Kraft Foods (Kraft) has an amazing portfolio of brands. Over 40 of the company’s brands are more than 100 years old; more than 70 brands generate over $100 million in revenue; and, 11 brands are so popular, they each bring in $1 billion in revenue each year. Kraft is the biggest packaged food and beverage company in North America, yet more than half of the company’s business comes from markets outside of North America with sales in 170 countries.

Kraft’s mergers and acquisitions have played a major role in building this expansive portfolio.

“Kraft has established a strong, global footprint via acquisitions, so our team has had a great deal of experience when it comes to managing our GS1 Company Prefixes,” explains Jill Wille, associate director of the Customer Innovation Center of Excellence.

Doug Naal is part of Wille’s team as the global standards manager for Kraft. With a decade of standards experience, Naal is exceptionally knowledgeable when it comes to GS1 Standards and its policies and practices – in the U.S. and abroad.

“Part of my responsibilities is to ensure our Company Prefixes are correct and used properly. That’s quite a challenge when you consider our company’s acquisition history and activity.”

Both Wille and Naal understand the importance of GS1 Company Prefixes for Kraft. “Company Prefixes are the foundation for uniquely identifying Kraft’s many products in the global supply chain,” explains Wille. Properly registered and used GS1 Company Prefixes help Kraft gain greater efficiencies throughout its supply chain and enable critical processes such as product traceability. Customer goodwill, cost containment, and speedy time to market are all business outcomes from disciplined management of GS1 Company Prefixes.

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– Jill Wille, Associate Director, Customer Innovation Center of Excellence
Kraft Foods
“We have learned that small acquisitions – whether the purchase of a smaller company or the partial purchase of a large company’s brand – can be deceptively complex.”

– Jill Wille, Associate Director, Customer Innovation Center of Excellence, Kraft Foods

For Kraft, “experience” has proven to be the best teacher. “It seems we have faced every type of acquisition,” says Wille. “As a result, we’ve quickly learned and developed best practices to smooth the integration of Company Prefixes. For example, contacting the GS1 Member Organization to request a Company Prefix transfer of ownership is a must.”

Naal adds, “While we typically aren’t at the table when purchase contracts are being negotiated, there are some preemptive actions we can take to ensure Company Prefixes are considered and cared for.”

Here are some of Kraft’s lessons learned and resulting best practices.

**Lessons Learned**

When an acquisition occurs, the purchase may be for an entire company or a portion of the company.

“We have noticed that different types of acquisitions hold inherent risks when it comes to caring for Company Prefixes,” explains Wille. “We believe it’s critical to understand these risks when creating an effective strategy.”

“The purchase of a complete company is typically more straightforward than a partial-company purchase,” says Naal. “In a full acquisition typically the buyer negotiates the right to use all GS1 Company Prefixes and associated GS1 Identification Numbers of the seller company.”

Partial purchases – perhaps the purchase of a company’s division or brand – can bring additional nuances.

“We have learned that small acquisitions – whether the purchase of a smaller company or the partial purchase of a large company’s brand – can be deceptively complex,” comments Wille. “The task for our M&A lawyers becomes more detailed, more demanding. They must consider the selling company’s GS1 Company Prefix and determine if it is part of the deal. If the Company Prefix is not included, then we must change the GTINs® (Global Trade Item Numbers®) and related GLNs (Global Location Numbers) for the purchased products within one year.”

Wille and Naal recall a Kraft partial acquisition years ago when M&A lawyers assumed the Company Prefix and GTINs were automatically acquired as part of the deal.

“We were using GTINs with Company Prefixes that actually belonged to the other company,” says Wille. “We quickly realized we had a problem when we wanted to publish these items in the GS1 GDSN® (Global Data Synchronization Network™),” says Naal. “I looked up the GTINs in GEIPR, the GS1 global look-up tool, and found they were registered to another company. We quickly addressed this major issue. Clearly defined and documented GS1 Company Prefix rights are a must in any acquisition contract.”

An improper practice is when the selling company keeps the rights of the Company Prefix and the acquiring company does not change the GTINs. Both companies in essence end up sharing the same Company Prefix. This type of sharing is not in compliance with GS1 Standards.

Even straightforward acquisitions have sometimes surprised this seasoned team. When integrating some acquired Company Prefixes into its portfolio, Kraft found it was also inheriting the mis-use of another company’s Company Prefixes. Naal discusses the specific situation.

“We acquired a company that had previously acquired another company. It had not changed the GTINs from the acquired company even though the rights to the Company Prefix used to assign the GTINs for the products were not part of the acquisition. This resulted in Kraft spending un-budgeted money, time and resources to renumber the products with a new GS1 Company Prefix. The lesson here is that an acquired company may have an acquisition history where its Company Prefixes are not well managed. Asking questions and delving into this history during negotiations will help prevent problems during integration.”

