

PART II

A SAMPLE COURSE SYLLABUS AND SUPPORTING MATERIAL

BUS 458

| | |
|------------------------|--|
| Professor: | Dr. Fred R. David |
| Office Number: | 261 Founders Hall |
| Office Hours: | 8:30 a.m. to 9:30 a.m. daily and 1:30 p.m. to 2:10 p.m. daily |
| Telephone: | 661-1431 (Office); 661-1419 (Sec.) 667-9805 (Home) |
| e-mail Address: | freddavid9@gmail.com |
| Recommended Web Sites: | 1) Strategic Management Club Online www.strategyclub.com 2) Prentice Hall www.pearsonglobaleditions.com/david |
| Text: | <i>Strategic Management</i> , 14th Global Edition, by David |
| Prerequisites: | MGT 351, MKT 331, FIN 341, and senior standing |

Course Description

Business policy (BUS 458) is the capstone, integrative course for graduating business administration students. This is an exciting, challenging course that focuses on how firms formulate, implement, and evaluate strategies. Strategic-management concepts and techniques are studied. Students use all the knowledge acquired from prior business courses, coupled with new strategic-management techniques learned, to chart the future direction of different organizations. The major responsibility of students in this course is to make objective strategic decisions and to justify them through oral and written communication.

The first part of MGT 458 consists of interactive lectures on strategic-management techniques and a review of general management, marketing, and finance/accounting tools. Special attention is given to the integration of business concepts. Two exams will be given.

Four-person teams will be formed early in the course. Each team of students will give a 50-minute interactive oral presentation analyzing a business policy case. The team will need to answer questions from the class during and after the presentation. There is no written report to accompany this presentation, although your team will want to use handouts, posters, PowerPoint, and/or overheads. Dr. David will complete a formal evaluation of the presenting team; a copy of the evaluation form is attached to this syllabus. A five-minute pop test will be given on each case at the beginning of class.

A standardized School of Business Exit Exam will be given to all business policy students. This exam is a tradition here and at many other AACSB member colleges and universities. The AACSB recommends that member institutions give such an exam. There are questions on marketing, accounting, economics, management, finance, computer, and statistics. The Exit Exam consists of a battery of multiple-choice questions.

School of Business Vision and Mission

Existing Vision Statement

The School of Business at Francis Marion University strives to provide the highest quality baccalaureate and master's degree business programs offered at a small comprehensive university in the southeastern United States.

Existing Mission Statement

Accredited at both the graduate and undergraduate levels, the School of Business at Francis Marion University has a mission to teaching, research, and service. Nearly our entire faculty holds a doctorate in the area in which they teach. Our small classroom environment promotes interaction among students and faculty. We teach students to think logically, communicate effectively, develop an understanding and appreciation of the global business environment, and be guided by high ethical standards. Our students develop conceptual and analytical skills needed to be successful leaders in both private and public institutions. Our internship program and placement efforts actively assist students in finding meaningful jobs. Our faculty conducts research and service activities that enhance the region's economic and industrial development. Most of our undergraduate students major in management, marketing, accounting, finance, business economics, management information systems, or general business and earn a Bachelor of Business Administration degree. Other School of Business students major in economics or computer science and receive a Bachelor of Arts or Bachelor of Science degree. Our graduate students receive a Master of Business Administration degree and may become certified in Health Management. The School of Business seeks students locally and globally of all ages and ethnic backgrounds and serves them in a friendly, considerate manner.

Course Evaluation

| | |
|---|-------------|
| Test 1 on Chapters 1 to 5 | 25% |
| Test 2 on Chapters 6 to 11 | 25% |
| Classwork | 10% |
| Case analysis and presentation | 35% |
| School of Business Comprehensive BBA Exam | 5% |
| TOTAL | 100% |

A ten-point grading scale will be used throughout the course, where A= 90-100, B= 80-89, C= 70-79, D= 60-69, and F=0-59 points. Yes I do give +'s and -'s. I use a ten point scale and round up. For example, 84.5 = B+.

Course Guidelines

Attendance is expected and will be recorded at the beginning of each class. More than four absences from class for any reason will result in your final course average being lowered.

Your oral presentation will be graded on two parts: content and delivery, as indicated on the attached evaluation sheet. A written evaluation of your case presentation will be provided at the following class

period. The evaluation will include a synopsis of the critique team's evaluation, along with overall number grades.

Content includes whether your presentation was accurate, complete, specific, detailed, and error free. Were appropriate analytical tools included? Were they correct? Were your recommendations specific? Did you show clearly how your recommendations could be implemented? You need to be specific in all areas, including your IFE Matrix, EFE Matrix, CPM, TOWS Matrix, BCG Matrix, IE Matrix, SPACE Matrix, QSPM, and recommendations. Tell exactly when, how, where, and why your recommendations are appropriate.

Delivery includes whether your case presentation was interesting, lively, special, upbeat, and clear. Were your visual aids readable from the back of the class? Did you use color to highlight points? Were your voice tone, eye contact, posture, and appearance good? Were transparencies, handouts, slides, the blackboard, PowerPoint, or flip charts used to make your oral presentation as interesting and informative as possible? **DO NOT READ ANY PART OF THE PRESENTATION** (except perhaps the mission statement).

Everyone on your team will receive the same final grade on your oral presentation, but a team member peer evaluation will be given on the last day of class to determine whether each member of the team contributed fairly to preparing and delivering the oral presentation. *Each team member will rate each group member (and themselves) on relative contribution made to preparing and delivering the oral case presentation. If you receive a poor rating on this evaluation, your final course average will be lowered one (or more) letter grades.* You should do your fair share of work on preparing and presenting the case analysis.

During each case presentation, the class will ask the presenting team questions, solicit further explanation of any unclear parts of the presentation, point out any mistakes in the analyses presented, comment on the feasibility and thoroughness of recommendations given, and, perhaps, offer counter-recommendations with supporting analyses or information. Helpful criticism, praise, and compliments should be given, as appropriate. Everyone needs to attend class and to participate in these class discussions.

You may replace your Test 1 or Test 2 score with your final exam score if you choose to take the optional final exam. The final exam will cover Chapters 1-11 and will be given Saturday, December 9, from 3:00 p.m. to 5:00 p.m.

Regarding Tests 3 to 10 on the cases, you may drop your lowest grade—which will be a zero if you miss one of these five-minute tests due to absence or tardiness.

SPECIAL ASPECT OF THIS CLASS: If you make an A in this class, Dr. David is going to certify you at the end of this semester as a strategic planner and you may put this on your resume. Dr. David will give you (near end of semester) a framed certificate saying that you are a **CERTIFIED STRATEGIC PLANNER**. You may then use this certification for job hunting and career advancement.

