Research Paper

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Corporate Strategy

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I. Executive Summary

The Hain Celestial Group markets and sells dry, refrigerated and frozen natural food, specialty food, and snack food products under brand names that are sold as “better-for-you” products. Hain has grown in sales from $2 million in 1993 to $104 million in 1999. Hain aims to be a $500 million company by the end of fiscal 2002.

The U.S. market for natural and organic products is valued at between $16.3 billion and $29.7 billion annually, depending on the source of information. This is one of the most dynamic sectors within the U.S. food market, with 3000 to 4000 new product introductions each year and with a projected annual growth of 15-18% in the foreseeable future.

Although organic foods account for less than 1% of total retail food sales, this sector is growing faster than any other area of the food industry. Since 1992, sales of organic foods have increased by more than 20% annually with continued strong growth expected for at least the next decade. In 1999, total organic food sales were estimated to be worth nearly $9 billion.[1]

Unlike most areas of the U.S. food industry, consumers have yet to establish brand preferences for the majority of natural and organic products. This lack of preference gives new products a good chance to become established in a market devoid of a few dominant products that hold a significant share of market sales. In addition, some of the large retailers and distributors of these products have begun establishing their own private-label brands. These product lines tend to be in their infancy, with retailers and distributors looking for new items to expand their current selections.[2]

In October 2001, the United States Department of Agriculture (USDA) enacted its new National Organic Program (NOP). The NOP replaced the individual state regulations and certifying procedures that currently regulate the industry. The new standards require all producers, processors, and handlers be certified to handle organic products. Farms handling less than US$5,000 annually in organic production are exempt from certification.[3]

It is recommended that Hain concentrate on marketing their rocket brands to increase consumer awareness and to acquire organic food companies in the fastest growing food segments of enhanced water, chocolate, and beer. Furthermore, Hain needs to continue to expand to Europe with distribution partnerships and acquisitions. Ultimately, Hain is an attractive acquisition candidate, especially for Heinz.

1.0 Hain Celestial Food Company

The Hain Celestial Group is headquartered in Uniondale, N.Y., markets and sells dry, refrigerated and frozen natural food, specialty food, and snack food products under brand names that are sold as "better-for-you" products. Hain is the leader in several markets in which it sells its products. Originally named 21st Century Food Products, the name was first changed to Kineret Acquisition Corp., and finally to Hain Food Group when Hain Pure Foods was acquired in 1994 from Pet Inc. The Hain brand name traces back to 1926 when its main product was carrot juice. Since its inception in 1993, Hain has grown in sales from $2 million to $104 million in 1999. Hain aims to be a $500 million company by the end of fiscal 2002.

Currently Hain is the largest manufacturer of natural and organic food with $425 million sales. Hain's products are manufactured by independent food processors using proprietary specifications and formulations and under quality inspections from Hain Food Group. The manufactured products are then sold primarily to specialty and natural food distributors and are marketed by independent food brokers and distributors to supermarkets, natural food stores and other retailers. Hain Food Group markets over 1500 different products under nineteen different brand names. Its main product categories are: natural foods, cooking oils, medically-directed snacks, kosher foods and weight watchers products under the license of H.J. Heinz.[4] Hain has high market share in a number of key categories.

Hain has been an active consolidator since its inception. The company has made at least fourteen significant transactions and has acquired more than twenty brands. Initially the strategy was to purchase brands in a wide variety of categories but recently the strategy has concentrated efforts on expanding abroad. The growth strategy for Hain has been the marketing of its six rocket brands and expanding retail availability of these brands to the mass markets.

Hain's wildcard is its ability to achieve distribution to the mass market. The company is aiming to achieve significant increases in sales flow through the mass market, an accomplishment that would increase its revenue base 40%. This increased P&L from access to distribution channels should more than offset the required marketing and promotional expenses.

2.0 The Natural/ Organic Food Industry

2.1 Natural Food Industry

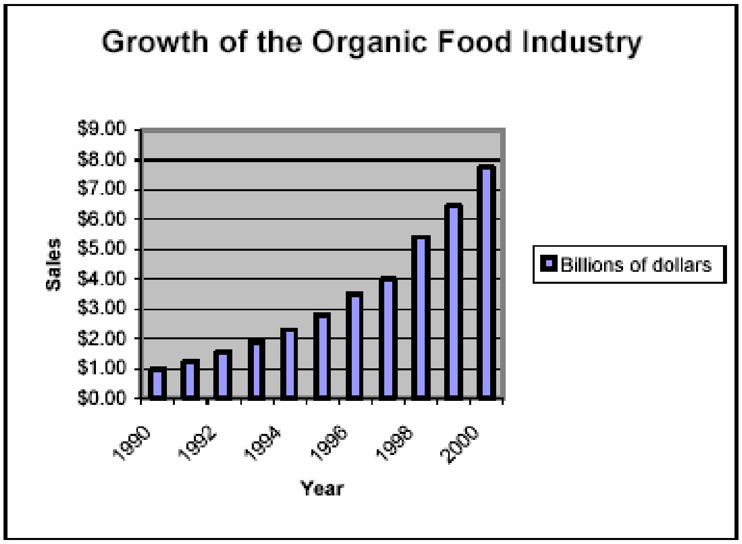
The natural food industry has undergone significant changes over the last decade. The industry is no longer primarily made up of small, poorly organized producers who had little interaction with the consumer. As the industry matured, companies who wished to remain competitive were forced to address many facets of their organization including the development of new products, the upgrading of equipment and facilities, the investment in market research, the increased communication with consumers, and the improvement of packaging and advertising techniques. In some cases, this has meant forming partnerships or alliances with other natural and organic food producers.[5] With regards to farmers, the United States government has no existing programs to encourage farmers to switch to organic programs.[6]

The new National Organic Program (NOP) of the USDA determines four product categories:[7]

- 100 percent organic: products containing only organically produced ingredients,
- organic: products containing ninety-five percent organically produced ingredients by weight,
- made with organic ingredients: a product containing more than seventy percent organic ingredients. Up to three of the organically produced ingredients can be specified on the principal display panel of the packaging, and
- processed products containing less than seventy percent organically produced ingredients which cannot use the term organic in the principal display panel but can list the ingredients organically produced on the ingredients' statement on the information panel.

