P&G’ - Divestment Of Pringles To Kellogg Company

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In 2012 after being on sale for a year Kellogg Company decided to buy Pringles from Proctor & Gamble (P&G) for $2.7 billion. The purpose of this essay is to analyze the deal from both company’s point of view that why P&G would sell a successful brand and how this deal benefit Kellogg Company strategically. Through research it is revealed that P&G divested Pringles due to its alien business nature, the company’s resources and competencies weren’t fit for Pringles future growth because a well-performing brand requires further investment and due to P&G being more focused on its core brands it wasn’t on company’s agenda to carry on investing in an unrelated diversified brand. Also this deal enabled P&G to focus and invest the transaction money on its core brands. Kelloggs was already in food business mainly known for cereal and did have some snack brands too but for Kellogg that time competition was very tough as PepsiCo, walkers snack food and Nestle were big players. But adding Pringles to its portfolio Kellogg gained second place in the snack food market and it also boosted company stock value.

Introduction

Snack food industry generally comprises bakery products, ready-to-eat mixes, chips, and other light processed foods. The industry is expected to be worth about $620 billion by 2021 and has many big players including General Mills, Conagra Foods, Kellogg Company, Nestle, Pepsi Co, Walker Snacks Food and many other (Research & Market, 2016).

The Analysis of Related Frameworks

Previous frameworks like BCG Matrix have focused on the businesses in the portfolio and searched for logic by examining how they relate to one another (Goold, Cambell, 1995). The growth/share matrix implies that businesses are related if their cash, profit, and growth performance create a balance within the portfolio whereas the core competence concept says that business is related if they have common technical or operating know-how.

The framework proposed here to analyze the divestment of Pringle is Parenting Matrix because this matrix, in contrast, focuses on the competencies of the parent company and on the value created from the relationship between the parent and its businesses. It was developed by Goold and Campbell and introduced parental fit as an important criterion for including businesses in the portfolio. Businesses may be attractive in terms of the BCG or directional policy matrices, but according to Johnsons (2008) if the parent cannot add value, then the parent should be cautious about acquiring or retaining these businesses.

The proposed matrix fills in the deficiencies of the core competence concept, which provides a rigorous conceptual model as well as the tool required for an effective corporate-level planning process. Multi-business companies bring together under a parent organization business that could be potentially independent. These companies can justify themselves economically only if their influence as a parent creates value. For example, the parent company can improve the

business' plans and budgets, promote better linkage among them, provide especially competent central functions, or make wise choices in its acquisition, new ventures or divestments.

This matrix has two key dimensions of fit: 'one is Feel' which measures the fit between each business unit's critical success factors and the capabilities of the corporate parent, and 'Benefit' it measures the fit between the parenting opportunities or need of business units and the capabilities of the parent (Johnson & Scholes, 2008).

The power of using these two dimensions of fit is as: It is clear that corporate parent should avoid running a business which it has no feel for, what is less clear that parent should avoid its involvement if there is no benefit. This challenges the corporate parenting or even businesses for which the parent has a high feel. If the parent has a high feel and can add little benefit these businesses are run with very little touch should be divested.

Problem with Parenting Matrix

There are few expected problems while applying this matrix:

1. 1- Value or cost of the corporate agent

If the parent is not able to enhance the performance of the business unit (BU) and its role is limited, then the business unit should be charged low cost like a large headquarter can be a great cost to BU.

1. 2- Understanding the value creation at the business unit level

The business unit should be responsible for developing strategic capability and achieving a competitive advantage in markets because its managers are more closely with the market. Therefore, the parent role is becoming increasingly as one of facilitation, or of taking a hands-off approach as far as possible.

1. 3- Understanding value creation at the corporate level

If the parent seeks to enhance the strategies for business it must be very clear where and how it can add value.

1. 4- Sufficient- feel

If the parent seeks to enhance business strategies, it must consider the number of business units for which it can sensibly do so. For this parent has to have sufficient feel for the business.

1. 5- Reviewing the portfolio

The parent should also assess which business it should keep running and which divest.

The rationale behind divestment of Pringles

It is clear that sometimes corporate parents are not adding value to their constituent business in this situation Johnsons (2011) suggest that a best step a company can take is to get rid of the business from the corporate portfolio. In 2012 P&G announced that it has divested its snack business to Kellogg Company in $2.7 billion all-cash transactions.

