ACHIEVING Business excellence ONLINE

KRAFT FOODS

www.kraftfoods.com

CORPORATE BROCHURE

The key to a continent

The growth potential of Sub-Saharan Africa may be enormous, but unlocking it requires a sound grasp of a very different set of business drivers and challenges. Johan Van Zyl, manufacturing director of Kraft Foods Sub-Saharan Africa, talks to Jayne Alverca

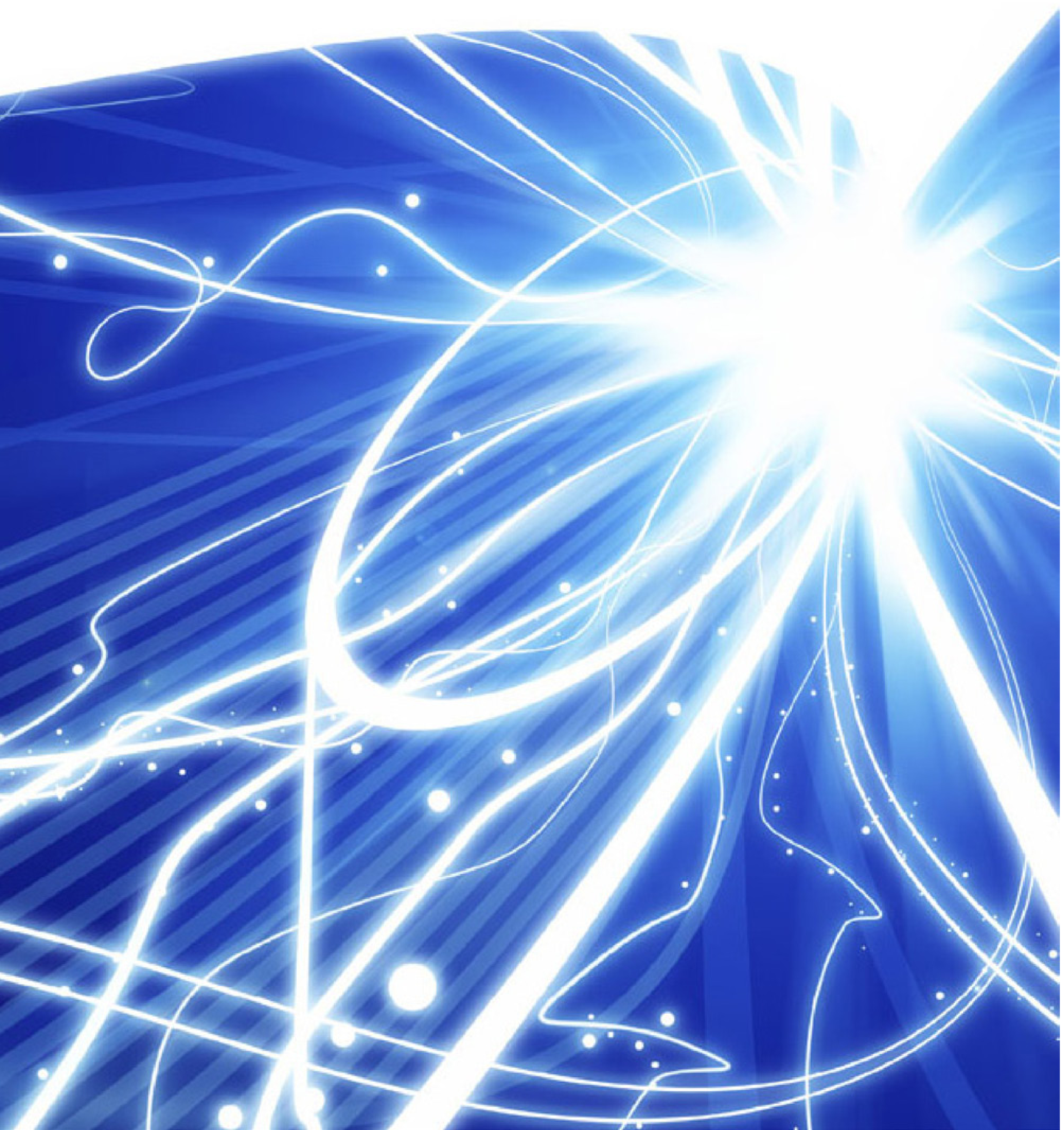
While the West remains mired in gloom and recession, Africa's economic star is rising. The World Bank and the IMF concur that the continent will play host to some of the world's fastest growing economies over the next decade, driven by Africa's immense mineral and natural resource wealth.