With retail sales of over $9 billion in 2001 the organic food and beverage industry in the United States is the world's largest market for this product group. Industry sources expect future years' growth to continue over the short to medium term. According to the Organic Consumer Trends 2001, published by the Natural Marketing Institute in cooperation with the Organic Trade Association (OTA), retail sales might reach $20 billion in 2005. The following diagram summarizes the growth of the organic food industry to 2000.

Chart 1.0 Growth of the Organic Food Industry



The growth in the natural/organic food industry is further evident by the enormous growth in several categories, such as, non-dairy beverages, snacks, soy products, ready – to-eat foods.

New age beverages, which retail trade defines as bottled functional drinks, fortified teas, sports drinks, and smoothies will increase significantly this year.[8] Consumers' lives are becoming more hectic, promoting the need for more on-the-run snacks: on-the-bus/car breakfast, bars that fit in boxed lunches and in-between meal snacks. The following table shows the growth rates in the natural/organic food categories.

Table 1.0 Top Organic Category Sales

Top Organic Category Sales: Mainstream Stores [*12-month period ended June 2001.]			
		Dollar Sales	**% Growth**
Non-Dairy Beverages	1	$208,549,872	60.1%
Milk, Half & Half, Cream	2	$119,315,772	30.2%
Fresh Produce (UPC coded)	3	$93,978,272	35.9%
Frozen Entrees, Pizzas & Convenience Foods	4	$74,091,764	20.7%
Baby Food	5	$50,616,644	-3.1%
Yogurt & Kefir	6	$39,100,320	54.0%
Cheese & Cheese Alternatives	7	$37,929,983	25.5%
Chips, Pretzels & Snacks	8	$33,337,860	20.0%
Cold Cereals	9	$33,120,434	-23.8%
Other Dairy	10	$29,350,881	361.2%
Source: ACNielsen ScanTrack: SPINS NaturalTrack			

Organic frozen foods will have a compounded annual average growth rate of 40% through 2002, according to the Organic Trade Association. Sales of frozen entrée, pizzas, and convenience foods are expected to increase 18% in 2002.

It is a fact that soy products have now become a stable product for numerous national grocery stores. It is estimated that an average of 6,700 tons of soy products are consumed each year globally and seventy-five percent of this consumption is related to soy milk products. The soy market is still growing significantly at around thirty to forty percent per year.[9]

2.2 Industry Trends

The natural and organic food industry can be characterized into the following criteria:[10]

1. *Consolidation*: mergers and acquisitions due to an increase in competition and an increase in marketing. There has been a movement of traditional food processing companies into the natural organic food sector via these methods.
2. *Brands*: the distribution channel is extremely important in the natural food sector. The creation of health food sections in supermarkets has lead to an increase in competition. Of this competition Kroger's, Albertson's and Safeway are leading retail stores.
3. *Snack Trends*: consumers are continuously on the move and are interested in a quick, yet healthy, alternative for on-the-move consumer.
4. *Health Trends*: customers are becoming more health conscious in their food choices.
5. *International Trends*: the number of organic producers has increased substantially and products from many countries around the world are available in the U.S. market.
6. *Food Safety/Regulations*: the global community is developing labeling standards for organic and genetically engineered products to ensure consumer safety.
7. *Decrease in prices*: this is a direct result from the growing number of organic suppliers and new distribution channels through the local grocery store.
8. *Packaging*: this allows for increased self-life, consumer convenience.
9. *Media coverage*: new diet trends and rising consumer awareness of the benefits of organic products are growing due to increased media coverage.
10. *Frozen Organic Foods:* These are now more readily available and acceptable.

2.3 Political/Legal Segment (External)

The political/legal segment is defined as an area in which organizations and interest groups compete for attention, resources and a voice in overseeing the body of laws and regulations guiding the interactions among nations.[11] The 1994 Federal Nutritional Labeling and Education Act developed standards requiring more detailed and understandable information about nutrition on all food packages. Today, people read the labels and understand the ingredients more than ever before. In February 2000, the Department of Agriculture established new standards for organic food products and defined how and when food products may be represented as organic on the packaging and in marketing materials. These legal standards provide consumers with greater confidence in the quality and the reliability of natural foods. Moreover, in late December 2001, the US Department of Agriculture established further governmental standards for "organic" declarations in processed foods, fresh foods, meat, poultry, dairy, and other consumables. In short, the legal certification of organic products performs three functions:[12]

1. Improves market efficiency and reduces misinformation along the marketing channel from producer to consumer;

2. Assures consumers that products are grown, processed, and packaged according to sustainable practices;

3. Prevents the devious use of the word ‘organic’ on food packages that defrauds producers of price premiums and market share that can be earned from premium goods.

Furthermore, In October 2001, the United States Department of Agriculture (USDA) enacted its new National Organic Program (NOP). The NOP replaced the individual state regulations and certifying procedures that currently regulate the industry. The new standards require all producers, processors, and handlers be certified to handle organic products. Farms handling less than US$5,000 annually in organic production are exempt from certification.[13]

2.4 Sociocultural Segment

The sociocultural segment is concerned with a society’s attitude and cultural values.[14] In general, increased consumer health consciousness is the single most important factor driving the growth of the natural and organic food sectors. Within the United States, and internationally, consumers have become far more aware of the quality of what they eat, the ingredients that their foods contain, and the processes that their foods go through (e.g. treatment with pesticides, use of antibiotic drugs in animal feed, food irradiation) before arriving at the point of sale. Furthermore, consumers are more concerned about environmental issues and they make the association between natural foods and friendly environmentally produced food more easily.

Increased publicity about food scares such as salmonella, listeria, and E. coli have also aided the sales of natural and organic products. U.S. citizens have not reacted as negatively toward genetically modified (GM) foods as European consumers. Industry analysts believe that U.S. consumers are more open to the concept of GM foods because they have a higher degree of trust in government food safety agencies than do European consumers. However, scientific research continues to address the problems with GM foods. Hence, societal attitudes are shifting to a more ‘organic’ or ‘natural’ food source.[15]

2.5 Economic Segment

The economic environment refers to the nature and direction of the economy in which firms compete or may compete.[16] The global economy is currently not in a favorable state. Contributing to the weak global economy is the economic slowdown in the U.S. as well as the recession in Japan and the weakened European economy. As a result consumer spending has declined.

