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## Kraft announces big revamp

*January 9, 2004*BY **ERIC HERMAN** Business Reporter

Reeling from a year of disappointing sales and declining market share, Kraft Foods announced a top-to-bottom reorganization Thursday aimed at cutting costs and building on the company's global reach.

The restructuring creates a global marketing and "category development" unit headed by Betsy Holden, who was demoted from the co-chief executive spot last month. It also makes regional teams responsible for country-by-country growth, and creates global departments for key functions such as supply chain and technology.

"The most important opportunities and pressing challenges we face today and going forward demand that we become a more unified, global company," said Chief Executive Roger Deromedi.

### Local execs happy about new role for Holden

BY **CHERYL L. REED** Staff Reporter

Local executives and analysts Thursday applauded Kraft's decision to appoint ex-CEO Betsy Holden -- the most powerful woman in Chicago business -- as president over global products and marketing.

After Holden, 48, was demoted from her co-CEO position last month, area executives questioned whether she would stay on at the biggest U.S. foodmaker, her employer since 1982. Kraft's decision to remove her as co-CEO dealt a blow to many businesswomen who looked up to her as a role model in business and family life.

"It's critical that she didn't just go into the back room," said Pam Strobel, executive vice president and chief administrative officer at Exelon Corp. "It's to her credit. She appears willing to take a hit to the ego if it would be a very good thing for Kraft."

That Kraft would try to retain Holden -- viewed universally as a talented executive -- was not surprising, but that Holden would choose to stay at a company where her demotion was so public remains intriguing to many.

"In the food world, a lot of companies would

The changes show Deromedi, 50, moving quickly to put his imprint on the Northfield-based food giant three weeks after becoming Kraft's sole chief executive. Previously, Deromedi was in charge of the company's international businesses and shared the CEO title with Holden, 48.

"It's a good start. At least there is some initiation of changes happening," said Mark Hugh Sam, an analyst at Morningstar in Chicago. Still, Sam said, Kraft must change its "philosophy" of focusing solely on growing sales and being powerless to raise prices.

"Kraft needs to focus on adding value to the products that they have," Sam said. "They have to just go back and focus on creating great products."

The development of new products will be Holden's responsibility -- one of many -- under the new structure. Several top executives will report to Holden, 48, who had been one of the nation's top female CEOs until last month. Holden will also be in charge of global marketing and will remain on Kraft's board of directors.

Kraft already boasts well-known brand-names such as Oreo cookies, Velveeta cheese and Oscar Mayer meats, but has struggled with product launches recently. Last month, Morgan Stanley analyst David Adelman wrote that Kraft "has failed to deliver a Lunchable or Capri Sun-like new product during the last several years."

Other changes announced Thursday will slash costs. The company will close its Rye Brook, N.Y., facility, where it has nearly 1,000 employees. Those staffers will be relocated to four other places, with about 100 moving to the Northfield campus, according to Kraft spokesman Michael Mudd.

The Latin American regional headquarters will move from Rye Brook to Miami. Altria Group, the tobacco giant once called Philip Morris that owns an 84 percent stake in Kraft, plans to sell the building.

The reorganization raised as many questions as it answered Thursday. Analysts and industry observers speculated that it marked only the beginning

be desperate to get her," said John Challenger, CEO at Challenger, Gray and Christmas, a Chicago-based outplacement company. "She knows if she really wants to be a CEO, she can go elsewhere."

Challenger thinks Kraft's move to keep Holden is part of a larger corporate trend to retain talented people who have long institutional knowledge. In a similar case of naming a CEO, Motorola Inc. passed over its own President Mike Zafirovski and hired Edward Zander, a former top executive at Sun Microsystems. So far, Zafirovski remains at the company.

But once someone joins the ranks of CEO, they seldom stay at a company when they've been asked to step down. Demoted executives often bow out gracefully and leave a company only to reappear as a CEO at another company.

"Typically demoted CEOs will seek greener pastures," said Peter Crist, chairman of Crist Associates. "That's the sum and substance of what normally happens. Obviously, Betsy has a strong cultural connection here."

While no one knows for sure why Holden decided to remain with the company -- and Holden wasn't fielding questions Thursday -- some wondered whether the decision was motivated by a desire to remain in Chicago, where she lives with her two children and a husband who runs a Chicago area biotech firm.

Accepting her new position at Kraft, though, doesn't mean that Holden wouldn't move to another company months or years from now, said Andrea Redmond, managing director of executive recruiting firm Russell Reynolds Associates in Chicago. Redmond believes Holden remained because she is intensely loyal to the company.

"She has Kraft flowing in her blood," said Redmond. "Great leaders aren't always in the top job. How refreshing to see that kind of commitment, that kind of class, that kind of humility. Maybe the right thing to do is to step aside and not take your marbles and go home."

Meanwhile, Kraft says Holden is committed to the company's success and "excited" about her new position, which appeals to her strengths as an innovator.

"Betsy certainly knows that Kraft appreciates the talent that she represents," said Michael Mudd, vice president of global corporate affairs. "She's a great asset to this company,

of change at Kraft. For one thing, some expect Altria to spin off more of the company, if not all of it, to the public in either 2004 or 2005. And one observer said it would be surprising if Holden remained with the company after being demoted, in spite of her new responsibilities.

"What we don't know is the magnitude of the restructuring charge expected, the size of the potential layoffs, and most importantly, the expected cost savings from these moves," said analyst John McMillin of Prudential Equity Group.

The company is expected to release more details about its business plan on Jan. 27, when it announces its 2003 results and talks about the outlook for 2004 at a meeting in New York.

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