Course Timeline and Assignments: Tuesday-Thursday Schedule

| Week | DAY | TOPIC |
|------|-----|-------|
|------|-----|-------|

| | | |
|----|----------|---|
| 1 | Thursday | Introduction |
| 2 | Tuesday | Chapter 1 & Cohesion Case |
| | Thursday | Chapter 2 |
| 3 | Tuesday | Chapter 3 |
| | Thursday | Chapter 4 |
| 4 | Tuesday | Chapter 5 |
| | Thursday | Test 1 on Chapters 1-5 |
| 5 | Tuesday | Chapter 6 |
| | Thursday | Chapter 7 |
| 6 | Tuesday | Chapter 8 |
| | Thursday | Chapter 9 |
| 7 | Tuesday | Chapter 10 |
| | Thursday | Chapter 11 |
| 8 | Tuesday | Free Period for Special Guest Speaker or Video |
| | Thursday | Test 2 on Chapters 6-11 |
| 9 | Tuesday | Standardized School of Business Exam |
| | Thursday | Practice Case |
| 10 | Tuesday | Case 1 |
| | Thursday | Case 2 |
| 11 | Tuesday | Case 3 |
| | Thursday | Case 4 |
| 12 | Tuesday | Case 5 |
| | Thursday | Case 6 |
| 13 | Tuesday | Case 7 |
| | Thursday | Thanksgiving Holiday |
| 14 | Tuesday | Case 8 |
| | Thursday | Case 9 |
| 15 | Tuesday | Case 10 |
| | Thursday | Review of the Course |
| | Friday | Reading Day |
| | Saturday | Optional Final Exam from 3:00 p.m. to 5:00 p.m. |

TEAM MEMBER PEER EVALUATION FORM

Do not put your name at the top of this form, but *do* put your name in the spaces provided below. This semester you worked with three other students on preparing a comprehensive case analysis. Please rate yourself and your team members on the relative contribution made to preparing and presenting the case. *Your ratings will be confidential and anonymous.* Be honest on this evaluation.

In rating yourself and your team members, use a one- to five-point scale, where 5 = superior, 4 = above average, 3 = average, 2 = below average, and 1 = really weak. Add the scores to obtain a total score for yourself and the other group members. Put any comments you like on the bottom or back of this page. Fold this sheet when you complete the ratings below. Thank you.

| | | | | |
|--|---|---|---|---|
| Put your name and your team members' names in the spaces provided, one name at the top of each column. | | | | |
| Names: | | | | |
| Ratings: | | | | |
| On time for all group meetings: | | | | |
| Helped keep the group cohesive: | | | | |
| Number of useful ideas contributed: | | | | |
| Quantity of work done: | | | | |
| Quality of work done: | | | | |
| | + | + | + | + |
| Add Total Scores Here: | | | | |

CASE PRESENTATION EVALUATION FORM

| | | | | | |
|---|---|------------------|---------|------------------|----------|
| Company: | Date: | | | | |
| Presenting Team Members: | | | | | |
| Place comments after each rating. | Ratings (circle the appropriate numbers). | | | | |
| CONTENT | Poor | Below Average | Average | Above Average | Superior |
| 1. Mission Statement | 1 | 2 | 3 | 4 | 5 |
| 2. Thoroughness, accuracy, and depth of external analysis | 1 | 2 | 3 | 4 | 5 |
| 3. Thoroughness, accuracy, and depth of internal analysis | 1 | 2 | 3 | 4 | 5 |
| 4. Identification and evaluation of alternative strategies using matrices | 1 | 2 | 3 | 4 | 5 |
| 5. Quality, quantity, feasibility, and relevance of recommendations | 1 | 2 | 3 | 4 | 5 |
| 6. Justification and support for recommendations | 1 | 2 | 3 | 4 | 5 |
| DELIVERY | | | | | |
| 1. Organization of presentation | 1 | 2 | 3 | 4 | 5 |
| 2. Professionalism of presentation | 1 | 2 | 3 | 4 | 5 |
| 3. Use of visuals and color | 1 | 2 | 3 | 4 | 5 |
| 4. Communication skills of team | 1 | 2 | 3 | 4 | 5 |
| 5. Use of time | 1 | 2 | 3 | 4 | 5 |
| 6. Handling of questions | 1 | 2 | 3 | 4 | 5 |
| OVERALL EVALUATION: | 1 | 2 | 3 | 4 | 5 |

SUGGESTED COURSE OUTLINES

In addition to the Tu/Th course outline just provided in the Sample Course Syllabus, a MWF course outline is provided here. A different set of cases should be presented. It is best not to cover the same cases in subsequent semesters or quarters due to students passing along analyses to their friends. Actually, it is a good idea not to cover any cases twice due to fraternity or sorority files keeping a copy of students' work in previous semesters. This business policy text is on a two-year revision cycle partly to allow new, fresh cases to be covered every semester.

Course Timeline and Assignments—M-W-F Schedule

| Week | DAY | TOPIC |
|------|-----------|--|
| 1 | Monday | Introduction |
| | Wednesday | Chapter 1 |
| | Friday | Chapter 1 |
| 2 | Monday | Cohesion Case |
| | Wednesday | Chapter 2 |
| | Friday | Chapter 3 |
| 3 | Monday | Chapter 4 |
| | Wednesday | Chapter 4 |
| | Friday | Chapter 5 |
| 4 | Monday | Chapter 5 |
| | Wednesday | Test on Chapters 1-5 |
| | Friday | Chapter 6 |
| 5 | Monday | Chapter 6 |
| | Wednesday | Chapter 7 |
| | Friday | Chapter 7 |
| 6 | Monday | Chapter 8 |
| | Wednesday | Chapter 8 |
| | Friday | Chapter 9 |
| 7 | Monday | Chapter 9 |
| | Wednesday | Chapter 10 |
| | Friday | Chapter 11 |
| 8 | Monday | Free Period for a Guest Speaker or a Video |
| | Wednesday | Test on Chapters 6-11 |
| | Friday | Comprehensive School of Business Exam |
| 9 | Monday | Practice Case |
| | Wednesday | Practice Case |
| | Friday | Practice Case |
| 10 | Monday | Spring Break |
| | Wednesday | Case 1 |
| | Friday | Case 2 |
| 11 | Monday | Case 3 |
| | Wednesday | Case 4 |
| | Friday | Case 5 |
| 12 | Monday | Case 6 |
| | Wednesday | Case 7 |
| | Friday | Case 8 |
| 13 | Monday | Case 9 |
| | Wednesday | Case 10 |
| | Friday | Thanksgiving |
| 14 | Monday | Case 11 |
| | Wednesday | Case 12 |
| | Friday | Guest Speaker |
| 15 | Monday | Guest Speaker |
| | Wednesday | Review of the Course |
| | Saturday | Final Exam |

Kraft Foods Inc. - 2009

Case Notes Prepared by: Dr. Mernoush Banton

Case Author: Kristopher J. Blanchard

A. Case Abstract

Kraft Foods Inc. (www.Kraftfoodscompany.com) is a comprehensive strategic management case that includes the company's calendar December 31, 2008 financial statements, competitor information and more. The case time setting is the year 2009. Sufficient internal and external data are provided to enable students to evaluate current strategies and recommend a three-year strategic plan for the company. Headquartered in Northfield, IL, Kraft Foods Inc. is traded on the New York Stock Exchange under ticker symbol KFT.