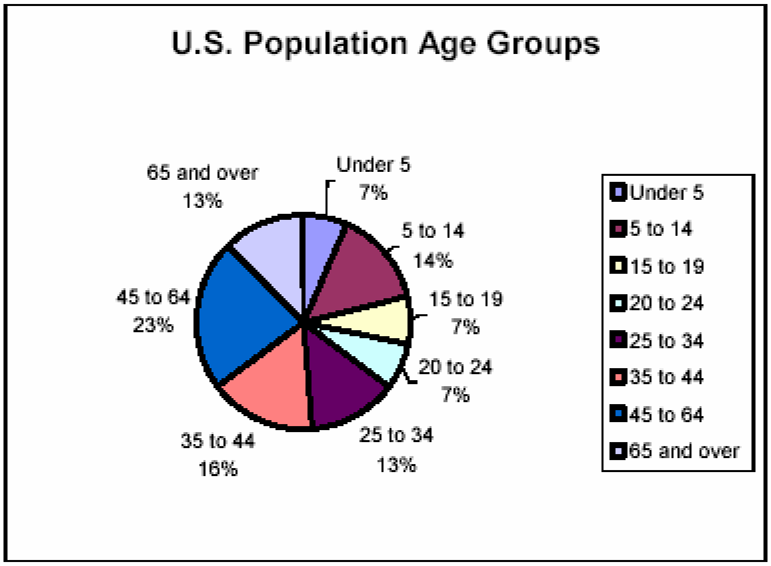
The United States economy is growing at a greatly reduced rate as compared to recent years. Gross Domestic Product (GDP), predicted to be extremely low this year, has turned out to be even lower than expected. According to Merril Lynch's Bureau of Economic Analysis, real GDP growth was forecasted at 1.8% for 2001. In 2001, GDP finished at .7%, a rate much lower than expected.[17]

Consumer confidence plays an essential role in the state of the economy. Although during the recent downturn in the market, consumer confidence has remained strong, it has not kept the economy from falling into recession. Unemployment also has a bearing on the marketplace. As of October 2001, unemployment levels have jumped to 5.4%, up from 4.3% in March 2001. With the recent downturn in the economy, many firms have been forced to downsize their workforce and eliminate jobs. Finally, interest rates and inflation have had a big effect on the health of the economy. Over the past year, the Federal Reserve has made several interest rate cuts to help stimulate the economy by making it easier for individuals and institutions to borrow and make more purchases.[18] Overall, this means that the American people are making more money, but the buying power of their money is decreasing.

2.6 Demographic Segment

The demographic segment is concerned with a population's size, age structure, geographic distribution, ethnic mix, and income distribution.[19] The aging baby boom generation, 30% of U.S. population, has reached a stage of life where health and nutrition play an important factor in their eating habits. The demographic preference for fresher, safer, and nutritionally sound food will drive a 10%-15% growth/year in the health and natural food sector. The typical consumers of natural foods tend to be older: 79% of them are older than forty. Many, younger people believe that "healthy food" is only marginally important. Nevertheless, having learned from a lifetime of consuming and now frightened by the aging process, the younger segment of the population is increasingly attracted to the healthiness of unrefined foods. Typically, the older people that consume natural foods are educated and possess a greater disposable income than their peers, or those persons who have the additional expense of children.[20] Organic baby foods provide the one exception to this profile as many parents have shown a willingness to purchase premium-priced baby food while maintaining low levels of interest in purchasing organic products for themselves. The chart below further identifies the population age groups in the United States.

Chart 2.0 U.S. Population Age Groups



Although natural food stores can be found throughout the United States, certain regions of the country have a significantly higher proportion of stores than others. For example, the Pacific region accounts for 25% of all natural food stores as consumers tend to be more health and trend conscious in this area. The South and the Northeast have the next largest proportion of stores with roughly 20% of the total natural food outlets each. While the Pacific region continues to be the leader in health food outlets, the Central and Northeast regions have experienced the strongest growth in recent years, with 10-20% annual growth.[21]

2.7 Technological Segment

The technological segment includes the institutions and activities involved with creating new knowledge and translating that knowledge into new outputs, products, process, and materials.[22] The greatest growth potential for product development in the natural food industry includes modified-atmosphere packaging (MAP), ultra-temperature (UHT) extended shelf life, and aseptic packaging. This will give customers greater convenience, portability and safety.

Technology will play an important role in organic new product development. As more foods that are organic are judged by conventional standards and compete with conventional brands, technological improvements will be needed to make these foods taste better, look more appealing, and be more convenient. Furthermore, as the debate on the merits of organic agriculture and processing unfolds, technological innovations may be necessary to strengthen organic food safety and environmental claims.[23]

2.8 Global Segment

The global segment includes relevant new global markets, existing ones that are changing, important international political events, and critical cultural and institutional characteristics of global markets.[24] With the growth of the natural and organic food market, both within the United States and internationally, the number and type of organic producers/manufactures have changed dramatically over the last decade. The number of large producers has increased substantially and products from many countries around the world are available in the U.S. market. In addition, the presence of large multinational companies has increased significantly, although most of these companies entered the market by acquiring smaller producers. Companies such as Novartis, Danone, and Nestle all produce natural or organic products that can be found in the United States.[25]

3.0 Five Forces Analysis

3.1 Threat of New Entrants

The threat of new entrants is moderate. The relative maturity of the industry, intense competition, and requirement for resource makes it difficult for new companies to enter. However, due to increasing opportunities in the organic food industry there has been an influx of existing food and beverage companies to the segment. Examples include, Coca Cola purchasing Odwalla, PepsiCo's purchasing South Beach Beverage, Cadbury Schweppes and Snapple, Unilever and Ben and Jerry's.

The barriers to entry are high due to the high capital requirements for manufacturing facilities, marketing, and distribution. Mass production of food products requires large manufacturing plants, and therefore high fixed costs.

Most large companies spend enormous amounts on advertising, even up to 60% of sales. Customer loyalty to the large food manufacturers is strong and customers have significant expectations regarding service and incentives

Access to distribution is difficult as there are really only two main distributors in the U.S. However, there are many small companies producing organic products. These products are distributed to specialty retail stores of organic foods. Gaining access to general grocery stores/chains is increasingly difficult for small companies. Large global organizations such as Nestle, Kraft, and General Mill's have greater product mixes and distribution capacity and therefore have more power with retailers.