Rising affluence is stimulating a growing appetite for international consumer brands. Kraft Foods, the world's second largest food company, is one of a number of international consumer groups who believe they can unlock the region's market potential with a portfolio of iconic brands. In a visit to Africa earlier this year, Kraft's president of Developing Markets, Sanjay Khosla, stated his belief that the $13 billion sector of the business under his direction would be Kraft's growth engine for the future.

Now it is the turn of African consumers to enjoy a taste of some of the world's most popular snack foods, including brands such as Cadbury, Jacobs, Oreo, Oscar Mayer and Philadelphia—not forgetting Kraft itself of course. Forty of the 100 or so brands that Kraft holds have been in existence for over a century and include some of the best-known household names in the world.

Unlike jaded Western appetites, which need the stimulation of a constant stream of innovation and brand extensions, Africa is hungry for core product lines. Rather than using the company's sheer scale and size to enter the market with multiple brands in multiple categories, a decision has been made to focus on just six categories, 10 power brands and 10 priority markets.

ACHIEVING Business excellence ONLINE



Kraft's presence in Africa received a major boost when it took on the Cadbury portfolio in February 2010; Cadbury had already built up a particularly strong presence in Southern Africa. The amalgamation of the two food giants means that Kraft now has 3,800 staff and 10 operations in Sub-Saharan Africa, including one joint venture in Zimbabwe. The geographic reach takes in Kenya, Nigeria, Ghana, Botswana, Swaziland and South Africa. The largest plant is at Port Elizabeth in South Africa, which employs 900 people, while the smallest operation in Nairobi has a staff of just 50.

Manufacturing director Johan Van Zyl is determined that each operation should comply with the same high standards. "At Kraft, we make no discrimination at all between developed and undeveloped markets. There is one standard for food safety, operational safety and good manufacturing practice that we apply with the same rigour to every country in which we operate. The hallmark of quality that we have established in the West is what we aspire to everywhere. However, this does place a lot of pressure on our operations in developing markets, which take place in a very different operating environment," he states.

He explains that Sub-Saharan Africa is an immense region which embraces a huge diversity of states, people and cultures. There may be some common challenges, but there can be no homogeneous, one-size-fits-all approach to the region. Van Zyl sees this challenge as healthy and stimulating. "What it means is that the business fundamentals have to be absolutely right," he says, outlining what he perceives as some of the most common challenges posed by the enormous region under his management.

Firstly, although household incomes have risen very quickly, African consumers do not typically share the deep pockets of their Western cousins. "It is imperative that 90 per cent of our offering must hit the right price points," he states. "Then consumers look for value, which means high-quality products which offer compelling nutritional value. Our operations are also very heavily influenced by Africa's undeveloped infrastructure and the limited availability of skilled people, particularly those with the basic engineering skills we require to operate our plants."

Van Zyl heads an ambitious programme to upgrade the capacity, productivity and sustainability of all the company's manufacturing operations. To date, more than $18 million has been invested in strengthening Kraft's manufacturing capability and he anticipates that investment will be ongoing for a number of years. Key investments so far include the Port Elizabeth chocolate manufacturing plant in South Africa, the site of a R750 million investment in capacity and capability technology, and a major investment in a new sugar-free gum factory in Botswana.

"In this environment, you cannot simply buy the best equipment, put it in place and expect improvements to automatically result," he declares. "Capital investment can only achieve results as one facet of an overall transformation strategy. We must use our technology and the investment programme to implement specific business processes that will sustain our plants and upgrade the skills and capabilities of those who operate them in a process-driven manner. The skills of the people we employ are a core business process to us, not simply an intervention.

"To create cost-effective sustainable operations in this part of the world, we must embed our universal systems and values," he continues. "We typically achieve this by seeding our operations with expatriate managers who are given a specific mandate to nurture and bring on local skills. Africa is not like India and China with a huge reserve of skilled people. The education system is still relatively undeveloped and we have to address the skills shortage very seriously in order to succeed."

Even in West Africa, where higher quality schooling and a greater propensity to study overseas has created a pool of what Van Zyl terms as acquired knowledge, there is still a big gap in being able to translate academic learning into the applied knowledge that is needed to enable plant and machinery to operate at optimum levels. "There is a vast difference between acquired and applied knowledge. It has been fundamental to our operations to develop a methodology to address the competencies we need, along with roles and responsibilities and expectations in terms of clearly stated outputs," he explains.

This formalised competence development process has already been applied in a pilot programme at the company's Botswana sugar-free gum manufacturing plant in Gaborone. Investment worth R160 million—aimed at increasing volumes and transforming the plant into a world-class African operation—has been made into the former family-owned business. So

far, training at the Botswana plant has seen an improvement in the competency level of the plant's staff from nine per cent to 52 per cent over a period of just nine months, while output has increased by 40 per cent.

