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Heinz Co. the Latest To Get 'Full Nelson'

Activist Nelson Peltz has made his presence felt at Heinz and elsewhere.

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By Amanda Baltazar

NEW YORK -- Metaphorically speaking, much ketchup was spilled at the raucous August 2006 annual meeting of Heinz's shareholders, which was the culmination of a proxy battle between activist investor Nelson Peltz and the Heinz board.

This year's August get-together was comparatively dull but much more celebratory for Peltz, who encountered no resistance from the board and was re-elected without controversy.

Why the change?

Before Peltz came on board, Heinz's share price had been falling, leading the company to divest brands such as Earth's Best, some of its Weight Watchers products and its U.S. pet food business. In fact, just a year ago, the company reported that its net income had dropped by 32% for the year to May 2006. By contrast, in its latest quarter, Heinz's net income rose 6% to $205.3 million and revenues from the company's top 15 brands grew 11% and its stock price had recovered.

Score another one for Nelson Peltz.

Peltz, who gained his (relative) fame in the '80s as a corporate wizard and cohort of Michael Milken, is now better known as a turnaround artist with a definite philosophy about marketing, which can be put very simply: Shed your extraneous brands, and increase ad spending and new product extensions for the core ones. Though some say his influence on Heinz is limited, Heinz rep Michael Mullen said Peltz was a factor in at least one marketing-related decision.

"Heinz and Nelson Peltz all agreed that we needed to invest more money in marketing," Mullen said. "Consequently, [CEO] Bill Johnson made the strategic decision to increase marketing investment by $100 million over two years."

Peltz could not be reached for comment.

As evinced by the 2006 shareholder meeting, not everyone was initially a fan of Peltz's, particularly reps of union pension funds holding Heinz shares who worried that Peltz would be much more aggressive on costs than management, putting union jobs at greater risk.

Though Peltz is pushing to cut $575 million from Heinz's operating budget this year, that resistance has quelled as revenues have risen. Meanwhile, Peltz's supporters have been vindicated.

"The results [of Peltz's tactics] are fantastic," said Ken Gilbert, former CMO at Snapple, a brand that Peltz bought from Quaker Oats for $300 million in 1997 and then flipped for $1.5 billion three years later. Peltz is a marketer, Gilbert said, and if Peltz sees a brand in trouble, he turns to marketing: "He turned around Snapple in a marketplace where it's very hard to do that."

At Snapple, Peltz reconnected the brand to its New York heritage by enlisting spokeswoman Wendy Kaufman for TV ads and bringing back some of the goofy humor of the brand after Quaker had homogenized it.

Snapple then concentrated on its distributors, rebuilding their allegiance and support to the business; and finally, it added line extensions to build new business.

Peltz's plans for Heinz included, in part, cutting trade spending by at least $300 million. That move is essential to the health of the company, said Matthew Kaufler, a portfolio manager with Clover Capital in Rochester, N.Y., which manages 349,350 Heinz shares. Trade spending, he said, can often be used to gain short-term market share, rather than contributing to the long-term sustainable growth of a brand.

According to a recent article in Fortune, Peltz's preference for ad spending versus trade promotion spending came about from talking to Heinz's supermarket customers, who noted that Heinz would usually offer big discounts at the end of each quarter to meet sales goals. Peltz then decided that the money would be better spent on brand advertising for the company's top 15 brands (which generate 70% of revenue), including Heinz, Ore-Ida, Classico, Smart Ones, Boston Market and Bagel Bites. But support for core brands does not just mean more advertising. Heinz has also released a torrent of extensions for the brands including Smart Ones Anytime Selections, which boosted sales for that line by 25% in the last quarter.

It seems Peltz has won over his former critics at Heinz and is already digging his feet into other companies. He has a 9.8% share in Wendy's, which he is looking to buy reportedly for close to $3.23 billion, and he holds stakes in companies as disparate as Tiffany and Cadbury Schweppes. The latest CPG company he's taken under his wing is Kraft. According to reports, he's encouraging the giant outfit to focus on its frozen food and grocery assets, while divesting Post cereals and Maxwell House coffee.

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