3.2 Bargaining Power of the Suppliers

Agricultural businesses growing crops and raw materials have low power.
Farmers have produced an oversupply of crops resulting in lower prices for food processors. However, labor shortages may be a barrier to the growth of the organic food industry and affects the power of the suppliers. Not only are the number of farmers decreasing, while organic farming requires increased labor, some analyst say the rapid expansion of this market will result in a shortage of qualified inspectors to certify organic foods.

Companies that produce food and supply retailers have low to moderate power. Organic producers are experiencing increasing power as consumers demand greater numbers of natural products. In response, the country's major food manufacturers are also taking greater interest in developing organic product lines.[26] One factor that has weakened the power of manufacturers as suppliers is the lack of consistent supply. Improved distribution channels, production techniques, and a growth in the number of producers has helped reduce the number of instances of retailers running out of a product.[27]

Recently, many of the large food manufacturers including Kraft, Nestle, and Hain established an E-Commerce site designed to increase supply chain efficiency, therefore increasing the power of manufacturers and marketers. Retailers not only seek innovative products but consistent supply of products.

There is increasingly aggressive and targeted marketing and promotion by the retail sector, which will intensify as mainstream retailers are moving into organic trade.[28] A Hartman Group study found that 62% of all organic and natural products were purchased in grocery stores, primarily because of "convenience, pricing, and selection," and that one third of these buyers feel grocers have a large selection of organic and natural products."[29]

3.3 Bargaining Power of the Buyers

Customers have high power over the food processing and marketing of foods. Consumer preferences regarding taste, price, healthiness, convenience, and other variables will determine the successfulness of a product. One of the main factors behind the expected future growth of the industry is the increasing consumer awareness of health and environmental issues, including a growing resistance amongst consumers toward food products made with genetically modified organism (GMOs) and GM farming.[30] Consumers are realizing the benefits of organic products and demanding an increased supply of natural products in large grocery chains. A number of organizations throughout the nation promote organic foodstuff and look after the interests of the organic consumer in various ways. Two of the mot important and recognized are the Organic Consumers Association (OCA), that promotes food safety, organic farming and sustainable agricultural practices in the U.S. and internationally by providing factual information allowing consumers to make informed food choices, and the Organic Alliance, that encourages ecologically and socially responsible agriculture.[31]

3.4 Threat of Substitutes

The threat of substitute products is high. Within the organic/natural foods segment, there are many alternative types of food. Consumers have many choices between traditional foods and natural/organic food products. For example, milk may be whole, half and half, low fat 2%, fat free, lactate free, organic, hormone free, rice, or soy. There is increasing demand for soymilk.

3.5 Intensity of Rivalry among Competitors

The intensity of rivalry is high. Large food companies dominate the market with well known brand name products. A large brand portfolio, product innovation, and differentiation are important in maintaining market share. Moreover, up to 80% of sales are spent on advertising, further increasing the intensity of rivalry.

Strong demand and distribution opportunities have brought an influx of competitors to the market. In addition, the competition in the natural food segment is increasing as traditional food manufacturers realize the profit potential due to increased premiums. With supply finally catching demand in most categories, manufacturers are forced to become increasingly promotional in order to gain or even retain market share.

4.0 Distribution

Traditionally, organic foods have been distributed outside the conventional distribution system through alternative channels, e.g. farm sales, open-air markets, specialized grocery shops and natural products retailers. However, as the organic food market has grown in recent years, sales have moved into downstream retail trade, and the conventional food industry is becoming increasingly involved. The organic food sector is undergoing a consolidation process through acquisitions, mergers and alliances.[32]

There are numerous wholesalers, distributors, and traders involved in the distribution of organic food and beverages throughout the country. However, a few major companies, packaged natural foods distributors, are playing a leading role, in particular for processed and packaged food. They may import some products direct or through associated companies but they obtain most of their products from specialized organic importers or from domestic processors and manufacturers:

- *United Natural Foods, Inc.* is the largest natural foods distributor (including organics) in the US and supplies more than 7,000 retail stores with natural groceries, body care products, supplements, and frozen foods. Its subsidiary Albert's Organics distributes organic products, including fresh produce, to retailers. Albert's is the largest coast to coast wholesale distributor and has warehouse centers in Los Angeles, CA, and Bridgeport, NJ. It also owns Hershey Import Co. and runs a number of natural food stores (the natural retail group).[33]

- Tree of Life, Inc. (owned by the Dutch food company Koninklijke Wessanen) is another major national natural food distributor reaches more than 15,000 food retailers in the US and Canada through about 20 distribution centers. It has recently acquired AMCON's natural foods distribution business (regional).[34]

In addition to the above companies, there are a number of other wholesalers and organic manufactures/packers that play a similar role in marketing and distribution of organic food, including the following:

- *Eden Foods* operates as an organic manufacturing and wholesaler, which supplies a wide range of retail-packed organic products under the Eden brand, packaged by the company itself or by its business partners, and it works direct with organic farmers.[35]
- *Frontier Natural Products Co*-op is a member-owned cooperative, which consists of retailers, distributors, manufactures, buying clubs and organizations. It specializes in herbs, spices and related products and supplies bulk products as well as retail and foodservice packs.[36]

Sales of natural/organic food products is evenly split between specialty stores and mass market retailers. However, supermarkets and mass market retailers have slowly been gaining a larger share of the market, predominantly due to the growing demand by consumers for organic products. Supermarkets have benefited as these products generally have a higher price premium, boosting sales figures. Of the natural food retailers two chains dominate – Wild Oats Markets Inc., and Whole Foods Market.

5.0 Competitive Analysis

5.1 General Mills

General Mills is the fifth largest food company in the world with over $13 billion in sales. They have a number of recognized brand names in their portfolio; thirty of these brands have retail sales of $100 million in the United States. The company established the Bell Institute of Health & Nutrition which addresses many of the health concerns of their consumers. Moreover, they have developed several products that fit into the Women, Infant, Children (WIC) National Organization for listed products that promote health.

5.2 Current Strategy

General Mills differentiated their product mixes through acquisitions, adding brands such as Bucolic, Mountain and Valley Logo, and Cascadian Farms that evoke a sense of purity for consumers of organic foods. General Mills Inc. now produces more than 150 organic food items which fit into eight organic food categories: frozen vegetables, frozen fruit, frozen meals and entrees, fruit spreads and cereals marketed under the Cascadian Farm brand. However, the terms of the purchase have not been disclosed to the public, but Cascadian Farms has sales projections for 2002 to be around $60 million.