B. Vision Statement (Actual)

One company growing by nourishing lives and finding a better way today one bite at a time

C. Mission Statement (Actual)

Make Today Delicious.

Mission Statement (Proposed)

As a global company (3), we strive ourselves in producing superior products and services (2) to our customers. With superior technology (4) and dedicated employees (9), we are constantly working on introducing new and innovative products, meeting our customer's expectation (6) and ensuring to achieve higher than expected return to our shareholders (5). Our desire is to be the number of choice for our loyal customers (7, 8).

1. Customer
2. Products or services
3. Markets
4. Technology
5. Concern for survival, profitability, growth
6. Philosophy
7. Self-concept
8. Concern for public image
9. Concern for employees

D. External Audit

CPM – Competitive Profile Matrix

| | | Kraft | | Nestle | | ConAgra | |
|--------------------------|-------------|--------|----------------|--------|----------------|---------|----------------|
| Critical Success Factors | Weight | Rating | Weighted Score | Rating | Weighted Score | Rating | Weighted Score |
| Price competitiveness | 0.14 | 2 | 0.28 | 3 | 0.42 | 1 | 0.14 |
| Global Expansion | 0.08 | 3 | 0.24 | 4 | 0.32 | 2 | 0.16 |
| Organizational Structure | 0.02 | 2 | 0.04 | 3 | 0.06 | 1 | 0.02 |
| Employee Morale | 0.03 | 3 | 0.09 | 2 | 0.06 | 1 | 0.03 |
| Technology | 0.08 | 3 | 0.24 | 4 | 0.32 | 2 | 0.16 |
| Product Safety | 0.11 | 1 | 0.11 | 3 | 0.33 | 2 | 0.22 |
| Customer Loyalty | 0.10 | 4 | 0.40 | 3 | 0.30 | 2 | 0.20 |
| Market Share | 0.08 | 3 | 0.24 | 4 | 0.32 | 2 | 0.16 |
| Advertising | 0.09 | 4 | 0.36 | 3 | 0.27 | 2 | 0.18 |
| Product Quality | 0.10 | 4 | 0.40 | 3 | 0.30 | 2 | 0.20 |
| Product Image | 0.11 | 4 | 0.44 | 3 | 0.33 | 2 | 0.22 |
| Financial Position | 0.06 | 3 | 0.18 | 4 | 0.24 | 2 | 0.12 |
| Total | 1.00 | | 3.02 | | 3.27 | | 1.81 |

Opportunities

1. More people are dining out, and food producers are devoting more attention to products designed for restaurants, vending machines, and other foodservice providers
2. Be able to sell to restaurants at a higher margin
3. Consumers are shifting toward food containing less trans fat or fewer calories, or those containing only organic ingredients
4. Bottled water has become well established in the market and enhanced waters containing vitamins or supplements are gaining popularity
5. Consumer prices for baked goods increased 10.7 percent in January 2009 compared to January 2008
6. Input costs for bakers, included commodities such as wheat, eggs, and natural gas, have declined recently
7. The U.S. market for packaged and processed foods has seen large profits in retail sales, and this number is expected to see steady growth
8. Worldwide, demand is also on the rise for packaged type of food as more people adopt a lifestyle that includes less time for the preparation of food
9. The greatest asset of any retail and consumer product company is its reputation and perceived value among consumer

Threats

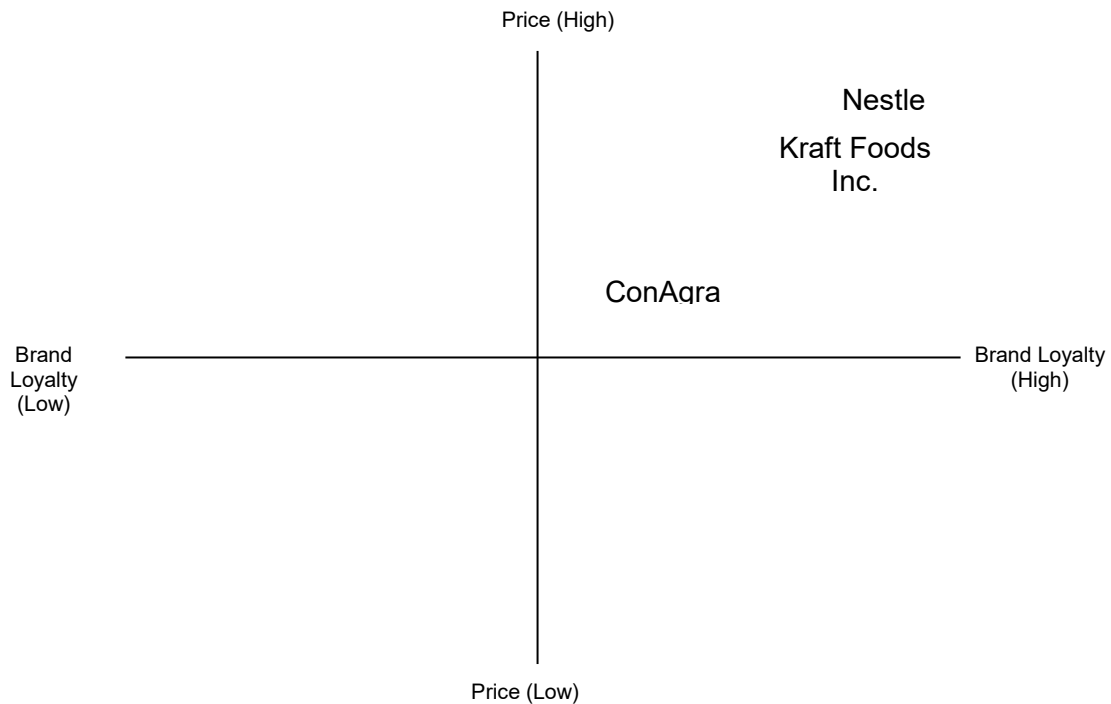
1. Obesity is increasing drastically in both children and adults and accordingly consumers are deviating from having snacks, cheeses and such
2. Rising costs of petroleum cause an increase in cost for companies in the food industry and in the agriculture end
3. Food safety programs have been adopted recently as issues of chemical and bacterial contamination and new food-borne pathogens remain a public health concern
4. Because the industry is so competitive, it is difficult for these companies to raise their prices accordingly, and profit margins have suffered as a result due to weak economy and increase in unemployment, many consumers have switched from brand name to generics
5. Due to increase in fuel charges, the cost of distribution can increase as well
6. Global warming becoming a major political issue and food producers are simultaneously cast as perpetrator and potential healer

