Editorial

Consolidation via Takeovers in Food and Nutrition Sector

The food and nutrition business world over, is poised for rapid consolidation after a series of the takeovers across the borders and within the borders as well, wherein the number of players are fast reducing. The major takeovers of recent past, viz. of the Cadbury by Kraft Food Inc. and Pfizer's nutrition business by Nestle had been across the borders and have led to facilitate the hold, even up to 80 percent of certain markets for the acquirer. The latest being the completion of takeover of Pfizer's nutrition business by the Nestle. The Nestle-Pfizer deal has also been approved in more than 85% of the markets spread across 60 countries, mostly the emerging market economies, where the Pfizer Nutrition used to operate. Exception was of the Mexican Federal Competition Commission, which declined to authorize the acquisition by the Nestle, citing concerns that could lead the price increases up to 11.5%. However, it was a surprise that the competition-regulatory authorities over the world, including those in China and India allowed the merger, where as well the prices might rise, as it would facilitate a hold over 80% of the market in India. But, this issue stands closed after the deal has now been approved by the Competition Commission of India. This acquisition for the Nestle has not come cheap as it had an outgo equaling 22 times the Earnings Before Interest Tax Depreciation and Amortization (EBITDA) of Pfizer's nutrition business.

The consolidation in India is still on, wherein the Danone has recently taken over the nutrition business of Wockhardt, another major player in India. The acquisition of Complan Food UK would further help the Danone to consolidate its hold over nutrition business in UK as well. The latest takeover of Schiff Nutrition International INC. by Reckitt Benckiser PLC is at a surprisingly high price for consolidation, as the acquisition price had been 30 times the EBITDA. The acquisition price topped well to $1.42 billion, vis a vis the Bayers AG's price of around $1.1 billion.

However value-wise, the costliest takeover was of the Cadbury by the Kraft Foods. The world's second biggest processed food company the Kraft Foods Inc., based in Illinois had taken over the British confectionary maker Cadbury for $18.9 billion. Yet, the price to be paid is just 13 times the EBITDA which is quite low when compared on the basis of EBITDA vis a vis other recent acquisitions. The $42 billion Kraft Foods Inc. could get a clean sweep into several emerging markets at a pretty low price, including India where it had no presence till date.

For Cadbury, which owns brands such as Cadbury's Dairy Milk and Bournville, India has proved to be one of its most resilient markets with sales growth of 20% and profits growing at 30% in a very competitive market. The Rs 2,000 crore-Cadbury India's massive distribution network of an estimated 1.2 million will throw up a `sea of opportunities' for the Kraft. The Indian packaged and processed foods industry is estimated to be at Rs 50,000-60,000 crores p.a., including biscuits, chocolates, ice-cream, confectionery, snacks, cheese and butter. Growing at a healthy 14-15% over the past two-three years, major players in the sector include Britannia, Nestle, Amul, ITC Foods, Parle, Kellogg's, GlaxoSmithKline, Wrigley and Frito-Lay, among others. For this very reason India has been up there on Kraft's radar to engage.

Kraft Food till date, had operated in India only through an import model and had been selling single brand -- Tang powder drink here through distributors. A couple of years back, it sold off its powdered soft drink concentrate plant in Hyderabad since low volume off take had rendered the plant commercially non-viable. It was represented by its 100% subsidiary KJS India. The consolidation in food and nutrition business might almost lead to a duopoly in most markets. How shall it affect the marketing strategies of the players left in the markets and the consumers' interests, is yet to be seen.

(Prof. Bhagwati Prakash Sharma)