General Mills' acquisition of Pillsbury for $10.4 billion doubled the size of the company, but it generated many conflicting points of view regarding increased debt and additional product mix. General Mills will now have a strong hold on the supermarket baking aisle with General Mills' Betty Crocker and now the Pillsbury Doughboy products added to its enlarged portfolio. Pillsbury has other significant brands beyond the recognized Pillsbury Doughboy: Häägen-Dazs, Old El Paso, Green Giant, Totino's, Jeno's, and Progresso. The Pillsbury portfolio fits into the snack and ready to serve products which align them with the on-the-go consumer. For additional reference to the product mixes for General Mills see the Appendix.

In the past ten years, General Mills' public relations strategy has consisted of a three phase operation for recognizing new brands:[37]

1. Creating excitement awareness for new products;

2. Driving consumer demand for the products; and
3. Maintaining brand identity.

5.3 Kellogg's

This company has sales of around $8 billion and is the leading producer of cereals and convenience foods. Kellogg's convenience foods incorporate the following: cookies, crackers, toaster pastries, cereal bars and frozen waffles. During the past decades General Mills and Kellogg's have engaged in fierce competition for the number one cereal position.

5.4 Current Strategy

Kellogg's has followed an acquisitions strategy using health-related issues to improve their traditional product mix. Kellogg's management felt that it important to differentiate resources into the expanding natural foods market. With this decision Kellogg's purchased Worthington Foods, Morningstar Farms, and Harvest Burgers in October 1999 for $307 million. To further expand their health image, Kellogg's announced that it had acquired Kashi, a health cereal product that had had only limited distribution channels. These brand names are currently found in ninety-six percent of supermarkets nationwide. The Morningstar Farms products lead the vegetarian meals segment with a fifty percent share in the domestic market. Kellogg's traditional product mix adjusted to the nation's increasing health-conscious shopping habits by introducing products such as low-fat Pop Tarts and Healthy Choice cereals.[38]

The acquisition of the Worthington Foods group was strategic by appealing to European consumers who are unified in their dislike for genetically modified foods. In January 2000, the European Union Legislation overwhelmingly required the labeling of GE foods. Moreover, almost all other nations with the exception of the Unites States have banned GE foods or asked for some kind of labeling.[39]

Although cereal continues to be the most popular breakfast food, consumer-behavior has changed as consumers find themselves skipping breakfast altogether or bringing a small snack for consumption during commute time. Kellogg's added cereal bars to respond to the convenience need, marketing these products under product names, Nutri-Grain and Rice Krispie Treats. Kellogg reported that twenty-two percent of its business comes from its convenience food product offerings and that it expects these numbers to rise with global expansion.[40] For additional reference to the product mixes for Kellogg's see the Appendix.

5.5 Kraft Food Inc.

Kraft is the largest branded food and beverage company headquartered in the United States and is the second largest worldwide with revenues of $34.5 billion. In 2001 Kraft Foods spun off from Philip Morris in what was the second-largest IPO in U.S history. After the spin off half Philip Morris still retained eight-four percent of the company and about ninety-eight percent of the voting rights. Kraft Foods Inc, is made up of two operating companies: Kraft Foods North America (KFNA), which increased three percent due to beverages, desserts, cereals, and newly acquired brands; and Kraft Foods International (KFI) which increased four-point two percent with growth in both the European, Middle Eastern and African segment as well as in Latin America, Asia, and the Pacific. Kraft Food's major brands originally included Kraft, Maxwell House, Oscar Mayer, Post, Nabisco, Philadelphia, and Jacobs; these seven brands each had sales of one billion dollars or more.

5.6 Current Strategy

In the past five years Kraft has spent over nineteen billion dollars in acquisitions by expanding their portfolio with Boca Burger (soy products), Balance Bar (meal-replacement snack bars, drink mixes and beverages), and Nabisco Holdings.

With the increase in the meatless alternative market, Kraft Inc. felt they needed to create consumer awareness for their healthy alternative. In 2000, Kraft expanded and diversified through the acquisition of the Boca Burger soy products for $100 million. Boca products now control the number two position in the meatless alternative market.

Kraft purchased Balance Bar products, consisting of meal replacement snack bars, drink mixes, and beverages for $268 million. Consumer snacking has changed from the once traditionally savory snacking products like cakes and biscuits to a more healthy alternative. Consumers are looking for "on- the –run" products. In Kraft's attempt to keep the market share, it has purchased a company that fits nutrition into a bar as a complete meal replacement snack.

Kraft's largest strategic acquisition during the past five years was Nabisco Holdings, the top ranked U.S. candy maker; this final buy-out was verified at $18.9 billion in 2000. With Nabisco Holdings, Kraft added the following snack foods: cookies, crackers, cereals, condiments, candy, gum, snacks, margarines, and Mexican foods. There have been many controversial opinions behind this acquisition since it seems to stand in the face of the newly acquired health conscious habits of consumers. On the other hand, it can be seen as a logical financial move for Kraft to enter the faster growing snack food segment. For additional reference to the product mixes for Kraft see the Appendix.

5.7 Nestle SA

Nestle is the largest food company in the world with revues hitting around fifty-six billion dollars. Nestle achieved these high revenue numbers through several segments: coffee (Nescafe, Taster's Choice), bottled water (Perrier), pet foods, pasta, chocolate, and dairy products. Nestle puts their name on over 8,500 food, beverage, and pharmaceutical brands; it is estimated they have around 22,000 products. Even though they are known best in the Unites States for their chocolate Nestle Crunch bars and Nesquik powder flavoring, the company makes products in ten other categories: baby foods and cereals, milk and dairy products, breakfast cereals, desserts, snacks and ice creams, chocolate and other confectioneries, prepared foods, beverages, pet care products, and pharmaceuticals.[41]

5.8 Current Strategy

Nestle is pursuing an acquisitions strategy as it increases its market presence in the organic/natural food industry. During the past five years Nestle has purchased several companies in different food category segments to further strengthen their position in the food industry. These include snacks, ice-cream, alternative dairy, ready-to-eat meals, and pet food.

