



Campbell Soup Company: An Analysis of International Strategy

Team 5:

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Executive Summary

Political and economic factors are extremely important for companies to consider when entering new markets. As we will describe, the greatest challenge facing Campbell is to tackle the cultural differences between the Chinese market and its home market.

For the purpose of our report and to provide in depth analysis on Campbell Soup Company, we have classified its product offerings in to Packaged Food category. We will examine the packaged food industry and apply various theories from Charles W.L Hill to trade and foreign direct investment in this industry.

In addition to analyzing industry trends, we will speak to the Simultaneous Multiple Strategic Thrusts Campbell is employing by attacking both the domestic market and emerging markets at the same time. We believe Campbell is on the right track by employing an alliance to grow its presence in China, but our research shows that the company must increase its depth and breadth.

Our report is completed with three recommendations: dehydrated soups for greater appeal in China, a joint venture with Starbucks to increase international presence, and a focused on a relatively new category: infant nutrition.

Political, Economic, and Cultural Factors

The political and economic factors affecting business in China act as both an enticement and a warning for companies in any industry; the opportunity to reach one billion-plus potential customers in a dynamic economic system which has achieved double-digit growth in the past decade (2001-2011) is tempered by a communist government that is embracing market economy tendencies (Anderlini, 2012). However, the primary challenges for the packaged food industry and, in particular, Campbell Soup Company, are the cultural and regional differences that exist across the eight major regions of China.

China's evolving culture is shaped by its ability to lead the world in economic growth; while undergoing a shift between the traditional way of life and the lifestyle of the Millennial (World Bank, 2013). In a country where 72% of the population consumes soup once a day, China appears to be the perfect market for a global soup manufacturer (Szalai, 2013). Yet China is evolving from an agrarian economy to one shaped by technological advances and international influences resulting in socioeconomic changes. Therefore it would be a mistake to categorize China as one consumer market. Fifty-six distinct ethnic groups, regional taste preferences, and international influence add to the complexity of the consumers in China (International Markets Bureau, 2010).

China's economic growth has fueled the country's mass labor migration from rural areas to major cities in search of higher income and wealth. In part, this has ignited the rise of the Chinese middle class and consumerism. 43% of the Chinese population live in urban areas and are between the age of 20 and 39. Food, as seen in Figure 5, accounts for 36% of annual household expenditures for urban households (International Market Bureau, 2010). These consumers are more educated, affluent, and scheduled than the previous generation and require

more time-saving, easy, and healthy goods. Chinese urbanites have accepted Western snacks, which shows Chinese consumers are willing to try new foods and flavors (illustrated in Figure 8).

Although consumers in China seem to be moving towards Western tastes, it is incorrect to use Western strategies to reach them. Meals in China are eaten “family style” and rarely missed. This emphasizes the importance of family structure surrounding the basic function of eating in Asian culture; traditionally grocery purchases are made daily to ensure freshness rather than the once a week bulk purchasing habits of Americans.

In China, retail sales increased 12.8% over the last year (National Bureau of Statistics of China 2012). Chinese shopping habits are becoming more like those of Westerners; consumers shop in large supermarkets and convenience stores, which cater to shoppers buying packaged and processed foods (Defoe, Global Industry Surveys). Indicated by Figure 3, the forecast of packaged food sales has attracted retail stores and, as an example in 2007, these retailers accounted for 45% of grocery sector shares in Shanghai (International Market Bureau, 2010).

Localizing packaged foods to consumers’ tastes is critical for a company like Campbell. Figure 6 illustrates the flavor preferences of Chinese regions. These subtle differences, if not understood, could result in disaster for companies. Translated to the US, this is regionalizing a product line like the differences between Boston, Manhattan, and New England Clam Chowders. Sales in the Chinese packaged food market were valued at \$124.3B in 2010, and the market was projected to grow at the rate of 51.4% from 2011 till 2015 (International Markets Bureau). With this in mind, it is important to consider the appeal of products specifically tailored to Chinese cultural tastes, region by region.

Trade Theories

With respect to trade theories, the Hecksher-Olin Theorem is most applicable to the international packaged food industry. This theory argues that countries will export goods using locally abundant resources and import goods using locally scarce factors. China has less than 10% of the world's arable land but needs to feed almost 20% of the world's population. While the United States and China share a similar land size, the United States has .51 arable hectares of land per person while China has only .08 (Population Clock, Arable Land in China).

