

The Ketchup King Prospers

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When H.J. Heinz (HNZ) came out with 12% first-quarter earnings growth on Aug. 21, it was easy to see traces of ketchup throughout the good news. With more Americans eating at home and opting for french fries when they eat out, the \$10 billion food company's flagship product is indeed doing well, with 8% sales growth worldwide.

But Heinz's hottest brand these days is a syrupy soy sauce called ABC. The Asian label, which also includes a few side products like beverage syrup and chili sauce, saw a 44% increase in sales over last year. Created in the 1970s and acquired by Heinz in 1998, ABC has tripled in size under Heinz's ownership and is now the world's second-largest soy sauce (next to Japanese brand Kikkoman). It's also a recognized name in emerging markets, a category that accounts for 15% of Heinz's business—and that CEO William R. Johnson hopes to grow to 20% by 2013. Thanks to a major overhaul in packaging, marketing, flavors, and distribution, ABC generated more than \$200 million in sales in the last year, much of it in Indonesia.

While that hardly holds a candle to the \$1.6 billion ketchup brand, ABC's success illustrates why Heinz is now outpacing rivals like Kraft Foods (KFT), Kellogg (K), and Campbell Soup (CPB) in both sales growth and stock price. From a sluggish underperformer that was in a proxy fight with activist investor Nelson Peltz two years ago, Heinz is starting to emerge as one of the industry's top innovators. It has launched 200 new products in the past year, such as Smart Ones breakfast sandwiches and Ore-Ida microwavable mashed potatoes. It has also aggressively pushed existing lines into new markets. As food-industry stocks struggle amid rising commodity prices and the economic downturn, Heinz is up almost 20% over the past year. "They are clearly doing a lot of things right at the moment," says Mark Baum, who leads the consumer practice at Diamond Management & Technology Consultants (DTPI).

As an example, look at ABC. Chris Warmoth, who heads up Heinz's Asia-Pacific operations, notes that "nearly all households in Indonesia use ABC." That wouldn't seem to leave a lot of room to boost sales of its sweet dipping soy sauce, or kecap manis. So the company has introduced new products and tried to encourage broader consumer use through a "culinary academy" where chefs come up with new ABC recipes. (Up next: suggested nonalcoholic drinks made with ABC flavor syrups for the Muslim celebration of Ramadan, which starts on Sept. 1.) Heinz also added a new pouring cap for the soy sauce bottle and introduced lighter plastic pouches, a potential selling point to the majority of Indonesians who lug their groceries home.

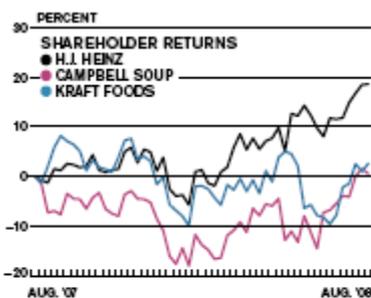
NEW PRODUCTS, NO BORDERS

For all its progress, though, Heinz's innovation machine is not yet in top gear. The Pittsburgh-based company is slightly behind its peers in deriving just 11% of its sales from products introduced in the last three years, according to Sanford Bernstein senior analyst Alexia Howard. But Heinz is fast closing the gap. "This company spent a decade with really no innovation," says Howard. Now, she adds, Heinz is showing a lot more strength in product development.

One symptom of the shifting culture under CEO Johnson is that good ideas from one region increasingly migrate around the globe. The ABC soy sauce pouches, for example, are being eyed by Heinz brand managers in Russia. For its part, ABC has just adopted an easy-open sardine can from Heinz Europe. And ABC is now pushing an exotic new product into Indonesian homes. It's called ketchup.

HEINZ HAS SPICED UP ITS STOCK PRICE

The ketchup maker is outperforming its food-industry peers



Data: Bloomberg Financial Markets

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