Nestlé’s strategic managers observed that the mass consumers’ lives were changing. As a result Nestle acquired Power-Bar for $375 million. At the time of the purchase Power-Bar was earning around $135 million each year.

In addition, Nestle has targeted the ready made food segment. Nestlé's U.S. segment agreed to pay $2.6 billion for Chef America with the following brands: Hot Pockets, Lean Pockets, and Croissant Pockets to add to their previous holding in Stouffer's and Lean Cuisine frozen dinner entrees.

They purchased Magic Soy products for $10 million. Magic Soy may be the product that addresses the growing health consciousness of the baby boomers in the United States.

Although Nestle already has a twenty-three percent stake in Dreyer's, valued at about $1.5 billion, it is planning a further merger with Dreyer’s Grand Ice Cream, which will boost Nestlé’s stake in the U.S. ice cream group to sixty-seven percent. This merger will position Nestlé’s alongside of Unilever, presently the world’s biggest seller of ice cream by sales value because Dreyer’s has offered to buy out minority shareholders in 2006. Nestlé’s Switzerland segment bought the Haagen-Dazs brand in the United States for $641 million, adding to their current brands of Drumstick, Nestle Crunch, and Butterfinger.[42]

Nestle's largest dollar purchased was actually unrelated to the snack industry. Nestle acquired Ralston Purina, the largest U.S pet food company, for 10.1 billion dollars. Ralston Purina has several note-worthy brands in their portfolio: Puppy Chow and Meow Mix. This acquisition was designed enhance Nestle current pet food U.S holdings: Alpo and Friskies. Nestle now controls the number one and two spots in the U.S pet food market. [43]

6.0 Hain's SWOT Analysis

6.1 Strengths

Strengths are those factors that make an organization more competitive than its market place peers. Strengths are what the company has a distinct advantage at doing or what resources it possesses that are superior to the competition. Strengths are, in effect, resources or capabilities that the organization holds that can be used to effectively achieve its performance objectives.[44] Hain has several strengths that make it the leading organic/natural food marketer. These are:

- Largest portfolio of Natural Foods brands – 2000 products
- Flat corporate structure
- Increased communication
- Heinz's twenty percent ownership of Hain
- Outsources production
- Ownership of recipes and formulas for products
- Strong brands such as Terra and WestSoy
- Ability to successfully incorporate brands into organization.

6.2 Weaknesses

A weakness is a limitation, fault, or defect within the organization that will keep it from achieving its objectives. It is what an organization does poorly or where it has inferior capabilities or resources as compared to the competition.[45] Hain has several weaknesses but most can be attributed to the market they are in the general environment for organic products.

- Brand awareness
- Small adverting budget
- Small company- 300 employees
- Slow growth, not reaching earning projections
- Flat corporate structure
- Heinz's partnership- lack of cooperation

6.3 Opportunities

Opportunities include a favorable current or prospective situation in the organization's environment such as a trend, change, or overlooked need, that supports a demand for a product or service and permits the organization to enhance its competitive position.[46]

- A growing industry – growth in categories such as dairy, soy, ready to eat, etc.
- The United States favorite snack food is chips - Hain's strongest brand is Terra Chips
- Demographics - Majority of the aging population in Unites States is health conscious
- Distribution to mass market retailers
- Countries around the world are against genetically modified foods - new laws and internal regulations
- Increasing concern with hormones in milk and health benefits for women -WestSoy milk alternatives products
- Traditional grocery stores selling more organic/natural food brands
- Education
- Research and development of new brands
- Expansion in Europe
- Organic products targeted to children

6.4 Threats

A threat includes any unfavorable situation, trend or impending change in organization's environment that is currently or politically damaging or threatening to its ability to compete. It may be a barrier, constraint, or anything that might inflict problems, damages, harm or injury to the organization.[47]

- Consolidation of leading organic brand names purchased by large corporations
- Competition has increased –consolidation, acquisitions (new product),
- Declining price premiums and insufficient profits amongst producers and traders
- Oversupply of products may have immediate and long term effects
- Tea industry matured, Hain's Celestial Seasonings slowed sales
- New methods of sustainable agriculture will increase competition
- Unfavorable press such as fraud and scare stories

7.0 Hain Celestial's Strategy

This company's mission is:

> *"to be the leading natural/organic and specialty food company, with an integrated portfolio of better-for-you natural, organic and medical-diet products that meet consumer demand for convenient, innovate products that taste good.*[48]*"*

It's overall strategy is to be the leader in the specialty niche food market by integrating all of its brands under one management team and employing uniform marketing, sales and distribution programs. This strategy should drive into efficiencies of scale and enhanced market penetration. Acquisitions are part of Hain's strategy. The company's growth is based on the investment of a minimum of $50-$ 60 million/year in acquisitions and a minimum of 10%-15% derived from organic growth. Efforts are made today to create brand loyalty by increasing the company's market share.[49]

Hain has the following new product development strategy. The new products have to taste good, meet nutritional requirements, have a reason for existing and be priced competitively. It can be six months to a year before a new product reaches the market.

In 1999, Hain Food Group was the premier consolidator in the natural food industry. Its success was based on the following:

- The acquisition of niche food companies with complementary brands;
- The integration of new brands into existing product lines;
- The centralization of its sales, marketing and distribution;
- The outsourcing of its manufacturing;
- An aggressive marketing; and
- A fast new product development.

8.0 Level/Type of Diversification

Hain Celestial Company is pursuing a policy of concentric diversification with a diversified range of products. This has been achieved through the acquisition of niche health food companies. Hain's acquisition strategy has enabled it to develop a collection of complementary brands.

9.0 Issues

Hain's has several challenges that will determine its future success in the organic/natural food industry. These include increased competition, distribution coverage, marketing spend, brand awareness, consumer awareness.

Increased competition in the industry will lead to mergers and acquisitions and the development of new markets as companies fight for profit. As the industry matures companies are seeking ways of extending their product offerings and developing increased economies of scale. Hain must diversify through strategic acquisitions of brands to enhance their portfolio. For example, Hain does not currently have any alcoholic divisions. Purchasing a company offering these products would position Hain to meet growing consumer demands. In addition, the organic food industry is experiencing growth in the snack food segment. Purchasing companies that currently offer snack foods will add additional product offering to complement the growth in snack foods. For example, Honey Bar is a Canadian based company that offers a large variety of snack bars. Moreover, organic chocolate, enhanced waters, cold cereals are other growing segment that Hain should acquire to add to their portfolio. Hain must acquire organic foods companies in Europe to target the European Union. For example Hain currently has an agreement with Barilla, the pasta manufacturer, to distribute Hain's organic products in Europe. Though acquisitions and distribution arrangements, Hain can better position themselves in the popular organic food market of Europe.

