

# **Technology & Globalization: Argentina & Kellogg's**

Project: Final Project  
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## **Executive Summary:**

The Kellogg Company has been ingrained with a tradition to provide great-tasting, high quality foods. In keeping with this tradition, Kellogg's has already accepted, as uses, Genetically Modified (GM) foods in the production of some of their staple products including pop-tarts, rice krispie squares, and nutria-grain bars. Kellogg's has the leading market share in the Americas of the cereal market, and have experienced double digit growth. Along with this, The Americas support the use of GM foods, and lean heavily into the biotechnology market. This presents Kellogg's with a unique opportunity to become the market leader of these foods in South America, and have a conservative five year return on investment of \$51 million dollars. By using Argentina's infrastructure developed through the Evita fund, Kellogg can manufacture the goods locally, and sell them to local consumers, maximizing profits. With this information, it is recommended that Kellogg move immediately to secure a leading share in these emerging markets. Starting from Argentina, and progressing north to meet with current facilities in central America, Kellogg will create the ability to manufacture pop-tarts, rice krispie squares, and nutria-grain bars inside the countries borders and ship them to local stores. Using the improved infrastructure from the Evita Biotechnology project, Kellogg will be able to move grain to its warehousing, manufacturing and distribution system; then ship these products to the other countries inside South America at a fraction of the cost that it would be import their products overseas. When completed, Kellogg will be able to supply their high quality products to the entire South American continent. With the current market growth and sales in Latin America, as well as their willingness to accept genetically engineered foods, it is imperative that we expand our business to cover this opportunity. Within four years, we will have covered our initial costs, as well as make a conservative \$50 million in profits. Not implementing this plan will put this opportunity in the hands of the competitors and lose an humongous potential customer market for Kellogg.

The Kellogg Company had a humble beginning in the labs of William Kellogg. While experimenting with various production techniques for food, William Kellogg accidentally discovered cereal. This discovery in 1894 led to the creation of the Kellogg's company – a now world-leading producer of cereal and convenience foods. William Kellogg believed that breakfast was the most important meal of the day, and a good diet was part of a healthy lifestyle. This tradition has been ingrained into the Kellogg Company – which now “provides the information about diet, nutrition, and health”<sup>1</sup>. The Kellogg Company today keeps with that tradition and provides great-tasting, high-quality foods to consumers<sup>2</sup>.

In keeping with this tradition, Kellogg's has already accepted, as uses, Genetically Modified (GM) foods in the production of some of their staple products. These products include pop-tarts, rice krispie squares, and nutria-grain bars<sup>3</sup>. They are always “evaluating [the] product line, looking for opportunities to selectively enhance certain products without sacrificing taste and consumer acceptance.”<sup>4</sup> With this in mind, Argentina and its biotechnology program becomes a perfect candidate for an expansion by Kellogg. Argentina's build up in this field over the past ten years has pushed them forward to be the leaders in the biotechnology/agriculture field, and helped farmers become the number one producers of GM foods. “The most advanced groups [of the biotechnological industry] were in Brazil, Cuba, Mexico, and Argentina, with important highlights found in Chile, Colombia, and Costa Rica.”<sup>5</sup> South America, specifically Argentina, is primed and ready for a GM food manufacturers to move in and produce goods.

Kellogg's market share in the Americas market has held the leading share of the cereal market and experienced “double digit net sales growth in snacks”<sup>6</sup> with a continuously growing population of ready-to-eat cereal consumers<sup>7</sup>. They have shown growth in all geographic segments<sup>8</sup> as shown in figure 1. With net sales of 666.7 million, and an operating profit of 168.9 million<sup>9</sup>, this market is huge and has the potential to experience even greater growth. In line with this huge market, Kellogg's has already opened up “additional manufacturing locations, [and] some with warehousing facilities in ... Brazil, Colombia, Ecuador, Guatemala, Venezuela.”<sup>10</sup>, with three plants already built in Mexico – which is a direct response to the enormous demand that have received for their products<sup>11</sup>. With all of this information, this market “points to sustainable category growth” with a very attractive potential for the wholesome snacks business<sup>12</sup>.