External Factor Evaluation (EFE) Matrix

| Key External Factors | Weight | Rating | Weighted Score |
|---|--------|--------|----------------|
| Opportunities | | | |
| 1. More people are dining out, and food producers are devoting more attention to products designed for restaurants, vending machines, and other foodservice providers | 0.06 | 4 | 0.24 |
| 2. Be able to sell to restaurants at a higher margin | 0.07 | 3 | 0.21 |
| 3. Consumers are shifting toward food containing less trans fat or fewer calories, or those containing only organic ingredients | 0.07 | 2 | 0.14 |
| 4. Bottled water has become well established in the market and enhanced waters containing vitamins or supplements are gaining popularity | 0.07 | 3 | 0.21 |
| 5. Consumer prices for baked goods increased 10.7 percent in January 2009 compared to January 2008 | 0.06 | 3 | 0.18 |
| 6. Input costs for bakers, included commodities such as wheat, eggs, and natural gas, have declined recently | 0.04 | 2 | 0.08 |
| 7. The U.S. market for packaged and processed foods has seen large profits in retail sales, and this number is expected to see steady growth | 0.09 | 4 | 0.36 |

| | | | |
|---|-------------|---|-------------|
| 8. Worldwide, demand is also on the rise for packaged type of food as more people adopt a lifestyle that includes less time for the preparation of food | 0.09 | 3 | 0.27 |
| 9. The greatest asset of any retail and consumer product company is its reputation and perceived value among consumer | 0.06 | 3 | 0.18 |
| Threats | | | |
| 1. Obesity is increasing drastically in both children and adults and accordingly consumers are deviating from having snacks, cheeses and such | 0.08 | 3 | 0.24 |
| 2. Rising costs of petroleum cause an increase in cost for companies in the food industry and in the agriculture end | 0.09 | 4 | 0.36 |
| 3. Food safety programs have been adopted recently as issues of chemical and bacterial contamination and new food-borne pathogens remain a public health concern | 0.07 | 4 | 0.28 |
| 4. Because the industry is so competitive, it is difficult for these companies to raise their prices accordingly, and profit margins have suffered as a result due to weak economy and increase in unemployment, many consumers have switched from brand name to generics | 0.04 | 4 | 0.16 |
| 5. Due to increase in fuel, the cost of distribution can increase as well | 0.06 | 3 | 0.18 |
| 6. Global warming becoming a major political issue and food producers are simultaneously cast as perpetrator and potential healer | 0.05 | 2 | 0.1 |
| Total | 1.00 | | 3.19 |

Positioning Map



E. Internal Audit

Strengths

1. After two incidents of contamination, the company voluntarily recalled more than 2 million pounds of nuts and has temporarily shut down its manufacturing plants
2. Increase in sale in the developing international markets by 2%
3. The company operates in 5 different business segments: snacks, beverages, cheese, grocery and convenient meals
4. Despite economic downtime, the company's revenues increased to \$42.2 billion 2008, while earnings increased to \$2.9 billion
5. Increase in current asset from 2007 to 2008 by almost \$600 million
6. Decrease in current liabilities by around \$6 billion from 2007 to 2008
7. Kraft sells over 100 different brand names

Weaknesses

1. Workers at one of Kraft's manufacturers in Illinois turned up a batch of fruits and nuts that were contaminated with salmonella in December 2007 with similar incident in September 2008
2. Drop in sales in the company's snack division from 2007 to 2008 by 2.30%
3. Drop in sales in the European Union market by 4.1% from 2007 to 2008

4. Despite 9.8 percent increase in price, Kraft Foods lost 0.3 percent market share during 2008
5. The company has over \$27.5 billion in Goodwill
6. Increase in long-term debt by about 50 percent in 2008 from 2007
7. No new innovative product introduction in recent years
8. New CEO in 2006

Financial Ratio Analysis (December 2009)

| Growth Rates % | Kraft | Industry | S&P 500 |
|-------------------------------------|--------------|-----------------|--------------------|
| Sales (Qtr vs year ago qtr) | -5.70 | -3.30 | -4.80 |
| Net Income (YTD vs YTD) | 33.00 | 20.70 | -6.00 |
| Net Income (Qtr vs year ago qtr) | 59.40 | 17.90 | 26.80 |
| Sales (5-Year Annual Avg.) | 6.71 | 6.41 | 12.99 |
| Net Income (5-Year Annual Avg.) | -11.36 | -5.09 | 12.69 |
| Dividends (5-Year Annual Avg.) | 11.16 | 10.54 | 11.83 |
| | | | |
| Price Ratios | Kraft | Industry | S&P 500 |
| Current P/E Ratio | 16.8 | 18.6 | 26.7 |
| P/E Ratio 5-Year High | NA | 5.7 | 16.6 |
| P/E Ratio 5-Year Low | NA | 1.6 | 2.6 |
| Price/Sales Ratio | 1.00 | 1.05 | 2.25 |
| Price/Book Value | 1.60 | 2.87 | 3.48 |
| Price/Cash Flow Ratio | 12.20 | 12.10 | 13.70 |
| | | | |
| Profit Margins % | Kraft | Industry | S&P 500 |
| Gross Margin | 34.5 | 31.1 | 38.9 |
| Pre-Tax Margin | 8.2 | 8.9 | 10.3 |
| Net Profit Margin | 6.0 | 6.4 | 7.1 |
| 5Yr Gross Margin (5-Year Avg.) | 34.9 | 33.5 | 38.6 |
| 5Yr PreTax Margin (5-Year Avg.) | 9.9 | 9.7 | 16.6 |
| 5Yr Net Profit Margin (5-Year Avg.) | 7.1 | 6.8 | 11.5 |
| | | | |
| Financial Condition | Kraft | Industry | S&P 500 |
| Debt/Equity Ratio | 0.82 | 1.16 | 1.09 |
| Current Ratio | 1.1 | 1.2 | 1.5 |
| Quick Ratio | 0.7 | 0.7 | 1.3 |
| Interest Coverage | 3.7 | 8.9 | 23.7 |

| | | | |
|------------------|-------|----------|-------|
| Leverage Ratio | 2.7 | 3.2 | 3.4 |
| Book Value/Share | 17.02 | 8,096.92 | 21.63 |

