - Stop Advertising → negotiate better terms, maintain/expand advertising → support brands/loyalty, provide reason to buy, go for “switchers”, go for competitor “loyals” who encounter out-of-stocks
 - Price out deval immediately → price out gradually, avoid shocking consumers
 - Switch to value → support mainstream, premium, avoid value
 - Cut field sales force → pick-up better sales staff
 - Salary freezes, layoffs → stay competitive, pick strong staff, be fair/equitable, reinforce long-term relations
 - Stop New Product Development, launches → provide consumers with new news
 - Divest businesses → acquire businesses (1998: coffee, 1999: salted snacks, 2008: biscuits, cheese)

■ Outcome: grow revenue, share, profit

Beyond the Crisis: what we expect in the Next Decade

- **Renewed organic growth**
 - Ukraine: continued strong growth
 - Consumption/capita in food, FMCG
 - still low vs 1989, very low vs. Europe, NA
 - overall at < 1/4 Italy, Spain
 - Coffee: Ukraine 0.5 kg/cap vs Hungary 3.0, Finland 10
 - Salted Snacks: Ukraine 0.4 k/cap, vs Czech 1.5, UK 3.5
 - Chocolate: Ukraine 2.5 kg/cap vs UK/Swiss 9.0
 - Boom in EE, esp. resource rich EE, CA
 - Slow growth pending reforms in other CA
- **Expansion: categories, premium segments, and geographies**
- **Qualitative change in markets and competitive environment**
- **Preparing for the Next Crisis**
 - When?
 - But will be unlike '98-99, '08-'09

Increasing importance of business education, training and development

- Fit to functional needs trainings: narrow in scope
 - Internal
 - Corporate international
 - External local and international

- Business school academic programs: broad and comprehensive education
 - In-country:
 - MBAs, certificate programs
 - CEE and CA:
 - “Aren’t we at the cutting edge of business development and management science?”
 - We are creating new models, strategies, tactics
 - Are we the bridge between East and West?
 - Out-of-country: CEE/CA vs WE/North America
 - Issue of relevance:
 - a science from developed/stagnant markets vs emerging/dynamic markets
 - relevance of '98-99 vs '08-09 crises
 - New rules of the new game
 - after the crisis: who will grower faster and farther
 - Are we missing the elephants in the room: China and India

- Associations: roles and needs
 - Professional
 - Industry
 - General Business Strategy: AmCham, European Business Association

We need to search for new Management and Leadership capabilities and enablers

- Where have we come from?
 - Grasping management science as a developed WE/NA academic discipline and practice, based on historic experience within evolved political and economic models
 - In conditions of collapse of “socialism” and uncharted market transformations, mastering “alien” details and seeking fit with evolving internal markets and company experiences and issues
 - Observing, explaining, reconciling a huge complexity of anomalies and variations
- Where we are heading?
 - Seeking, codifying and developing variations in management science that represent a wide spectrum of local realities
 - Developing a deeper understanding and fitting a very wide spectrum of political, economic, and management experiences, outcomes and drivers into expanded framework
- What do we need to do?
 - Establish/unify/replace old/new paradigms, developing, and propagating successful applications – moving from special cases to general theory
 - Reshape management as a science and management education accordingly
 - Provide more relevant offerings in academic and corporate market to improve success rates
 - Develop tight business – management cooperation: we need each other in this brave new world