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Heinz Merger With Kraft Leaves Bad Taste In Ad Agencies' Mouths

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The merger of Kraft Foods and Heinz will likely mean consolidating brands and trimming expenses.
Toby Talbot/Associated Press

The merger of Kraft Food Groups Inc. and H.J. Heinz Co. will bring together some of the world's most recognizable brands from Heinz Ketchup to Maxwell House coffee and Jell-O.

But the combination isn't whetting appetites on Madison Avenue. Integrating the two packaged food giants will likely mean consolidating brands and trimming expenses to justify the more than $40 billion deal. After all, Heinz is tackling the deal with help from its owners: Warren Buffett's Berkshire Hathaway Inc. and 3G Capital Partners L.P., the Brazilian private-equity firm known for its intense focus on costs.

The deal, if it closes, would create the world's fifth largest food and beverage company that combined spent about $583 million on measured media advertising in the U.S. last year, according to data from Kantar Media, an ad-tracking research firm owned by WPP.

Despite the decent ad budget, ad agency executives are concerned about 3G's notorious cost cutting and what it could mean for how many brands will survive, how many agencies will be needed to market those labels and how much additional pressure it could place on the fees agencies charge.

"3G is not good for brand building," said one top ad executive. "They cut costs, they consolidate."

There will likely be an evaluation of the agencies on both companies' rosters but, first, Kraft and Heinz need to figure out the organizational structure of the new company and decide if brands will be consolidated, said Ann Billock, a partner at Ark Advisors, a consulting firm that helps marketers select agencies. For now, agencies working with Heinz and Kraft should try to cement their relationships with brand managers and key marketing executives, she said.

“It will probably take a year before the fallout really happens,” Ms. Billock said. “A lot of it will depend on how autonomous the two companies stay under this.”

The new Kraft Heinz Co.will own a long list of brands with a rich advertising history from Heinz’s classic ad that used Carly Simon’s “Anticipation” to Oscar Mayer’s familiar jingle “Oh, I wish I were an Oscar Mayer Wiener.” Together, the combined company will have eight brands worth more than $1 billion and five brands between $500 million and $1 billion.

“These are great American brands with a tremendous amount of heritage and a lot of agencies would love an opportunity to work with these brands,” said Ken Robinson, a partner at Ark Advisors. “They have a marquee value.”

Heinz, which will own 51% of the new company, and Kraft, whose shareholders will hold the rest, told investors the new entity will invest in expanding in the U.S. and internationally.

“The complementary nature of the two brand portfolios presents substantial opportunity for synergies, which will result in increased investments in marketing and innovation,” the companies said Wednesday in a statement.

Bernardo Vieira Hees, Heinz’s current CEO who will lead the combined company, said in a conference call with investors that the company will reinvest its cost savings “in the brands that we think can take the most profit from it.” The combined company will implement “zero-based budgeting,” meaning managers will have to explain every cost they need

To be sure, cost-cutting isn’t new territory for these companies. Over the past few years, Kraft has pressured agencies to lower their fees and just last year significantly reduced the number of agencies that it works with. Kraft’s U.S. ad spending totaled $540.5 million in 2014, down from $686.3 million the prior year, according to Kantar Media. Kraft was the 46th biggest advertiser in the U.S. last year, Kantar Media said.

Meanwhile, Heinz, which was purchased by Berkshire and 3G in 2013, isn’t as big of an ad spender. Kantar Media data shows that the company shelled out $42.4 million on measured media in the U.S. last year, on par with its spending of $43.6 million in 2013.