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Kraft Reformulates Oreo, Scores in China

Julie Jargon. **Wall Street Journal**. (Eastern edition). New York, N.Y.: May 1, 2008. pg. B.1

Abstract (Summary)

Kraft, the world's second largest food company by revenue, reported a 13% drop in first-quarter net income Wednesday because of high commodity costs and increased spending on product research and marketing. Television commercials showed kids twisting apart Oreo cookies, licking the cream center and dipping the chocolate cookie halves into glasses of milk.

Full Text (1223 words)

Unlike its iconic American counterpart, the Oreo sold in China is frequently long, thin, four-layered and coated in chocolate. But both kinds of cookies have one important thing in common: They are now best sellers.

The Oreo has long been the top-selling cookie in the U.S. market. But Kraft Foods Inc. had to reinvent the Oreo to make it sell well in the world's most populous nation. While Chinese Oreo sales represent a tiny fraction of Kraft's $37.2 billion in annual revenue, the cookie's journey in China exemplifies the kind of entrepreneurial transformation that Chief Executive Irene Rosenfeld is trying to spread throughout the food giant.

Kraft, the world's second largest food company by revenue, reported a 13% drop in first-quarter net income Wednesday because of high commodity costs and increased spending on product research and marketing. Its international business, which now represents 40% of Kraft's revenue thanks to the company's recent acquisition of Groupe Danone's biscuits business, was a bright spot in the quarter, aided by the weak dollar. Kraft's profit in the European Union rose 48%, excluding special charges, and its profit in developing markets rose 57%.

To try to increase growth at the company, Ms. Rosenfeld has been putting more power in the hands of Kraft's various business units around the globe, telling employees that decisions about Kraft products shouldn't all be made by people at the Northfield, Ill., headquarters.

To take advantage of the European preference for dark chocolate, Kraft is introducing dark chocolate in Germany under its Milka brand. Research in Russia showed that consumers there like premium instant coffee, so Kraft is positioning its Carte Noire freeze-dried coffee as upscale by placing it at film festivals, fashion shows and operas. And in the Philippines, where iced tea is popular, Kraft last year launched iced-tea-flavored Tang. Ms. Rosenfeld has also been encouraging marketers to "reframe" product categories, no longer thinking, for example, that an Oreo has to be a round sandwich cookie.

Oreos were first introduced in 1912 in the U.S., but it wasn't until 1996 that Kraft introduced Oreos to Chinese consumers. Nine years later, a makeover began. Shawn Warren, a 37-year-old Kraft veteran who had spent many years marketing the company's cookies and crackers around the world, arrived in Asia in 2005 and noticed that Oreo's China sales had been flat for the previous five years.

Back then, Kraft was selling the U.S. version of Oreos in China. Albert Einstein's definition of insanity -- doing the same thing repeatedly and expecting different results -- "characterized what we were doing," says Mr. Warren, vice president of marketing for Kraft Foods International.

The Chinese weren't big cookie eaters. The market for biscuits in fiscal 2007 was just $1.3 billion, compared with $3.5 billion in the U.S. at food retailers excluding Wal-Mart Stores Inc.

Mr. Warren assigned his team to a lengthy research project that yielded some interesting findings. For one thing, Kraft learned that traditional Oreos were too sweet for Chinese tastes. Also, the packages of 14 Oreos priced at 72 cents were too expensive.

The company developed 20 prototypes of reduced-sugar Oreos and tested them with Chinese consumers before arriving at a formula that tasted right. Kraft also introduced packages containing fewer Oreos for just 29 cents.

Some Chinese consumers still find the Oreos too sweet. One 30-year- old consumer who was shopping for groceries in the eastern part of Beijing recently, said that he likes the cookie but that "many of my friends think I am a bit weird to stick to Oreo cookies, as most of them think it too sweet to be accepted."

Mr. Warren also noticed China's growing thirst for milk, which Kraft wasn't fully exploiting. In fact, increased milk demand in China and other developing markets -- as well as tighter supplies resulting from recent droughts in milk-producing countries and a reduction of subsidies for European dairy farmers -- has pushed up milk prices around the world. That has put pressure on food manufacturers like Kraft, whose biggest business is cheese, but it has also created opportunity.

In China, Kraft began a grassroots marketing campaign to educate Chinese consumers about the American tradition of pairing milk with cookies. The company created an Oreo apprentice program at 30 Chinese universities that drew 6,000 student applications.

Three hundred of the applicants were trained to become Oreo brand ambassadors. Some of the students rode around Beijing on bicycles outfitted with wheel covers resembling Oreos and handed out cookies to more than 300,000 consumers. Others held Oreo-themed basketball games to reinforce the idea of dunking cookies in milk. Television commercials showed kids twisting apart Oreo cookies, licking the cream center and dipping the chocolate cookie halves into glasses of milk.

Ms. Rosenfeld calls the bicycle campaign "a stroke of genius that only could have come from local managers. The more opportunity our local managers have to deal with local conditions will be a source of competitive advantage for us."

Still, Kraft realized it needed to do more than just tweak its recipe to capture a bigger share of the Chinese biscuit market. China's cookie-wafer segment was growing faster than traditional biscuit-like cookies, and Kraft was trailing rival Nestle SA, the world's largest food company by revenue, which had introduced chocolate-covered wafers there in 1998.

So in China in 2006 Kraft remade the Oreo itself, introducing for the first time an Oreo that looked almost nothing like the original. The new Chinese Oreo consisted of four layers of crispy wafer filled with vanilla and chocolate cream, coated in chocolate. Kraft developed a proprietary handling process to ensure that the chocolate product could be shipped across the country, withstanding the cold climate in the north and the hot, humid weather in the south, yet still be ready to melt in the mouth.

Tailoring Western brands to Eastern tastes isn't a new idea, but it has proved more difficult for some companies than others. When Campbell Soup Co. tried to enter China in the early 1990s, it sold the same ready-to-eat soups found in American grocery stores and they flopped. Now, Campbell is trying to crack the Chinese soup market again with flavorful broths it hopes will fit with the Chinese tradition of making soup from scratch.

Yum Brands Inc. has had success in China with its KFC fried-chicken chain by offering menu items familiar to Chinese consumers, such as congee, or rice porridge, and the Dragon Twister, a sandwich wrap filled with chicken, Peking duck sauce, cucumbers and scallions. Some of Nestle's snack wafers in China come in such flavors as sesame and red bean.

Kraft's Oreo efforts have paid off. In 2006, Oreo wafer sticks became the best-selling biscuit in China, outpacing HaoChiDian, a biscuit brand made by the Chinese company Dali. The new Oreos are also outselling traditional round Oreos in China, and Kraft has begun selling the wafers elsewhere in Asia, as well as in Australia and Canada. Kraft has also introduced wafer rolls, a tube-shaped wafer lined with cream, in China. The hollow cookie can be used as a straw through which to drink milk.

Over the past two years, Kraft has doubled its Oreo revenue in China, and with the help of those sales, that revenue topped $1 billion world-wide for the first time last year.

Sue Feng contributed to this article

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