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<sup>1</sup> [http://www.kelloggcompany.com/kelloggco/company\\_info/beginning.html](http://www.kelloggcompany.com/kelloggco/company_info/beginning.html)

<sup>2</sup> [http://www.kelloggcompany.com/kelloggco/our\\_company/index.html](http://www.kelloggcompany.com/kelloggco/our_company/index.html)

<sup>3</sup> <http://www.greenpeace.org.uk/Products/GM/goshopping.cfm>

<sup>4</sup> Kellogg's Annual Report 2003, pg 20

<sup>5</sup> Roca, W., Espinoza, C., & Panta, A. Agricultural Applications in Biotechnology and the Potential for Biodiversity Valorization in Latin America and the Caribbean. *The Journal of Agrobiotechnology Management & Economics* 7, 3.

<sup>6</sup> Kellogg's Annual Report 2003, pg 5

<sup>7</sup> Kellogg's Annual Report 2003, pg 14

<sup>8</sup> Kellogg's Annual Report 2003, pg 23

<sup>9</sup> [http://investor.kelloggs.com/downloads/K\\_Segment\\_Restatement\\_2004.pdf](http://investor.kelloggs.com/downloads/K_Segment_Restatement_2004.pdf)

<sup>10</sup> *Kellogg Co.: Property*. Retrieved November 14, 2004, from Mergent Online

<sup>11</sup> <http://investor.kelloggs.com/ReleaseDetail.cfm?ReleaseID=131404>

<sup>12</sup> Kellogg's Annual Report 2003, pg 14

Along with the leading share in the cereal market, Kellogg's also has the advantage of this area having an extremely high acceptance of GM foods in this region, as shown in figure 2. The range of opinion within the Americas was not as wide, ranging from 79 percent agreement in Cuba to 44 percent in Argentina"<sup>13</sup>. As further evidence that this area is ready for GM foods, the question "whether they would buy food with GM ingredients if the resulting products were higher in nutrition" was asked, with an amazing 60% of all respondents saying they would buy these products<sup>14</sup>. As a general rule, "people from the Americas ... are far more optimistic about the future of biotechnology"<sup>15</sup>. This acceptance of GM foods, along with the Kellogg being the leading producer of cereal products in the Americas, provides a distinctly unique opportunity that is ripe for the picking.

Kellogg maximizes the resources of Argentina through this project. For all of the centers that Kellogg will open, local workers will be hired, reducing unemployment further. Farmers will be paid through contracts, giving them the ability to sell their crops at a set price, avoiding the price drops that come with the annual cycles. To avoid corruption that is rampant, outside upper management will be brought in and eventually replaced by business graduates from local colleges. Kellogg will maintain close contact with the government to make sure no unforeseen problems arise.

In the first year of this project, Kellogg will create a manufacturing, warehousing and distribution on the western side of Buenos Aires, creating approximately 18,000 new jobs for Argentineans. These buildings should be completed within six months; and temporary plant managers from America will be brought in to manage these (see figure 3). There will be two plant managers per building, earning \$60,000 a year. Advertising will be used to spread information about new jobs, and products of Kellogg for the Argentina population. Also within the first year, another distribution plant will be created in Colombia, creating an additional 2,000 jobs for that country.

The second year of this project will see the expansion of the company in Argentina, creating a border distribution facility with Paraguay. This building will be completed in six months, create 4,000 new job and will create an ability to ship products inland to other countries (see figure 3). The advertising budget will be refreshed with another \$15 million dollars, and advertising will be expanded into the countries of Paraguay and Colombia, creating a pull demand for Kellogg's GM foods. This year will also see the deployment of recruiters to college campuses across Argentina to find qualified business students with the desire to run plants.

During the next two years of the project, a final distribution plant will be built, creating 2,000 new jobs in Brazil. This will complete the distribution chain, and allow for Argentina to export Kellogg's product across the whole of South America. Candidates for managers will be chosen, and an intensive two year "shadow" program will be used for these students to learn the management skills needed to run the plants. Additionally, the advertising budget will be refreshed to \$50 million dollars, expanding advertising to major cities in Brazil, Colombia, Paraguay and Argentina. A threat assessment will also be created to determine if any threats from competitors, politics, or a

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<sup>13</sup> <http://www.fao.org/DOCREP/006/Y5160E/y5160e11.htm>

<sup>14</sup> <http://www.fao.org/DOCREP/006/Y5160E/y5160e11.htm>

<sup>15</sup> <http://www.fao.org/DOCREP/006/Y5160E/y5160e11.htm>

change in demand. At this point we are expected to break even for the total cost of the project (see figure 5).

