Heinz Adapts To New Economic Realities

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PORTLAND, Ore. (AP) — H.J. Heinz Co knows that every penny counts in this economy.

The world's biggest ketchup maker's second-quarter profit fell yet narrowly beat expectations on an adjusted basis Friday as it focused on fast-growing emerging markets. But in struggling developed markets such as the U.S. and Europe, the company is shrinking product sizes and selling lower-priced products such as ketchup for 99 cents and beans for around a dollar to appeal to budget-stretched shoppers.

Heinz also announced plans to close three more plants — not identified yet — as it tries to keep its own costs under tighter control.

Consumers are struggling with continued pressure from high unemployment and food costs. As a result, many people are living paycheck to paycheck buying only what they can afford rather than bigger bottles or cans of food that might be more cost-effective.

Heinz said to meet consumer's needs, it is selling pouches instead of bottles of some of its condiments, reintroducing bean products to the U.S. and selling a bag of french fries for family dinners at $1.99.

In Europe, it will soon sell baby food around 1 euro and give free packs of its popular beans and soup to customers who buy four other cans of its products in the U.K., one of the areas hardest hit by the global economic woes.

Compelling price points seem to be best way to connect with today's concerned consumer, Heinz Chairman, President and CEO William R. Johnson said Friday.

"Consumer confidence declined in virtually every market we operate in in the developed world last quarter. It went up in the developing world, where we are really focusing a lot of our efforts," he said.

Heinz's fiscal second-quarter net income fell almost 6 percent as strength in emerging markets and higher prices offset a volume decline.

The company raised prices more than 4 percent to offset higher costs for ingredients and other commodities, which the entire industry is facing. However, as many companies beginning to see, those price hikes can scare away some of the most cost-conscious shoppers and hurt sales volume.

The company also struggled with softer sales in Australia where intense discounting, competition and other issues remain a challenge for the company

Heinz's sales volume fell nearly 3 percent in the quarter. While its sold roughly 2 percent fewer products in the U.S. and Europe and nearly 5 percent less in the Asia-Pacific region due to troubles in Australia, the company saw sales volume jump nearly 6 percent in the rest of the world.

Heinz has already shifted its focus to other markets such as China, Russia and Indonesia as developed markets drag along and these new markets represent an appealing opportunity with their booming population and strong appetite for new products.

Emerging markets were the company's growth engine for the period as it sold more ketchup and sauces in China, ABC soy and chili sauces in Indonesia and Complan nutritional beverages in India.

Heinz reported that its net income fell to $237 million, or 73 cents per share, for the fiscal quarter versus $251.4 million, or 78 cents per share, a year ago. Excluding one-time items related to productivity initiatives, its earned 81 cents per share. That beat the 80 cents per share that analysts surveyed by FactSet expected.

Revenue rose 8 percent to $2.83 billion from $2.61 billion a year ago, but still fell short of analysts' expectations of $2.9 billion.

Heinz, which had already announced plans to improve efficiency, close five plants and shed up to 1,000 jobs globally in fiscal 2012, said Friday that it would close more plants to cope with the difficult operating environment.

The company plans to shut three more of its 80 plants worldwide. The exact locations were not selected yet. As a result, it is eliminating an additional 1,000 jobs.

The Pittsburgh-based company said that despite larger economic challenges, it is on track to meet its financial goals for the year and reiterated its fiscal 2012 earnings guidance, excluding one-time items, of $3.24 to $3.32 per share. Analysts expect $3.34 per share.

Investors appeared to be unsettled by the revenue miss, modest outlook and ongoing struggles with higher costs and developed markets, sending the company's shares down $1.79, or 3.4 percent, to $51.03 in midday trading.