Adapted from www.moneycentral.msn.com

| | <u>Avg P/E</u> | <u>Price/ Sales</u> | <u>Price/ Book</u> | <u>Net Profit Margin (%)</u> |
|-------|----------------|---------------------|--------------------|------------------------------|
| 12/08 | 24.80 | 0.96 | 1.78 | 4.4 |
| 12/07 | 22.60 | 1.44 | 1.83 | 6.5 |
| 12/06 | 18.80 | 1.78 | 2.05 | 8.5 |
| 12/05 | 18.30 | 1.40 | 1.59 | 8.5 |
| 12/04 | 20.70 | 1.90 | 2.03 | 8.3 |
| 12/03 | 15.80 | 1.83 | 1.94 | 11.1 |
| 12/02 | 20.40 | 2.31 | 2.61 | 11.3 |
| 12/01 | 27.90 | 1.87 | 2.51 | 6.4 |
| 12/00 | NA | NA | NA | 8.7 |
| 12/08 | 24.80 | 0.96 | 1.78 | 4.4 |

| | <u>Book Value/ Share</u> | <u>Debt/ Equity</u> | <u>Return on Equity (%)</u> | <u>Return on Assets (%)</u> | <u>Interest Coverage</u> |
|-------|--------------------------|---------------------|-----------------------------|-----------------------------|--------------------------|
| 12/08 | \$15.11 | 0.91 | 8.3 | 2.9 | 3.0 |
| 12/07 | \$17.80 | 0.77 | 8.6 | 3.5 | 5.4 |
| 12/06 | \$17.45 | 0.36 | 9.9 | 5.1 | 6.8 |
| 12/05 | \$17.72 | 0.36 | 9.8 | 5.0 | 7.2 |
| 12/04 | \$17.54 | 0.41 | 8.9 | 4.5 | 6.8 |
| 12/03 | \$16.57 | 0.45 | 11.8 | 5.7 | 8.9 |
| 12/02 | \$14.93 | 0.52 | 12.8 | 5.8 | 7.0 |
| 12/01 | \$13.53 | 0.61 | 8.0 | 3.4 | 3.4 |
| 12/00 | \$9.65 | 1.78 | 14.2 | 3.8 | 6.5 |
| 12/08 | \$15.11 | 0.91 | 8.3 | 2.9 | 3.0 |

Adapted from www.moneycentral.msn.com

Internal Factor Evaluation (IFE) Matrix

| Key Internal Factors | Weight | Rating | Weighted Score |
|---|---------------|---------------|-----------------------|
| Strengths | | | |
| 1. After two incidents of contamination, the company voluntarily recalled more than 2 million pounds of | 0.06 | 3 | 0.18 |

| | | | |
|---|-------------|---|-------------|
| nuts and has temporarily shut down its manufacturing plants | | | |
| 2. Increase in sale in the developing international markets by 2% | 0.08 | 4 | 0.32 |
| 3. The company operates in 5 different business segments: snacks, beverages, cheese, grocery and convenient meals | 0.06 | 4 | 0.24 |
| 4. Despite economic downtime, the company's revenues increased to \$42.2 billion 2008, while earnings increased to \$2.9 billion | 0.08 | 4 | 0.32 |
| 5. Increase in current asset from 2007 to 2008 by almost \$600 million | 0.08 | 4 | 0.32 |
| 6. Decrease in current liabilities by around \$6 billion from 2007 to 2008 | 0.08 | 4 | 0.32 |
| 7. Kraft sells over 100 different brand names | 0.05 | 3 | 0.15 |
| Weaknesses | | | |
| 1. Workers at one of Kraft's manufacturers in Illinois turned up a batch of fruits and nuts that were contaminated with salmonella in December 2007 with similar incident in September 2008 | 0.06 | 1 | 0.06 |
| 2. Drop in sales in the company's snack division from 2007 to 2008 by 2.30% | 0.07 | 1 | 0.07 |
| 3. Drop in sales in the European Union market by 4.1% from 2007 to 2008 | 0.06 | 2 | 0.12 |
| 4. Despite 9.8 percent increase in price, Kraft Foods lost 0.3 percent market share during 2008 | 0.06 | 2 | 0.12 |
| 5. The company has over \$27.5 billion in Goodwill | 0.06 | 1 | 0.06 |
| 6. Increase in long-term debt by about 50 percent in 2008 from 2007 | 0.07 | 1 | 0.07 |
| 7. No new innovative product introduction in recent years | 0.09 | 1 | 0.09 |
| 8. New CEO in 2006 | 0.04 | 2 | 0.08 |
| Total | 1.00 | | 2.52 |

F. SWOT Strategies

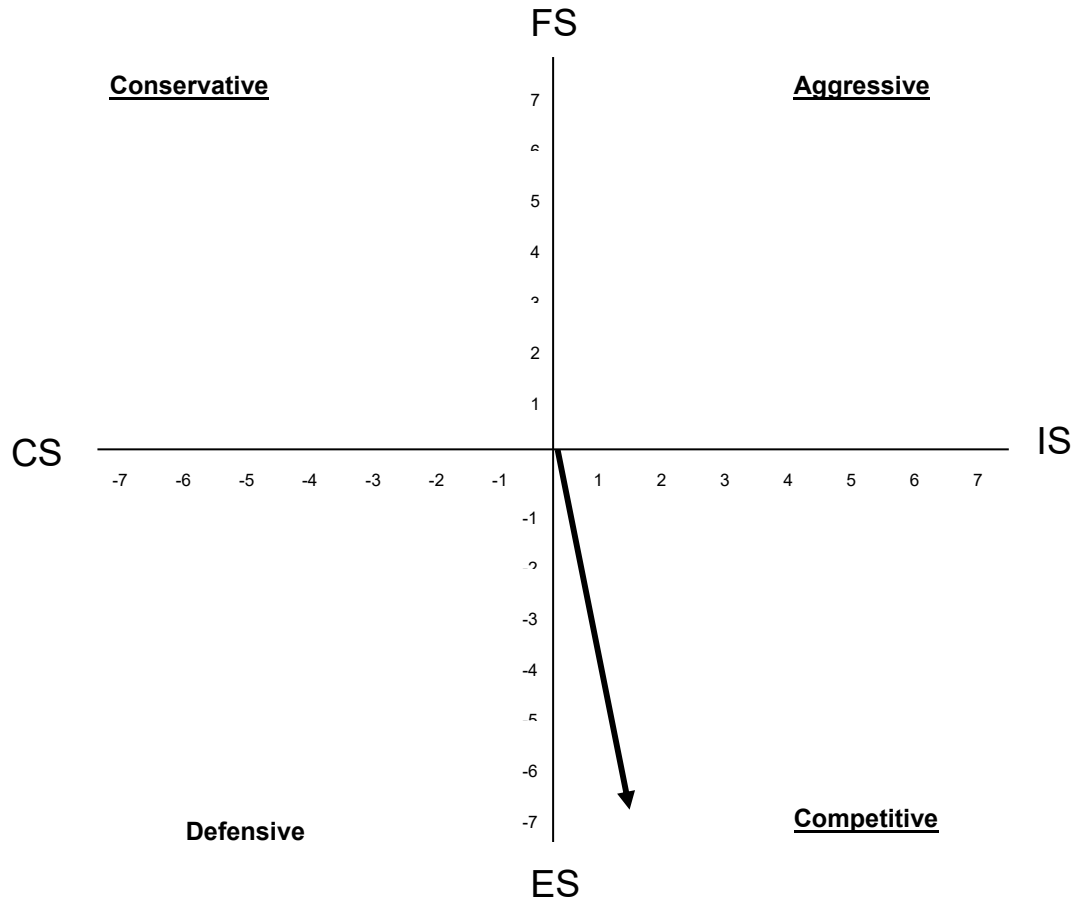
| | Strengths | Weaknesses |
|--|--|---|
| | 1. After two incidents of contamination, the | 1. Workers at one of Kraft's manufacturers in |