This allows the United States to use its plentiful resources such as fruits, vegetables, and grains by processing them into packaged foods. Due to China's food shortage, it does not make sense for that country to package foods and export them to other nations. In addition, due to the convenience and ease of eating packaged food, there is a growing trend in developing markets in which people are eating more packaged food (Defoe, Global Industry Surveys). Although China lacks arable land, its large number of citizens has allowed it to gain power in the global economy by positioning itself as an exporter of manufactured items.

Aspects of the new trade theory also explain the packaged food industry. For instance, economies of scale play a critical role in unit cost reduction associated with large-scale output. This cost reduction allows companies to expand, and trade increases the variety of goods available to consumers while decreases the average cost of those goods. These enhanced economies of scale also allow companies manufacturing in China to export to other growing markets in Asia. Additionally, the firm that is first to market can capture a competitive advantage by establishing early brand loyalty.

Foreign Direct Investment

The packaged food industry has had a long relationship with mainland China. Nestle established a presence in 1866 and had an office in Shanghai by 1908. Other companies did not

follow until China established Special Economic Zones in the 1970s and opened to Foreign Direct Investment (FDI) in 1978. Soon after, Unilever entered China through a joint venture. Barriers like import tariffs were further removed in 2001 when China joined the World Trade Organization. Compared to competitors, Campbell was one of the last companies to enter.

From the FDI theories, multipoint theory best describes the pattern of FDI in this industry in China. By definition, “multipoint competition arises when two or more enterprises encounter each other in different regional markets, national markets, or industries” (Hill 260). Nestle was the first to establish a presence, followed by Unilever and ultimately Campbell. Nestle was also first to have a greenfield investment. In 2013, Unilever already has two manufacturing centers in Hefei and Tianjin and is in the process of establishing a third manufacturing plant in Meishan (Unilever Seeks Growth in China, 2013).

Lessons can also be learned from the internalization theory, which highlights the trend to choose FDI over licensing. Hormel Foods Corporation is one of the few packaged food companies using licensing to expand into foreign markets. Hormel has expanded into Asia-Pacific, China, and Europe with six joint ventures and three licensees.

Simultaneous Multiple Strategic Thrusts

Simultaneous multiple strategic thrusts (SMST) exist when a company employs multiple strategies in order ensure profit, reduce risks, and erode competitors’ advantages. Campbell is currently employing separate strategies to gain market share domestically and globally. In the US, Campbell is targeting the approximately 80 million Millennials born between 1980 and 1999 (Accenture). These consumers, currently aged 14 to 33, spend approximately \$600B annually. By 2020, Millennial market potential is expected to reach \$1.4T (Accenture). To appeal to this demographic, Campbell is promoting bolder flavors with trendier packaging. New lines of soups

and snacks include Campbell's Go! Soups and Jingos, specifically marketed as having bolder flavors such as Spicy Chorizo with Pulled Pork and Black Beans or Spicy Chili and Lime. These flavors are a dramatic shift from the traditional chicken soup (CampbellSoup.Com, See Figure 9).

In addition, Campbell acquired Plum Organics, a baby food company that provides a "modern approach to family nutrition." As the number two organic baby food brand in the United States, this brand will allow Campbell to further target Millennials with young children (Press Release 13 June 2013). As Campbell's first endeavor into baby foods, Plum Organics allows the company to market more substantial meals to children beyond the Goldfish crackers. Campbell is marketing to the Millennials through their children.

While Campbell is targeting this new generation at home, the company is also focusing expansion in three critical geographies: South East Asia, Latin America, and China. China is especially important because 355 billion servings of soup are consumed annually (Reuters). Campbell has been selling soup in China since 2007 but recently ramped up its commitment to the market by entering into a joint venture with Swire-Pacific. As Campbell works to gain market share, the company is enriched by lessons it learned from the Russian market. After four years, Campbell pulled out of its joint venture in Russia in 2011 after being unsuccessful in its attempt to sell packaged soup in a country where homemade soup is king. Campbell entered Russia and China at approximately the same time, but the company felt it had greater potential in China (Correale Interview, 2013).