Kraft's plants in Swaziland and South Africa are now undergoing the same applied training methodology which will be progressively rolled out to all of Kraft's plants, starting next year in West Africa where Cadbury Nigeria is investing in a new Bournvita manufacturing facility at a cost of R350 million just outside the capital of Lagos.

The strategic positioning of the company's 10 plants is something that assumes a much higher significance than in the West. "We are fortunate in that our manufacturing and operational network is well distributed across the continent," Van Zyl says. "For example, we have a presence right up the east and west coasts of Africa and a particularly strong footprint in the major growth hub centred on South Africa. Botswana and Swaziland also have special importance as they are members of more than one trade zone.

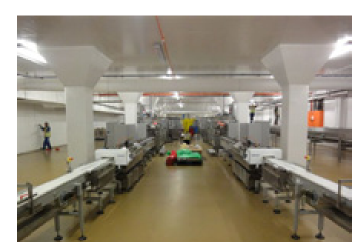
"Geography and the socio-political context of each state have a profound effect on how we structure our operations," he explains. "In Nigeria for example, we manufacture entirely for the domestic market. In Ghana, on the other hand, where there is a more liberal international trade regime, we can create a delivery hub that serves the other francophone markets in the region."

Although coastal infrastructures have shown marked improvements, goods cannot be transported from East to West across central Africa where the political turmoil and under-development of the vast tracts of land within the borders of the Democratic Republic of Congo currently represent an insurmountable barrier. Shipping goods by sea around the continent is a journey of many thousands of miles and means contending with the threat of Somali pirates. The only alternative is the Suez Canal which is costly, congested and far from strategically well placed to serve the entire continent.

Kraft's activities span three trade zones, but Van Zyl points out that these do not operate with anything like the same level of freedom or stability enjoyed within the European Union. The political instability which is still a feature of many states has a profound impact on free trade even within the zones, which are regularly subject to the whim of changing government priorities.

The Common Market of Eastern and Southern Africa (COMESA) was established in 1993 and has 19 member states with a population of over 389 million. Then there is the Southern African Development Community (SADC); while a third, less developed trade zone centres on Ghana and francophone Africa.

Recently, African leaders agreed to launch negotiations to create a free trade zone that would integrate these three overlapping trade pacts, but it will be several years before these plans come to fruition. When they do, it will create a trade bloc of 26 countries with a combined economy estimated at $875 billion.



The proposed bloc will greatly enhance Africa's connectivity and reduce the costs of doing business, but meanwhile Van Zyl must contend with a very different scenario.

"Moving product between different countries, or even within the same country, is not straightforward at all. We cannot simply import what we want and then export to wherever we want. The route to market is a very important aspect of the overall equation which determines the viability of our operations," he explains.

Similarly, supply lines are less stable and predictable. Maintaining the 'plan, buy, deliver' cycle presents many more risks in Africa. "Often in developing markets, we find that we cannot access a range of alternative suppliers and we may have to depend on one dominant player and then bring our influence to bear to secure the quality that is the hallmark of our operations. Creating strong partnerships with suppliers is one way we can mitigate the risk and we also try to establish a careful balance between imported and locally-sourced supplies, but it is always a delicate balance and we must be able to shift rapidly at any time to other parts of our supply network.

"In terms of the way we structure our operations, we have a very detailed risk management plan to ensure the continuity of our operations. This is not a document that we ever put away in the drawer and forget about," he says, adding that risk management plans must also address the supply of basic utilities such as power and water, which can never be taken for granted.

"For example, at our plant in Lagos, we have to maintain our own power plant which is the only way we can be certain of meeting our energy needs. To obtain water at the site, we have to pump water up from a depth of one kilometre and treat it before it can be pumped on-site. All this must take place, before we even begin to address our core manufacturing capability," he adds.

It is a tough environment in which to do business, but the higher risk is offset by higher rewards. Since Van Zyl became manufacturing director in 2009, turnover in Sub-Saharan Africa has risen steadily in double-digit figures each year.

Looking to the future, he does not see an immediate increase in the number of plants operated by Kraft, rather a continued drive to enhance the capacity, flexibility and sustainability of those that already exist. "Not all our operations have scale and therefore their financial viability is questionable. We still have to find a better way to leverage the scale and productivity of those assets already in our possession and although we have made great strides forward, there is still much more to be done to achieve world class standards in all our operations.

"However, the major investment we have made in Africa will continue for at least the next five years and bears testament to our belief in the future and potential of this continent," he concludes. www.kraftfoods.com

KRAFT FOODS

www.kraftfoods.com