Distribution is a key facet of the organic market. In order to market through the larger national retailers Hain must gain greater distribution coverage. In order to achieve this they will need consumer "pull" of their rocket brands, therefore increased marketing efforts. By targeting grocery distribution Hain could significantly increase profits. Hain must therefore increase marketing initiatives for their six rocket brands WestSoy, Terra Chips, Celestial Seasonings, Earth's Best, Yves, and Health Valley. Increasing the advertising focusing on these brands will increase customer awareness of the benefits of organic products offered through the Hain Group Inc.

As a small company in comparison to the heavyweights in the food industry, Hain must focus its marketing dollars very carefully. Hain has never invested heavily in marketing but has stated that it will provide up to 60% of sales to marketing efforts this year in an attempt to push its rocket brands.

The consumer trends towards healthier lifestyles and eating habits will benefit Hain in the future. In addition, Hain must pursue strategies that promote products and educate consumers as to the benefits of organic food products. Creating consumer awareness will support Hain brands further.

We are not sure what this section requires

10.0 Organizational Structure

The management team led by CEO Irwin Simon has demonstrated an ability to digest and integrate brands quickly. Hain has tried to keep acquired management in the company.

Hain Celestial does not produce, manufacture, or package any of the products. By focusing on the marketing and selling functions Hain is able to maintain its number of employees at 300 and keep a flat hierarchy. The flat organizations structure can be defined as reducing layers of an organization in the hope of achieving organizational efficiency and effectiveness.

11.0 Leadership

Hain has experienced an incredible rise under CEO Irwin Simon. In less than seven years the company has become a national powerhouse in the natural organic food industry. This has been achieved through strategic acquisitions in which Simon used his skills in leveraging companies to build and empire that is the talk of the food industry.[50] According to several key players in the Kosher food industry Simon, "Has a vision, is very focused, and highly successful." In addition, Simon achieved a tremendous coup with the strategic alliance with H.J. Heinz.

12.0 Role of the Internet

Given the fact that Hain Food Group is a food company, the role of the Internet is simply to educate, market, and increase brand awareness. The Internet educates customers on the healthy alternatives to traditional foods. It is also being used a marketing tool for brand development. However, last month, 49 of the world's largest food, beverage and consumer products companies joined forces and announced the formation of the largest business-to- e-marketplace for their industry business.[51]

13.0 Strategic Recommendations

Hain-Celestial Company is the most successful company in the Natural/Organic food segment. Hain should buy Honeybar and see desktop. In addition, concentrating on their rocket brands by increasing marketing and promotional campaigns will increase the distribution coverage for these rocket brands. The international market is too large to ignore. Hain should buy see list.

Through the implementation of these recommendations Hain will position brands in North American and Europe to meet consumers growing demand for organic foods. Hain is considered a prime acquisition candidate for Heinz, but other industry heavyweights such as Kraft, Nestle, General Mills, and Kellogg are all potential suitors.

Appendix

A. PowerPoint Presentation

B. General Mills Product Mix

Ready-to-eat cereal category generated $7.5 billion sales in the U.S market. These sales were aided by consumer brand names: Cheerios, Wheaties and Lucky Charms.

Meals division is positioned as the convenient meal option for the busy consumer with brand names: Helper Casseroles, Betty Crocker, Old El Paso, Progresso soups, Green Giant vegetables and meal starters, and Lloyd's refrigerated entrées.

In the *refrigerated dough category,* Pillsbury holds the leadership position with sales of $1.5 billion. Once again these products are positioned in the ready- to- use category, with the “fun doughy man” leading the charge in sales.

Easy- to- bake products include Betty's Cake Line, as well as desserts and pouch mixes. Gold Medal flour is the leader for general baking needs.

Snack products’ line is one of the fastest growing areas in General Mills portfolio. Due to the changing consumer behavior in snacking, the snack industry has increased by 10.6 percent to the market size of $722.4 million.

Organic categories produced by General Mills are called Cascadian Farm and Muir Glen which hold the No. 1 and No. 2 positions among the nation's premier organic food brands. Under their product mixes, GM produces more than 150 organic food items.

Yogurt category sales of $2.3 billion in the U.S. are represented by leading brands: Yoplait, Colombo, Trix, Yumsters, Go-GURT, and Exprèsse.

Cascadian is General Mills organic addition. These products are positioned for the fast growing organic food segment of U.S food sales. Cascadian farms are leveraging their products with a purity and homegrown goodness appeal.

C. Kellogg’s Product Mix

To mention a few brand names: Corn Flakes, Frosted Flakes, All-Bran, All- Bran Extra Fiber, Apple Jacks, Cinnamon Crunch, Cocoa Rice Krispies, Oat Bran Flakes, and Wheat Bran Flakes.

Nutri- Grain Products: Yogurt and Cereal Bars
With many consumers finding themselves with little time to prepare for their morning meals, Kelloggs developed the Nutri-Grain products: Yogurt Bars(Blueberry, Strawberry, Vanilla, Mini Apple Cinnamon, and Mini Blueberry Bars) , Apple Cobbler,

Cappuccino & Crème Twists, as well as Mixed Berry, Raspberry, Apple Cinnamon, Blueberry, Cherry and Strawberry Cereal Bars.

Worthington, Loma Linda, Morning Star, and Natural Touch products are a part of the Natural and Frozen Foods Division of Kellogg Inc.

- Worthington brands were developed for consumers seeking premium quality meat alternatives.
- Natural Touch brands appealed to the true health food shoppers who are seeking products free of artificial additives, flavors or colors.
- Loma Linda brands complement the health sector for Kellogg's by offering nutritious meat alternatives to health and specialty food shoppers. All three product groups are sold nationwide in Adventist Book Centers and specialty food stores.

Morning Star brands fall under the vegetarian/healthy image food category. They are sold in grocery stores and popular restaurants such as Applebee's, Blimpie, Chilies, Denny's, Hard Rock Café, IHOP, Planet Hollywood, Rainforest Café and Subway, all of which cater to health conscious customers.