| | | |
|---|---|--|
| | <p>company voluntarily recalled more than 2 million pounds of nuts and has temporarily shut down its manufacturing plants</p> <ol style="list-style-type: none"> 2. Increase in sale in the developing international markets by 2% 3. The company operates in 5 different business segments: snacks, beverages, cheese, grocery and convenient meals 4. Despite economic downtime, the company's revenues increased to \$42.2 billion 2008, while earnings increased to \$2.9 billion 5. Increase in current asset from 2007 to 2008 by almost \$600 million 6. Decrease in current liabilities by around \$6 billion from 2007 to 2008 7. Kraft sells over 100 different brand names | <p>Illinois turned up a batch of fruits and nuts that were contaminated with salmonella in December 2007 with similar incident in September 2008</p> <ol style="list-style-type: none"> 2. Drop in sales in the company's snack division from 2007 to 2008 by 2.30% 3. Drop in sales in the European Union market by 4.1% from 2007 to 2008 4. Despite 9.8 percent increase in price, Kraft Foods lost 0.3 percent market share during 2008 5. The company has over \$27.5 billion in Goodwill 6. Increase in long-term debt by about 50 percent in 2008 from 2007 7. No new innovative product introduction in recent years 8. New CEO in 2006 |
| Opportunities | S-O Strategies | W-O Strategies |
| <ol style="list-style-type: none"> 1. More people are dining out, and food producers are devoting more attention to products designed for restaurants, vending machines, and other foodservice providers 2. Be able to sell to restaurants at a higher margin 3. Consumers are shifting toward food containing | <ol style="list-style-type: none"> 1. Develop a new product line, focusing on organic ingredients (O3, O6, S4, S5, S7) 2. Acquire a small competitor that sells to restaurants and / or intermediary channels (O1, O2, O6, O8, S2, S3) | <ol style="list-style-type: none"> 1. Improve the quality by educating the workers on how to test and sample products before they are shipped (W1, O9) |

| | | |
|--|--|--|
| <p>less trans fat or fewer calories, or those containing only organic ingredients</p> <ol style="list-style-type: none"> 4. Bottled water has become well established in the market and enhanced waters containing vitamins or supplements are gaining popularity 5. Consumer prices for baked goods increased 10.7 percent in January 2009 compared to January 2008 6. Input costs for bakers, included commodities such as wheat, eggs, and natural gas, have declined recently 7. The U.S. market for packaged and processed foods has seen large profits in retail sales, and this number is expected to see steady growth 8. Worldwide, demand is also on the rise for packaged type of food as more people adopt a lifestyle that includes less time for the preparation of food 9. The greatest asset of any retail and consumer product company is its reputation and perceived value among consumer | | |
| <p>Threats</p> | <p>S-T Strategies</p> | <p>W-T Strategies</p> |
| <ol style="list-style-type: none"> 1. Obesity is increasing drastically in both children and adults and | <ol style="list-style-type: none"> 1. Improve distribution in European market with new and innovative | <ol style="list-style-type: none"> 1. Implement a better quality control internally and with suppliers to |

| | | |
|---|---|---|
| <p>accordingly consumers are deviating from having snacks, cheeses and such</p> <ol style="list-style-type: none"> 2. Rising costs of petroleum cause an increase in cost for companies in the food industry and in the agriculture end 3. Food safety programs have been adopted recently as issues of chemical and bacterial contamination and new food-borne pathogens remain a public health concern 4. Because the industry is so competitive, it is difficult for these companies to raise their prices accordingly, and profit margins have suffered as a result due to weak economy and increase in unemployment, many consumers have switched from brand name to generics 5. Due to increase in fuel charges, the cost of distribution can increase as well 6. Global warming becoming a major political issue and food producers are simultaneously cast as perpetrator and potential healer | <p>organic products (S2, S3, S4, S5, T1, T2, T3)</p> <ol style="list-style-type: none"> 2. Open additional small distribution center in Europe and other regions where sales are increasing in order to reduce distribution costs (S2, S3, S7, O1, O2, O8) | <p>reduce food contamination (W1, T3, T6)</p> <ol style="list-style-type: none"> 2. Discontinue products in snack division that are not selling (W2, W4, T1, T2, T5, T6) |
|---|---|---|

G. SPACE Matrix



Financial Stability (FS)

Return on Investment
Leverage
Liquidity
Working Capital
Cash Flow

Financial Stability (FS) Average

Environmental Stability (ES)

| | | |
|---|----------------------------|----|
| 3 | Unemployment | -5 |
| 1 | Technological Changes | -3 |
| 4 | Price Elasticity of Demand | -2 |
| 4 | Competitive Pressure | -4 |
| 4 | Barriers to Entry | -4 |

3.2 Environmental Stability (ES) Average -3.6

Competitive Stability (CS)

Market Share
Product Quality
Customer Loyalty
Competition's Capacity Utilization

Industry Stability (IS)

