Kraft Acquires Cadbury for $19 Billion Only to Split Company 18 Months Later

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18 months ago Kraft (KFT) acquired Cadbury for $19 billion and became the second-largest food company in the world, based on revenue (Nestle is #1). In 2007 Kraft acquired Lu Biscuits from Danone for $7.7 billion. Why all the major acquisitions? According to Kraft CEO Irene Rosenfeld it's because, "scale is a source of great competitive advantage."

On August 4, 2011 Kraft announced yet another major move. Another acquisition? Not even close. Actually Rosenfeld announced that Kraft would be *splitting* into two companies. A move in the opposite direction. So much for that whole, "Scale is a source of competitive advantage" thing.

Kraft Divides into Snack and Grocery Companies

Kraft said it will divide itself into two publicly-traded companies next year: a $32 billion global snacking business and a $16 billion North American grocery business. Both companies are expected to be based in Chicago.

Excuse me, Did I Miss Something?

One moment Rosenfeld is taking over the 200 year old UK based Cadbury for $19 billion in an effort to "grow" the company and the next she announces it would be better to split the company. That's a pretty big change of heart in a relatively short period of time.

But if we take a step back we start to see the big picture. The new snack company looks like a conglomerate of the companies they've acquired over the last ten years and the grocery company resembles Kraft of 1990. Take a look for yourself:

Kraft From 1990-2011

In 1990 Kraft and General Foods were merged under the ownership of Phillip Morris. At that time their popular products consisted of grocery items such as: Oscar Mayer meats, Maxwell House coffee, Jell-O gelatin, Budget Gourmet frozen dinners, Entenmann's baked goods, Kool-Aid, Crystal Light and Tang powdered beverage mixes, Post Cereals, Shake 'n Bake flavored coatings. Not much of a "snack" company.

Fast forward to the year 2000 and Kraft (Phillip Morris technically) acquires Nabisco (Oreos, Chips Ahoy!, Fig Newtons) for $18.9 billion and then in 2010 Kraft ~~takes over~~ acquires Cadbury (Milk Chocolate, Crème Egg) for $19.5 billion.

Then in 2011 Kraft announces its plans to split into a snack company (Nabisco and Cadbury) and a grocery company.

Kraft's Snack Company

So what products will comprise the new snack company? Kraft has not released a complete list of products yet but they've already mentioned several Nabisco and Cadbury brand names such as Oreo and Cadbury Chocolate that will be featured. So if we remove the Nabisco and Cadbury products from Kraft we are basically left with the Kraft Foods of 1990.

But again, why all the takeovers and splitting? What led to all of this, especially the most recent news of splitting the company? It may help if we understand Kraft's performance over the last ten years.

Kraft's Last 10 Years: It's Not Easy Being Cheesy

Burt Flickinger of Strategic Resources Group pointed out that Kraft has been losing .5% to 1% market share every year for the last decade in all its core businesses, and that Kraft has "very little innovation."

Kraft has struggled to remain competitive as consumer's purchasing habits have changed. Less people buy Miracle Whip, Oscar Meyer Hotdogs and Velveeta Cheese compared to 1990. As America becomes more health conscious these products face a tough future. And if Kraft will not innovate products that appeal to the new consumers they will struggle to grow.

But perhaps Flickinger is wrong. Kraft may in fact be very innovative, at least when it comes to M&As. If it weren't for all the shuffling around investors might actually focus on the fact that Kraft is not really doing anything new (outside of buying and splitting companies).

It will be interesting to see what tricks Kraft has up their sleeves. 18 months from now will they once again decide that bigger is better? Only time will tell.