D. Kraft Product Mix

Kraft Product are broken down into five general areas: beverages, Convenient Meals, Cheese, Grocery, and snack.

Beverages brands

General Foods international, Gevalia, Maxim, Sanka, Starbucks, Yuban, Country Time, Kool- Aid slushies, crystal light, Kool- Aid, Tang, and Total Balance.

Convenient Meals

Oscar Mayers bacon, Oscar Mayers cold cuts, Stove Top, Taco Bell, California Pizza Kitchen, Digiorno, Tombstone, Oscar Mayers hotdogs, Lunchables,, Kraft, Kraft Easy Mac, Velveeta, and Boca.

Cheese

Woody's, Breakstone, Knudsen, Light N' Lively, Phildadelphia, Temp- Tee, Athenos, Grated Kraft Cheese, Churny, Cracker Barrel, Harvest Moon, Hoffman's, Polly- O, Kraft Deluxe, Old English, Cheez Whiz, Kraft Deli Deluxe, Kraft Free Single, Kraft 2% Single, and Easy Cheese.

Grocery

Bakers(Baking Chocolate) , Calumet(baking power), Bull eye, Postum (Breakfast Beverage), Shake N' Bake, Oven Fry, Grey Poupon, Sauce Works, Cream of Wheat, Nabiso (cereal bars), Kraft (dips), Milk- Bone, Dream Whip, Jell- O, Balance Bars, Jenny Graig Oasis (energy bars), Ever Fresh (fruit preservatives), Cool Whip, Kraft Ice cream toppings, Kraft Pasta Salads, Clauseen (pickles/ saucerkraut), Honey Made, Nilla, Oreo (pie crusts), Alpha-Bits, Banana Nut Crunch, Blueberry Morning, Cinna-Cluster, Raisin Bran, Cranberry Almond Crunch, Frosted Shredded Wheat, Fruit & Fibre, Golden Crisp, Grape-Nuts, Great Grains, Honey Bunches of Oats, Honeycomb, Nabisco (Puerto Rico only),Natural Bran Flakes, Oreo O's, Pebbles, Shredded Wheat, Shredded Wheat 'n Bran, Spoon Size Shredded Wheat, Toasties, Waffle Crisp, 100% Bran (are all Ready to eat Cereals), Minute Rice, Good Seasons, Seven season (salad dressings), Breakstone's, Knudsen (Sour Cream), A.1, Breyers, Jell-O. and Light n' Lively (yogurts).

Snacks

Barnum's Animals, Biscos, Café Crème, Cameo ,Chips Ahoy, Crispin (Puerto Rico only), Dad's,Danish (Puerto Rico only), Famous Chocolate Wafer,s,, Family Favorites, Old Fashioned,,Ginger Snaps, Hony Bran (Puerto Rico only), Konitos (Puerto Rico only),Lorna Doone, Mallomars, Marshmallow Twirls, Nabisco (Puerto Rico only),National Arrowroot, Newtons, Nilla, Nutter Butter,Oreo, Peak Freans, Pecan Passion, Pecanz, Pinwheels, SnackWell's, Social Tea, Stella D'oro, Sweetie Pie (Puerto Rico only),Teddy Grahams and Wild Thornberry's. (cookies), Air Crisps, Better Cheddars, Cheese Nips, Club Social (Puerto Rico only),Crown Pilot,, Doo Dad, Flavor Crisps, Harvest Crisps, Honey Maid, Nabisco Grahams, Nabs, Premium, Ritz, Royal Lunch,, SnackWell's, Stoned Wheat Thins, Sportz (Puerto Rico only),Sultana (Puerto Rico only), Triscuit, Uneeda, Waverly, Wheatsworth,, Wheat Thins, and Zwieback (crackers), Comet Cups (ice cream cones), Corn Nuts, PB Crisps, Planters (snack nuts), altoids, Callard & Bowser, CremeSavers, Farley's, Jet-Puffed, Kraft Caramels, Lavie, Life Savers, Milka L'il Scoops, Nabisco Fun Fruits, Now and Later, Sather's, Terry's, Tobler, Toblerone and Trolli (Sugar Confectionery).

E. Nestle Product Mix

Coffee - Nescafé including:[52]	**Dairy products**
Alta Rica	Carnation
Black Gold	Chambourcy
Blend 37	Coffee-Mate

Cap Colombie
Cappuccino
Decaff
Expresso
Fine Blend
Gold Blend
Kenjara
Nes
Organic

Seasonings
Dufrais
Maggi
Sarsons
Chef

Mineral water
Ashbourne
Buxton
Contrexéville
Perrier
Vittel

Other drinks
Build-up
Libbys juices
Milo
Nesquik
Nestea
Um Bongo

Cosmetics
Biotherm
Cosmence
Lancome
L'Oreal
Maybelline
Metamorphosis
Plénitude

Confectionery & snacks
Aero
After Eights

Extreme Viennois
Fussells
Ideal
LC1
Simply Double
Tip-Top

Processed meals
Bonne Cuisine
Buitoni pasta & canned foods
Crosse & Blackwell
Lean Cuisine
Rowntrees Jellies
Waistline

Spreads & Pickles
Branston Pickle
Gales honey
Sun-Pat
Tartex vegetable patés in tubes

Cereals
Cinnamon Grahams
Cheerios
Coco
Shreddies
Fibre 1
Force
Frosted Shreddies
Golden Grahams
Golden Nuggets
Honey Nut Cheerios
Shredded Wheat including: Bitesize, Fruitful, Honey Nut Shreddies

Contact lens care
Alcon

Pet Foods
Arthur's
Felix

Animal Bar
Baci Chocolate
Black Magic
Blue Riband
Breakaway
Caramac
Chocolate Cuisine
Dairy Box
Dairy Crunch
Drifter
Fab
Fox's Glacier Mints
Fruit Pastilles
Henri Nestlé Collection
Jellytots
Kit Kat
Kit Kat Chunky
Lion Bar
Lyons Maid Ice Cream
Matchmakers
Maxibon
Milky Bar
Munchies
Polo
Quality Street
Rolo
Rowntrees Fruit Gums
Smarties
Toffee Crisp
Toffo
Tooty Frooties
Walnut Whip
Willy Wonka
Yorkie

Friskies
Go-Cat
Go-dog
Spiller's
Winalot

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