Broth has been Campbell's most successful export to China. Based on consumer desires, the company increased the strength of its chicken broth. Soups are proving to be more of a challenge. Similar to Russians, Chinese typically make soups at home, so even as Campbell is reformulating soups for younger palettes in the US, additional work is required to prepare the

soup line for Chinese tastes. To this end, Campbell is working with Chinese chefs to craft recipes that will appeal to local tastes.

Traditionally, snacking between meals has not been widely accepted, but the younger generations are indulging in snacks thereby increasing demand. To capitalize on this trend, Campbell acquired Danish baked goods company Kelsen Group. Kelsen, already sold in 85 countries, is a market leader in China and Hong Kong with distribution networks in South America, the Middle East, and Africa (Campbell Press Release 2013)

Campbell is making strategic moves on both new market fronts and several geographic fronts. Together, these moves will strengthen Campbell's overall strategy. Bold ethnic flavors that gain popularity in China and elsewhere abroad will be attractive to the diverse Millennial's tastes. As a result, Campbell can bring those authentic tastes to the domestic market and increase their research and development efficiency by reducing the number of products under development.

Alliances

Most alliances in the food industry take shape as joint ventures. Campbell Swire is Campbell Soup Company's joint venture in China. The arrangement was finalized in January 2011; Campbell has a 60% stake in the venture while Swire, known for its logistical abilities, has a 40% stake. Since Campbell has not operated in China before, the logistics of such a large and diverse country can be intimidating. This is especially true since some of the infrastructure in rural areas is underdeveloped compared to that of the US. Campbell is playing what could be an expensive game of catching up but can learn quickly by working with a local partner.

Another reason for undertaking a joint venture is to limit risk. In its venture with Swire, Campbell is taking the majority of the profits (60%), but it is also limited in its exposure by

suffering only 60% of any losses. In undertaking a joint venture, Campbell is able to reach the Chinese market without constructing its own manufacturing facilities, owning trucks, employing workers, etc. By entering Russia with a joint venture, Campbell was also able to exit the market faster and more easily when its strategy changed.

There are numerous examples of packaged food companies entering new territories through joint ventures. In 2012, Kellogg used a 50:50 joint venture to enter China to manufacture, and distribute cereals and snacks. Kellogg sought partnership with Wilmar, who specialized in the Chinese market and contributed infrastructure, supply chain scale, and a Chinese network.

Campbell is not effectively using alliances to leverage its strengths since Campbell-Swire manufactures, sells, and distributes only soups and broth in China. This relationship would be more effective if Campbell-Swire were introducing other Campbell products such as its Country Ladle Soup line, taking advantage of Swire's strength in cold storage. Additionally, if Kraft can bring snacks and cereals to China, Campbell's Pepperidge Farm's snacks have a place in this market now that there is increased cultural acceptance of Western style snacks.

The rapid growth in retail in China presents an opportunity for Campbell's to introduce its products in both rural and urban areas through its distribution partnership. For Campbell to achieve the same degree of success in China as it enjoys in North America, it must expand its product offerings beyond soups and broths. Campbell's must leverage successful existing strategies and develop new ones to improve product placement to take advantage of the booming supermarket and convenience retail stores as identified by Figure 8. Campbell's strategy of focusing on leveraging the drivers of consumer demand (product, place, promotion and price) cannot be achieved while offering just two manufactured products in China (Campbell 10-K 2012).

Current Strategy

Campbell's leadership has been pushing its international expansion strategy. This is one of the major focus areas outlined by Morrison. The current strategy has two main objectives: to broaden the range and to increase the availability of its products in emerging markets (Campbell 10-K). The expansion into the Chinese market is a natural fit for the company since soup and broth are a daily part of the Chinese diet. Domestically, Campbell is renewing its focus on the Millennial demographic with marketing efforts. In addition to organic growth, Campbell is also pursuing acquisitions by adding Bolthouse and Plum Organics.

Campbell has a secure foundation within the domestic market with 44% of the soup market (Euromonitor). Campbell's main strength has been finding innovative ways to broaden its range of products by using market research to identify growing markets. Campbell has performed a number of acquisitions throughout the years to diversify its product portfolios from the core soup business-- Pepperidge Farm for snacks, Plum Organics for baby food, Bolthouse for juices and carrots, and Kelsen for sweets. Campbell has also used the recent acquisition of Kelsen to acquire a global brand that has a strong presence in the Chinese market, which is critical to future growth.