The rationale behind selling a successful brand was that P&G lacked 'feel' for the brand which is an indicator for the business success because it wasn't fit with other brands P&G owned and the company competencies and resources weren't enough to help the brand in the long run. The brand was turned into an alien business under P&G parenting and could have been damaged in the future. There is no doubt Pringles was a successful brand with a large distribution channel spread across 80 countries prior to the deal between two companies, but when a brand performs well it requires a new capacity, new innovation, and new package and sizing, all of this come with heavy investments which P&G was reluctant to do because it wanted to create a faster-growing, more profitable company by keeping its core brand beauty and personal care products and exit from food sector. The strategy would make P&G far simpler to manage and operate rather than sticking with a food, which was more complicated to manage and required fast and more often distribution because of its perishability. Also if the company focuses only on its core brands it will enable P&G to hire only experts in its core products and make them more agile and responsive, more flexible and faster. Therefore, considering challenges and high opportunity cost it was wise decision to divest the business unit, which was an excellent development for P&G by creating value for its shareholders and representing an outstanding opportunity for Pringles employees with a leading company in the food sector. It also improved P&G’S profile since it removed its last a non-core brand from its portfolio (Altobello, 2012).

Another reason for divestment was that for many companies capturing cross-business synergies are at the heart of their strategies since it is a prime rationale for the existence of the multi-businesses corporation (Galunic, M. Eisenhardt). Considering the un-relatedness of Pringles it would be notoriously challenging to gain synergy because achieving synergistic benefits comes with challenges like the benefits in sharing, and co-operation need to outweigh the cost of undertaking such integration. Managing, the synergistic relationship tends to involve expensive investment in management time, which would be difficult to achieve in P&G case because managers in the other business would put their own interest first before helping Pringles because organizations tend to reward managers on the performance of their own units. Even though if managers were serious about helping to achieve synergy it could have represented a major opportunity cost because it would have distracted managers’ attention from the nuts and bolts of their own business, and crowded out other initiatives that might generate real benefits. That’s why it could have actually backfired, eroding customer relationship, damaging brands, or undermining employees’ morale (Campbell, Goold, 1998).

Also For P&G as the parental developer, it would be challenging to play that role for Pringles future success. Even though the company had a valuable brand and specialist skills in beauty and household products but these skills wouldn't be transferred to Pringles due to the un-related diversified strategy. If P&G had exchanged its managers or resources in the future to Pringles it could have done more damage than good because of the tendency of blaming executives who initially give advice or hire business managers when things aren’t smooth (Goold,1995). Also, it was crown jewel problem for P&G the brand was performing well but P&G was adding little value for example the company wasn’t able to gain economy of scale because in food a lot of material can be used in cross production due to its exit strategy from food business or economy

of experience in that matter. Therefore, the company decided to sell the business so that money can be reinvested in the business where P&G can add value instead of destroying.

Strategic fit of acquisition of Pringles for Kellogg Company

Acquisition growth strategy promises many strategic opportunities from rapid growth, to eliminate competition, and to access to the new market (Cansialosi, 2017). After being on the block for nearly a year, In 2012 Kellogg Company bought Pringles for $2.7 billion. Prior to the deal Kellogg, whose snack brands included Keebler cookies, Cheez-it crackers, and Kashi snack bars posted disappointing results and cut its 2011 earnings outlook. Because the company was surrounded with big players like Pepsi Co, Nestle and Walkers, that's why Kellogg took deal so it will help the company to achieve second place only to Pepsi Co in the global snack food market. Also, the diversification was a good fit for Kellogg since the cereal business was highly competitive between Kellogg, General Mills, and Private label brands so adding Pringles to its portfolio will nearly triple the size of Kellogg's international snack business. Company's executive also suggested that deal pushes snack business to a point where they will account for as much of total revenue as Kellogg's well-known another brand. Also the great thing about Pringles was that it was truly a global equity, fantastic brand no matter where you go in the world, you would find the exact same product, maybe some local variations on flavors, the exact same packaging, the exact same shape and the exact same brand positioning, which Kellogg thought was a differentiated proposition which will allow them to create and leverage scale despite being a relatively small player in the snacks market against a very large player. also when you acquire a brand whose products are being sold in more than 80 countries will give Kellogg more bargaining power over its suppliers due to the amount of material it would buy after the deal.For Kellogg, it was a great chance to boost the sale of its existing brands by acquiring Pringle because Kellogg knew that Pringle was a good brand whose products were sold in over 100 countries with a strong international distribution network which they can benefit from (Geller, Wohl, 2011).

Conclusion

After critically analyzing parenting matrix and comparing it with other frameworks, the revealed information was utilized for the analysis of Pringles divestment. It was known that Pringles was an alien business under P&G since this was the last brand in food category. That's why the company couldn't help the brand strategically. And it would also be hard to capture synergy between Pringles and the other brands, which made it clear that P&G wanted to focus on its core brands rather investing on a complicated brand because it realized that the brand would prosper under Kellogg umbrella because Kellogg was already in the snack food business. That's why the deal was a win-win for both parties, the deal would get P&G more focused on where they need to be and in return, Kellogg got a successful brand whose products were sold in more than 80 countries, with a strong international distribution network that was likely going to boost the sales of Kellogg's existing products. The deal was going to be additive to Kellogg earnings.

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