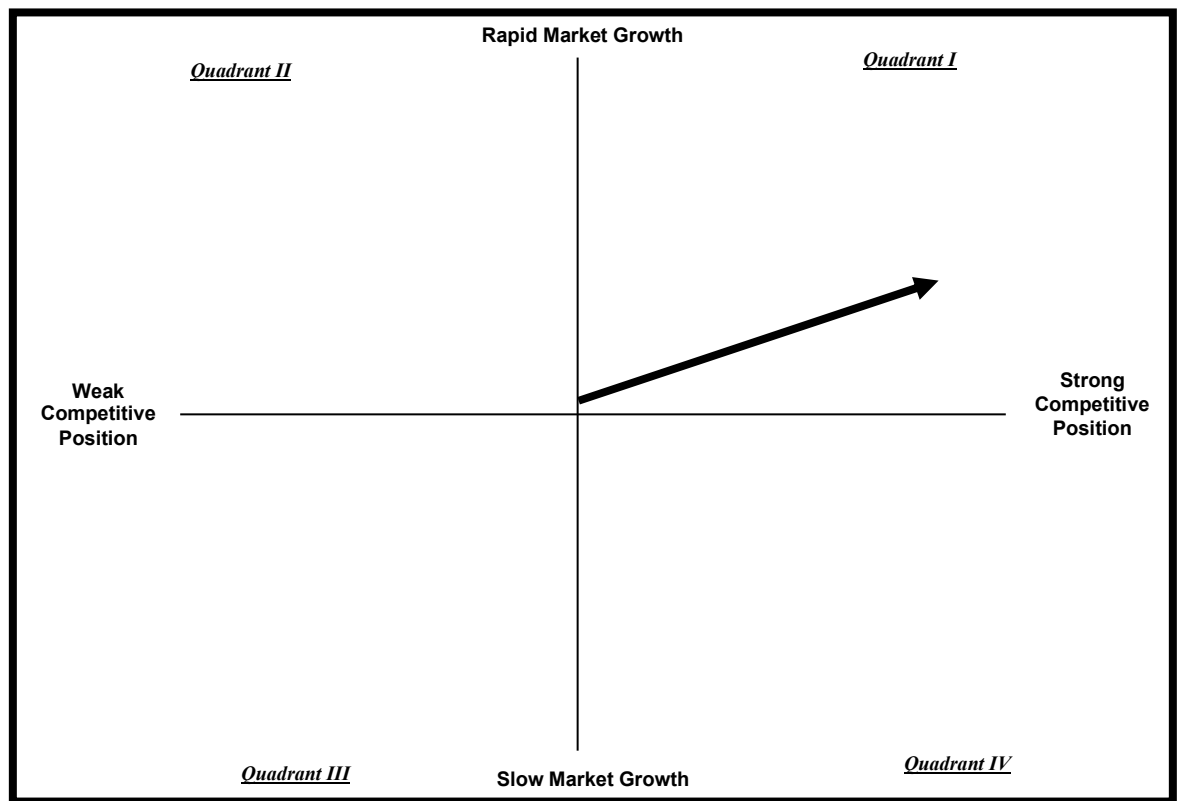
| | | |
|----|----------------------|---|
| -2 | Growth Potential | 5 |
| -3 | Financial Stability | 3 |
| -3 | Ease of Market Entry | 4 |
| -4 | Resource Utilization | 4 |

| | | | |
|---|-------------|--|----------|
| Technological Know-How | -4 | Profit Potential | 4 |
| Competitive Stability (CS) Average | -3.2 | Industry Stability (IS) Average | 4 |

Y-axis: $FS + ES = 3.2 + (-3.6) = -0.4$

X-axis: $CS + IS = (-3.2) + (4.0) = 0.8$

H. Grand Strategy Matrix



1. Market development
2. Market penetration
3. Product development
4. Forward integration
5. Backward integration
6. Horizontal integration
7. Related diversification

I. The Internal-External (IE) Matrix

The IFE Total Weighted Score

| | | | | |
|---|-----------------------|----------------------|-------------------------|---------------------|
| | | Strong 3.0 to 4.0 | Average 2.0 to 2.99 | Weak 1.0 to 1.99 |
| | | I | II | III |
| The EFE Total Weighted Score | High 3.0 to 3.99 | | Kraft Foods Inc. | |
| | Medium 2.0 to 2.99 | IV | IV | VI |
| | Low 1.0 to 1.99 | VII | VIII | IX |

J. QSPM

| | | | | | |
|---|--|---|---|---|------------|
| | | | | Acquire a small competitor that sells to restaurants and / or intermediary channels | |
| | | Develop a new product line, focusing on organic ingredients | | | |
| Key Factors | | Weight | | AS | TAS |
| Opportunities | | | | | |
| 1. More people are dining out, and food | | 0.06 | 2 | 0.12 | 4 0.24 |

| | | | | | |
|---|------|-----|------|-----|------|
| producers are devoting more attention to products designed for restaurants, vending machines, and other foodservice providers | | | | | |
| 2. Be able to sell to restaurants at a higher margin | 0.07 | 1 | 0.07 | 4 | 0.28 |
| 3. Consumers are shifting toward food containing less trans fat or fewer calories, or those containing only organic ingredients | 0.07 | 4 | 0.28 | 1 | 0.07 |
| 4. Bottled water has become well established in the market and enhanced waters containing vitamins or supplements are gaining popularity | 0.07 | --- | --- | --- | --- |
| 5. Consumer prices for baked goods increased 10.7 percent in January 2009 compared to January 2008 | 0.06 | --- | --- | --- | --- |
| 6. Input costs for bakers, included commodities such as wheat, eggs, and natural gas, have declined recently | 0.04 | --- | --- | --- | --- |
| 7. The U.S. market for packaged and processed foods has seen large profits in retail sales, and this number is expected to see steady growth | 0.09 | 3 | 0.27 | 1 | 0.09 |
| 8. Worldwide, demand is also on the rise for packaged type of food as more people adopt a lifestyle that includes less time for the preparation of food | 0.09 | 4 | 0.36 | 2 | 0.18 |
| 9. The greatest asset of any retail and consumer product company is its reputation and perceived value among consumer | 0.06 | 4 | 0.24 | 1 | 0.06 |
| Threats | | | | | |
| 1. Obesity is increasing drastically in both children and adults and accordingly consumers are deviating from having snacks, cheeses and such | 0.08 | 4 | 0.32 | 1 | 0.08 |
| 2. Rising costs of petroleum cause an increase in cost for companies in the food industry and in the agriculture end | 0.09 | 3 | 0.27 | 2 | 0.18 |
| 3. Food safety programs have been adopted recently as issues of chemical and bacterial contamination and new food-borne pathogens remain a public health concern | 0.07 | --- | --- | --- | --- |
| 4. Because the industry is so competitive, it is difficult for these companies to raise their prices accordingly, and profit margins have suffered as a result due to weak economy and increase in unemployment, many consumers have switched from brand name to generics | 0.04 | 1 | 0.04 | 2 | 0.08 |
| 5. Due to increase in fuel, the cost of distribution can increase as well | 0.06 | 1 | 0.06 | 3 | 0.18 |