However, Campbell's strategy is not without weaknesses. The Millennial branding efforts have been lampooned at home, and selling Andy Warhol-branded cans of soup flopped. Although Campbell is pursuing growth in Asia, Campbell has pulled out of the European market after its failed attempt to pursue expansion in Russia. Even though the company is focused on emerging markets, Europe is still important because, unlike in the United States where soup is consumed once a week on average, in Russia it is consumed about 5 times a week (WSJ 2011).

Additionally, Campbell is struggling to be competitive with Nestle and Unilever in China because its operations are relatively small.

Strategic Recommendations

Based on our Porter's Five Forces analysis (Figure 4) and additional research, we have identified three recommendations to boost Campbell's presence in China, strengthen Campbell's brand across the globe, and fortify Campbell's position with Millennials.

First, Campbell would benefit from selling dehydrated soups in China. These are easier for consumers to purchase and transport, and Chinese consumers are just beginning to embrace supermarkets and the American idea of bulk shopping. For those who cannot afford to make many purchases at once, the ability to purchase a single use sachet of soup is advantageous. Additionally, packets are significantly lighter to carry than cans, which makes transportation easier. Unilever's Knorr brand, sold in packets both in the US and China, does very well in China, and Campbell can replicate this success with its localized flavors. Once Campbell has perfected its local flavors in China, those soups can be sold across the globe, particularly to Millennials.

Second, in a strategic move to strengthen its position both domestically and globally, Campbell should partner with Starbucks in a joint venture to bring its products into direct food service. This is important for Campbell to gain market share with Millennials because over 90% of Starbucks' business comes from customers aged 18 to 40 (O'Farrell). Starbucks, with its coffeehouse vibe, already offers baked goods and sandwiches. We believe soups, a la Panera, and Campbell's snack and baked-good brands would be the perfect complement to those offerings. This would truly bridge the gap as Campbell wants to reposition itself as leader in the ready-to-eat food market. Additionally, Starbucks has surprised many with its success in

expanding internationally. When Campbell products are offered at Starbucks, where Starbucks goes, Campbell follows. Since Starbucks recently acquired La Boulange, a bakery, there may be less interest in selling Campbell baked goods, but we believe there is a strong link between Campbell's soup products and Starbucks' consumers.

Third, Campbell needs to capitalize on its recent acquisition of Plum Organics. Currently, baby food represents a \$58B global market (Euromonitor). Plum Organics and Bolthouse are both brands Campbell wants to use to build its presence with Millennials and growing families. Bolthouse has widespread availability, but Plum Organics is significantly harder to find since it is not offered at many major supermarket chains. Direct competitor, Peter Rabbit Organics, is more dominant because it is offered in chains such as Albertsons and Walmart. In addition to making sure Plum Organics is easier for consumers to find, Campbell should explore other baby nutrition products such as baby formula. Baby formula is a major product for competitor Nestle, and we believe Plum Organics is the threshold Campbell needs to enter this territory. Entering baby formula in the US would only be the first step for Campbell to compete globally with Nestle in this field.

Reflection:

In choosing a company for this project, we decided that we wanted to focus on a local Fortune 500 company and one to which we had connections. Having studied a technology company in our previous strategy course, we liked the idea of focusing on an quintessentially American food brand so we could learn more about a different industry. We also had some background knowledge of recent Campbell activities such as limited-edition Andy Warhol cans and pulling out of the Russian soup market. We were curious to see how these actions fit into Campbell's overall strategy.