In the fifth and final year of the project, the recommendations from the threat assessment will be implemented to secure Kellogg's foothold on South America. Also during this time, the Argentinean managers will take over the factories, using the American managers as a reference, and by years end, be completely on their own. At the end of this year, this project will have conservatively grossed \$51 million in profits.

With this information, it is recommended that Kellogg move immediately to secure a leading share in these emerging markets. Starting from Argentina, and progressing north to meet with current facilities in central America, Kellogg will create the ability to manufacture pop-tarts, rice krispie squares, and nutria-grain bars inside the countries borders and ship them to local stores. Using the improved transportation system from the Evita Biotechnology project, Kellogg will be able to move grain to its warehousing, manufacturing and distribution system; then ship these products to the other countries inside South America at a fraction of the cost that it would be import their products overseas. When completed, Kellogg will be able to supply their high quality products to the entire South American continent, and using extremely conservative forecasting, recover their costs in less than 4 years, and creating a conservative profit of \$51 million dollars.

## **Five Year Plan:**

### Year one:

- Create manufacturing, warehousing and distribution plants in Argentina, on the west side of Buenos Aires, at a total cost of \$3 million. (see figure 3)
- Create a distribution plant in Colombia, near Bogota, at a cost of \$1 million.
- Hire laborers for these plants from local population.
- Bring in two plant managers for each plant from America that are fluent in native language, give them subsidy to work there as well as pay. Total payout per year is \$60,000.
- Spend a total of \$10 million between Argentina and Colombia, advertising only in major cities.

### Year two:

- Create distribution plant on border of Argentina and Paraguay, hiring workers from local population, and bringing plant managers for this plant from America. (see figure 3)
- Increase advertising budget to \$15 million, expand advertising into Paraguay and smaller cities in Argentina.
- Start search for qualified business students at major business universities across country, using \$1,000,000 for advertising through local college mediums (pamphlets, radio, TV, recruiters).

### Year three:

- Create final distribution plant in Brazil, near Brasilia. Bring in two additional Managers from America. (see figure 3).
- Choose business candidates to replace existing plant managers; begin their training.
- Expand advertising for products to \$50 million, include brazil is advertising scheme

### Year four:

- Increase production to full capacity, expanding distribution net to covered countries: Colombia, Brazil, Argentina Paraguay.
- Update weaknesses and threats to products, create marketing strategy to correct any of these unexpected problems.

### Year Five:

- Implement changes in marketing strategy to improve sales of product
- Finish retraining of Argentinean managers to take over production.
- Expanding shipments of products to neighboring countries
- Total employment of approximately 25,000 new workers