| | | | | | |
|---|-------------|-----|-------------|-----|-------------|
| 6. Global warming becoming a major political issue and food producers are simultaneously cast as perpetrator and potential healer | 0.05 | --- | --- | --- | --- |
| TOTAL | 1.00 | | 2.03 | | 1.44 |
| Strengths | | | | | |
| 1. After two incidents of contamination, the company voluntarily recalled more than 2 million pounds of nuts and has temporarily shut down its manufacturing plants | 0.06 | --- | --- | --- | --- |
| 2. Increase in sale in the developing international markets by 2% | 0.08 | 3 | 0.24 | 1 | 0.08 |
| 3. The company operates in 5 different business segments: snacks, beverages, cheese, grocery and convenient meals | 0.06 | 4 | 0.24 | 3 | 0.18 |
| 4. Despite economic downtime, the company's revenues increased to \$42.2 billion 2008, while earnings increased to \$2.9 billion | 0.08 | --- | --- | --- | --- |
| 5. Increase in current asset from 2007 to 2008 by almost \$600 million | 0.08 | --- | --- | --- | --- |
| 6. Decrease in current liabilities by around \$6 billion from 2007 to 2008 | 0.08 | --- | --- | --- | --- |
| 7. Kraft sells over 100 different brand names | 0.05 | 4 | 0.2 | 2 | 0.1 |
| Weaknesses | | | | | |
| 1. Workers at one of Kraft's manufacturers in Illinois turned up a batch of fruits and nuts that were contaminated with salmonella in December 2007 with similar incident in September 2008 | 0.06 | --- | --- | --- | --- |
| 2. Drop in sales in the company's snack division from 2007 to 2008 by 2.30% | 0.07 | 3 | 0.21 | 1 | 0.07 |
| 3. Drop in sales in the European Union market by 4.1% from 2007 to 2008 | 0.06 | 4 | 0.24 | 2 | 0.12 |
| 4. Despite 9.8 percent increase in price, Kraft Foods lost 0.3 percent market share during 2008 | 0.06 | --- | --- | --- | --- |
| 5. The company has over \$27.5 billion in Goodwill | 0.06 | --- | --- | --- | --- |
| 6. Increase in long-term debt by about 50 percent in 2008 from 2007 | 0.07 | 4 | 0.28 | 2 | 0.14 |
| 7. No new innovative product introduction in recent years | 0.09 | 4 | 0.36 | 2 | 0.18 |
| 8. New CEO in 2006 | 0.04 | --- | --- | --- | --- |
| SUBTOTAL | 1.00 | | 1.77 | | 0.87 |
| SUM TOTAL ATTRACTIVENESS SCORE | | | 3.8 | | 2.31 |

K. Recommendations

Develop a series of products mainly made with organic products and are healthy in nature by having low carb, low saturated fat and sugar. Introduce the new product under its own business unit in case the company decides to expand its line or sell it off.

6

L. EPS/EBIT Analysis

\$ Amount Needed: \$100 million
 Stock Price: \$27.18
 Tax Rate: 28.2%
 Interest Rate: 6.17% (Average Effective Rate)
 # Shares Outstanding: 1.5 billion

| | Common Stock Financing | | | Debt Financing | | |
|----------|------------------------|-----------------|-----------------|------------------|-----------------|-----------------|
| | <u>Recession</u> | <u>Normal</u> | <u>Boom</u> | <u>Recession</u> | <u>Normal</u> | <u>Boom</u> |
| EBIT | \$3,800,000,000 | \$4,000,000,000 | \$4,500,000,000 | \$3,800,000,000 | \$4,000,000,000 | \$4,500,000,000 |
| Interest | 0 | 0 | 0 | 6,170,000 | 6,170,000 | 6,170,000 |
| EBT | 3,800,000,000 | 4,000,000,000 | 4,500,000,000 | 3,793,830,000 | 3,993,830,000 | 4,493,830,000 |
| Taxes | 1,071,600,000 | 1,128,000,000 | 1,269,000,000 | 1,069,860,060 | 1,126,260,060 | 1,267,260,060 |
| EAT | 2,728,400,000 | 2,872,000,000 | 3,231,000,000 | 2,723,969,940 | 2,867,569,940 | 3,226,569,940 |
| # Shares | 1,503,679,176 | 1,503,679,176 | 1,503,679,176 | 1,500,000,000 | 1,500,000,000 | 1,500,000,000 |
| EPS | 1.81 | 1.91 | 2.15 | 1.82 | 1.91 | 2.15 |

| | 70 Percent Stock - 30 Percent Debt | | | 70 Percent Debt - 30 Percent Stock | | |
|----------|------------------------------------|-----------------|-----------------|------------------------------------|-----------------|-----------------|
| | <u>Recession</u> | <u>Normal</u> | <u>Boom</u> | <u>Recession</u> | <u>Normal</u> | <u>Boom</u> |
| EBIT | \$3,800,000,000 | \$4,000,000,000 | \$4,500,000,000 | \$3,800,000,000 | \$4,000,000,000 | \$4,500,000,000 |
| Interest | 4,936,000 | 4,936,000 | 4,936,000 | 1,234,000 | 1,234,000 | 1,234,000 |
| EBT | 3,795,064,000 | 3,995,064,000 | 4,495,064,000 | 3,798,766,000 | 3,998,766,000 | 4,498,766,000 |
| Taxes | 1,070,208,048 | 1,126,608,048 | 1,267,608,048 | 1,071,252,012 | 1,127,652,012 | 1,268,652,012 |
| EAT | 2,724,855,952 | 2,868,455,952 | 3,227,455,952 | 2,727,513,988 | 2,871,113,988 | 3,230,113,988 |
| # Shares | 1,502,575,423 | 1,502,575,423 | 1,502,575,423 | 1,501,103,753 | 1,501,103,753 | 1,501,103,753 |
| EPS | 1.81 | 1.91 | 2.15 | 1.82 | 1.91 | 2.15 |

M. Epilogue

Recently, Kraft announced that they will be cutting the salt in its product are sold in North America by average of 10 percent over the next two years. This decision was based on consumers demanding for healthier products and better ingredients in the food they consume. Kraft is planning to complete the reduction of salt over the next two years.

Kraft also has made an offer to acquire Cadbury which many analysts have rated as a positive move on behalf of Kraft Foods, Inc. and accordingly, the stock price was raised by \$3 from \$33 to \$36.