Exhibits:

Figure 1

Item 6. Selected Financial Data

FIVE-YEAR REVIEW — CONSOLIDATED

Fiscal Year	2012(1)	2011(2)	2010(3)	2009(4)	2008(5)
(Millions, except per share amounts)					
Summary of Operations					
Net sales	\$ 7,707	\$ 7,719	\$ 7,676	\$ 7,586	\$ 7,998
Earnings before interest and taxes	1,212	1,279	1,348	1,185	1,098
Earnings before taxes	1,106	1,168	1,242	1,079	939
Earnings from continuing operations	764	802	844	732	671
Earnings from discontinued operations	—	—	—	4	494
Net earnings	764	802	844	736	1,165
Net earnings attributable to Campbell Soup Company	774	805	844	736	1,165

Source: Campbell Soup Company 2012 10-K

Appendix 2: Background Information

Since its founding in 1869, Campbell Soup Company has acquired a diverse portfolio that generated over \$7.7B in sales in 2012 (Figure 1). These offerings include well-known global brand families such as: Goldfish, V8, Pepperidge Farms, Pace Salsa, Prego, Swanson, Liebig (France), D&L (Belgium), and recently acquired Bolthouse Farms and Plum Organics (2012 10K, Press Release 2013).

Denise M. Morrison joined Campbell in 2003 as President of Global Sales and Chief Customer Officer. After several promotions, Morrison was named CEO in 2011. She is the 12th leader in the company's 143 year history (Campbell Soup Company). She inherited an iconic brand that had lagging sales in its flagship domestic soup segment, minimal connection with the Millennial generation, fledgling European sales, a disastrous Russian expansion, and small market penetration into China, the number one soup consuming nation in the world.

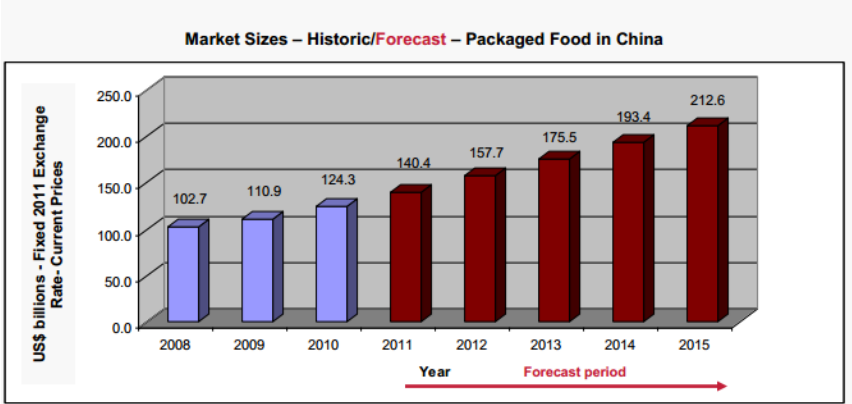
Morrison has outlined three strategic plans to inject growth into Campbell: stabilize and increase profitability in North American soup and simple meals, expand international presence, and continue to drive growth in healthy beverages and baked snacks (Goudreau, 2013). This strategy seeks to address key strategic decisions of the past, missed opportunities, and unmet expansion.

The divestiture of Godiva and five other small brands in the Western European market accounted for a 77% reduction in food sales as of October 2013 (Szalai, 2013). Additionally, Campbell's inability to capture the Millennial generation has added to the sagging growth of the company as evident by the past 5 years of declining sales (Figure 1). The Millennial generation

(particularly in Europe, Latin America and the Hispanic demographics in North America) prefers more intense, bold flavors and more convenient packaging (Szalai, 2013). The final purpose of Morrison’s strategy is international expansion. Increasing product lines in existing international markets and exploring external development opportunities, increasing growth in Indonesia, Malaysia and Mexico, Europe, Asia and Middle East and increasing investment in China all underpin her plan supported by 31 manufacturing facilities in ten countries (2012 10K).

As part of analyzing this industry, we completed a Porter’s Five Force analysis (Figure 4) that indicates rivalry in this industry is medium to high. Campbell’s international strategy must include ways to decrease the bargaining power of buyers and the threat of new substitutes. The proper strategy will include methods of increasing customer’s willingness to pay by reducing the price sensitivity of customers and establishing higher switching costs or competing more effectively with eating out and home cooking.

