



Global
Business Leadership

SHAKING THE GLOBE NEWSLETTER

Courageous
Decision-making in
a Changing World



Takeovers and the Economy, by Blythe McGarvie

Volume 6, issue 3

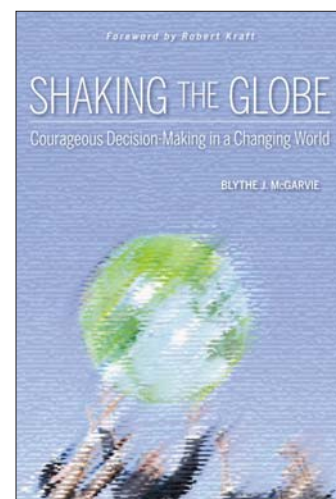
Almost half of major U.S. corporations received takeover offers in the 1980s. This fact is astonishing, but also one that indicates the fluidity of our economy and the constant re-evaluation of investment strategies by shareholders. It also indicates the extent to which uncertainty shapes every employee's work life. As an employee I lived through a takeover of Kraft Foods in 1988. At the time, Philip Morris had made a hostile takeover offer for the \$11 billion food company. My job as Director of Financial Planning was to establish planning guidelines for growth and operating income for all divisions and 110 corporate staff departments, setting goals upon which management was compensated. These budgets became part of Kraft's defensive strategy and the basis of a cost reduction plan of \$400 million that management and investment advisors used as part of the response to Philip Morris, Inc.'s bid. The 8 weeks between the shock of the offer in October and the final decision to accept Philip Morris's higher bid in December created tension with investors, suppliers, the customers and employees. But, the merger created shareholder value. Plus, one of the many conditions of the negotiations was to provide severance to employees based on their tenure at the company. Some employees received up to 2 years of salary to help them ease into retirement or find a new job.

*Most human beings have an almost
infinite capacity for taking things for granted.*
— Aldous Huxley

So, was it harmful or helpful that the takeover occurred? It depends. From an investor's viewpoint, the Kraft shares were trading around \$60 before the offer. After negotiations, the deal closed around \$110 per share. From the suppliers' point of view, many of the suppliers of General Foods (which Philip Morris had purchased 5 years earlier in 1983) saw their business increase and had the volume to improve and streamline their own processes. The winning suppliers with the best quality and value had stronger businesses after the merger. Some suppliers who were not as competitive saw their business curtailed. Customers, mainly large supermarket chains, found in the long run that it was easier to deal with a consolidated Kraft Foods and General Foods.



Mark and Patty Damisch with McGarvie
at NU's NY Eve's bowl game.



Blythe McGarvie's *Shaking the
Globe*, with a foreword by
Robert Kraft, is published
by John Wiley & Sons.



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1-757-345-3595
bmccgarvie@LIFgroup.com

Let's consider the employees. During the defense strategy, we identified positions and businesses that were not core to the success of the business. I remember we needed to identify the people who would be offered severance packages before Christmas and told them within weeks of the merger. Some people held positions where they could volunteer to accept the severance package. I was one of those employees and decided NOT to accept a severance package. It was tempting, but I wanted to accomplish more with the new company and face the challenges of integrating very different businesses. Integration raises the issue of corporate culture. On day one after the merger, employees of a cheese and grocery company who perceived themselves to be engaged in a wholesome, healthy enterprise, found that cigarette smoking was now allowed and encouraged in all facilities. We had many employees who had only worked at the one company and could not imagine working anywhere else. For them, it was a difficult pill to swallow, and I know many who immediately took the opportunity to find a new position outside the company. After a couple of years, I realized the culture was changing and had an opportunity to join another food company with a focus on international growth. So, in 1991, I left Kraft to join a different company to grow its business outside the U.S.

Overall, I believe the takeover was helpful. Restructuring is a necessary part of business and managers often avoid reduction in expenses or employees unless pushed. The history of Kraft shows that it was an entity based on takeovers over the 85 years before Philip Morris came calling. J.L. Kraft in 1903 started the company with \$65 in capital and a rented horse and wagon to buy cheese in Chicago and resell it to local **merchants**. Eleven years later, he and his brothers purchased their first cheese factory. In 1916, he obtained a patent for his method of producing processed cheese and started supplying cheese tins to the U.S. Government for the armed forces. The company re-invested its earnings by introducing or acquiring many additional products, creating jobs and wealth. In 1930, National Dairy Products Corporation acquired Kraft, operating it as an independent company and eventually changing the name of the company to Kraftco Corporation in 1969. Over the years, Kraft purchased and sold various divisions. Philip Morris spun out Kraft several years ago.

In August, Kraft announced it was splitting into two separate companies: Snack business with \$32 billion in sales and the North American grocery with about \$16 billion in sales. Two days ago, the headlines about the split screamed about 1,600 job cuts, which represent about 1.26% of the total workforce of 127,000 worldwide, with 46,500 in North America. Largely forgotten is that Kraft employed 47,000 employees in the U.S. in 1988 and it still employed about the same number in 2011. The reorganizations and restructurings preserved jobs over 25 years. Moreover, you have to read recent articles to learn that Kraft grew its net revenue in 2011 by about 10% to \$48 billion and expects strong operating earnings. This level is more than 4 times its sales in 1988. Twenty-three years after my restructuring experience, the company has expanded into new markets, created more jobs and controls stronger **brands**. The process of growth, culling, and restructuring continues to make the economy stronger and not bloated. • • •

*Be not afraid of growing slowly;
be afraid only of staying still.*

— Chinese proverb

Global Perspective: Items of Note



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