## Appendix 1: Figures

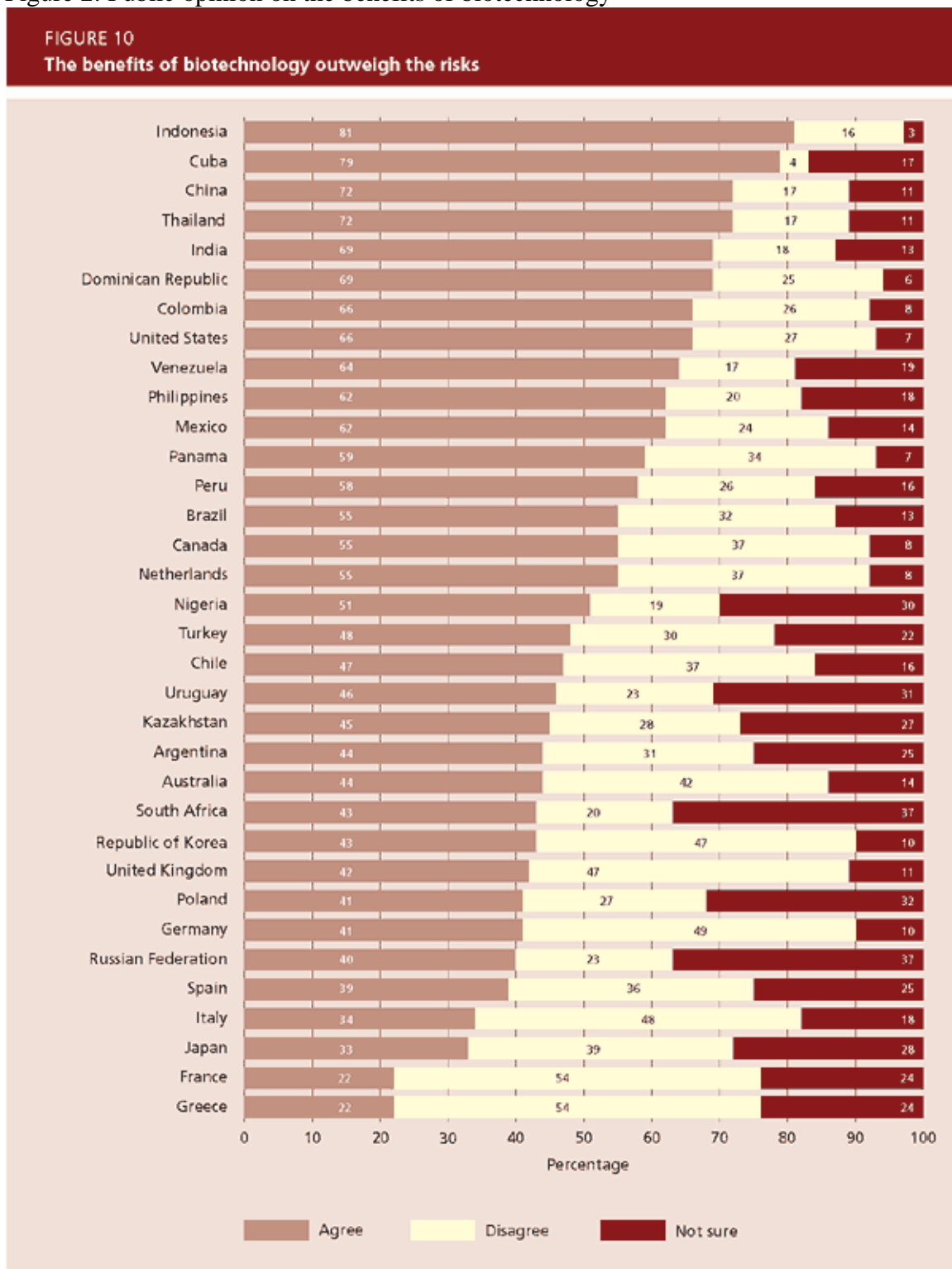
Figure 1: Net Sales Growth

Latin America:  
Net Sales Growth Gets Stronger



Source: Kellogg's Annual Report 2003, pg 15

Figure 2: Public opinion on the benefits of biotechnology



Source: Erwinomics International, 2004

Source: The State of Food and Agriculture 2003-2004, figure 10.

<http://www.fao.org/docrep/006/y5160e/y5160e11.htm>

Figure 3: Planned Buildings in South America



Source: Original map from [http://www.cia.gov/cia/publications/factbook/reference\\_maps/jpg/south\\_america.jpg](http://www.cia.gov/cia/publications/factbook/reference_maps/jpg/south_america.jpg)

Figure 4: Approximate budget costs

Item	Cost
4 Distribution plants	\$4,000,000
1 manufacturing plant	\$1,000,000
1 warehouse	\$1,000,000
12 managers @ \$60,000/year	\$3,600,000
Advertising budget	\$75,000,000
Student recruitment	\$1,000,000
Unforeseen costs	\$5,000,000
<b>Total Cost</b>	<b>\$90,600,000</b>

Figure 5: Operating profit projected 5 years at current growth rate of 13%

In Millions	Start	Year 1	Year 2	Year 3	<b>Year 4</b>	Year 5
Net Profit	168.9	190.86	215.69	243.71	275.39	311.19
Net change	0	21.96	46.79	74.81	106.49	142.29
Profit After Breakeven	0	0	0	0	15.89	<b>51.69</b>

Source: [http://investor.kelloggs.com/downloads/K\\_Segment\\_Restatement\\_2004.pdf](http://investor.kelloggs.com/downloads/K_Segment_Restatement_2004.pdf)