Figure 3:



Source : International Markets Bureau - Market Indicator Report , February 2012

Figure 4:

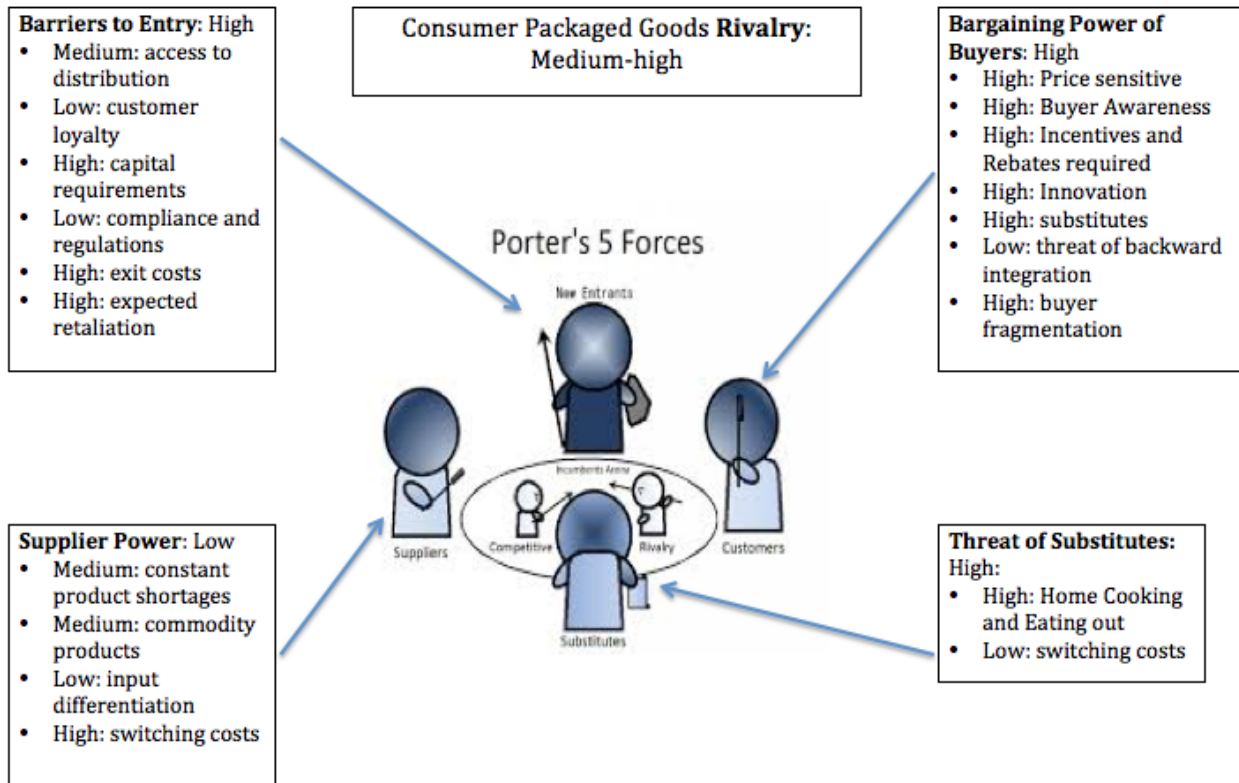


Figure 5:

Average Per Capita Annual Expenditure of Urban Households, 2007

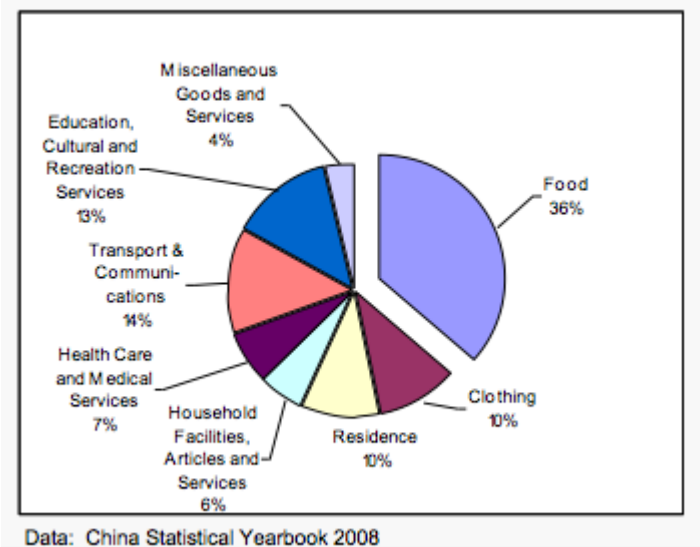


Figure 6:

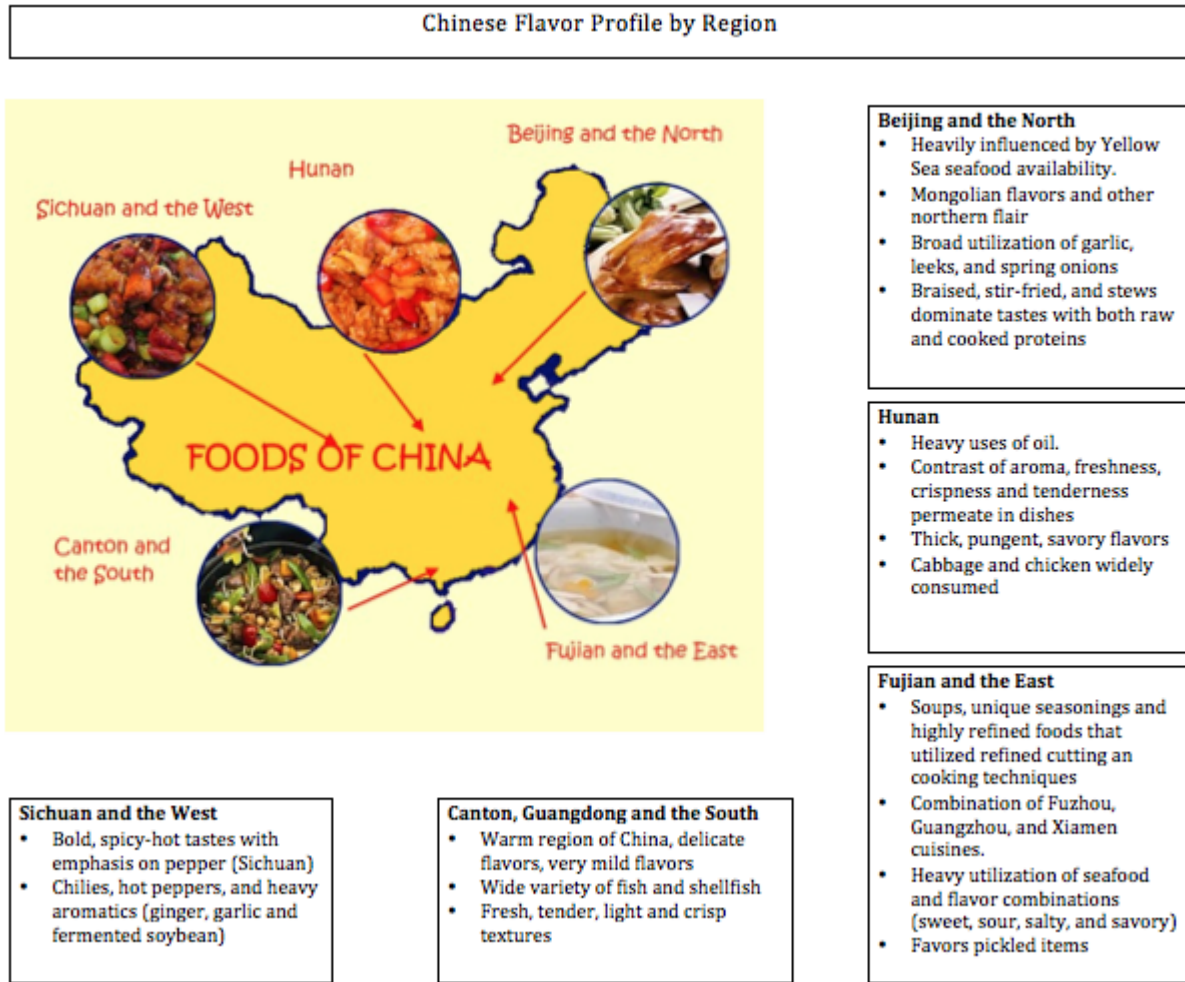


Image: www.china-family-adventure.com/chinese-food.html

Figure 7:

Campbell's Product Mix Matrix Example			
Products		Markets	
		U.S.	China
U.S.	U.S.	Cream of Chicken	Cream of Lemongrass
China	China	Sichuan Seasoning	Teddy Bear Cookies

Figure 8: The Four P's of Campbell Soup Company's Market



Figure 9: Campbell's To Go Packaging

Traditional Packaging



Millennial Packaging



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