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– Doug Naal, Global Standards Manager, Customer Innovation Center of Excellence Kraft Foods
CASE STUDY: Kraft Foods

“We are constantly educating our internal teams about the importance of Company Prefixes during contract negotiations. We explain the downstream benefits for our business such as customer goodwill and avoiding unnecessary costs when Company Prefixes are properly cared for during negotiations.”

– Jill Wille, Associate Director, Customer Innovation Center of Excellence, Kraft Foods

Best Practices
Kraft has developed three major areas of best practices to counter these risks and ensure smoother transfers of GS1 Company Prefixes as a result of mergers and acquisitions.

Create awareness within legal and product teams about the importance of GS1 Company Prefixes.

“We are constantly educating our internal teams about the importance of GS1 Company Prefixes during contract negotiations,” says Naal. “We explain the downstream benefits for our business such as customer goodwill and avoiding unnecessary costs when GS1 Company Prefixes are properly accounted for during negotiations.”

“By keeping awareness levels high among our M&A lawyers and sales and marketing associates, we have a much better chance of ‘being at the table’ when the details of acquisitions are being worked out,” says Wille. “Of course, our team is not literally at negotiation tables; yet with a systemic awareness effort, our requirements can be.”

Kraft includes brand managers as part of its awareness effort. “Changing product GTINs may impact the viability of a product,” explains Wille. “For example, a product that is doing poorly in the marketplace runs the risk of being discontinued by retailers if the GTINs are changed. We consider it part of our role to help them understand these issues and figure out how to best approach them.”

Provide clear requirements for the proper attention of GS1 Company Prefixes during front-end negotiations to mitigate back-end issues.

Kraft plans to develop a document for its legal community that concisely addresses recommended GS1 Company Prefix rights-to-use practices for use with acquisition contracts.

Naal provides three basic requirements for a GS1 Company Prefix addendum:

1. GS1 Company Prefixes involved in the transaction are individually listed by number.

2. User rights are specified for each Company Prefix. Obtain an agreement letter from an executive of the selling company for Company Prefixes transferring to the acquiring company.

3. Company Prefixes not owned by Kraft or the acquired company going forward will specify the timelines for transitioning from the existing GTINs using the Company Prefixes to new GTINs. GS1 Standards specify a transition period of less than 12 months from the close of the contract.

Maintain accurate Company Prefixes for a host of business benefits.

Kraft notifies the appropriate GS1 Member Organization that issued the acquired Company Prefix of the ownership change shortly after the close of a contract.

“Being a global company, I work with all GS1 Member Organizations to complete Company Prefix ownership transfers as a result of acquisitions,” advises Naal. “I have recommended to GS1 that a centralized way to do this would be more effective and efficient.”

“My advice to companies is to designate an accountable manager to maintain accurate GS1 Company Prefix records,” says Naal. “Having accurate, up-to-date information on GS1 Company Prefixes will save time, costs and, possibly, market share and revenues when it comes to acquisition activities.”

Naal is quick to add that GS1 material is readily available for reference by standards managers when maintaining accurate GS1 Company Prefixes. And in the U.S., GS1 US™ is available for support. “Don’t hesitate to call on GS1 US customer service. It’s very easy to work with them.”

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– Doug Naal, Global Standards Manager, Customer Innovation Center of Excellence, Kraft Foods
CASE STUDY: Kraft Foods

CONTACT US
If you would like to learn more about GS1 Company Prefixes and how to prepare for a merger or acquisition, in the U.S. contact the GS1 US Data Maintenance team at DMaintenance@gs1us.org or call +1 937.435.3870.

ABOUT KRAFT FOODS
Northfield, Ill.-based Kraft Foods Inc. is a global snacks powerhouse with an unrivaled portfolio of brands people love. Proudly marketing delicious biscuits, confectionery, beverages, cheese, grocery products and convenient meals in approximately 170 countries, Kraft Foods had 2010 revenue of $49.2 billion, more than half of which was earned outside North America. Eleven of the company’s iconic brands – including Cadbury, Jacobs, Kraft, LU, Maxwell House, Milka, Nabisco, Oreo, Oscar Mayer, Philadelphia and Trident – generate revenue of more than $1 billion annually, and 40 have been loved for more than a century. A leader in innovation, marketing, health & wellness and sustainability, Kraft Foods is a member of the Dow Jones Industrial Average, Standard & Poor’s 500, Dow Jones Sustainability Index and Ethibel Sustainability Index.

www.kraftfoodscompany.com

ABOUT GS1 US™
GS1 US is a not-for-profit organization that brings industry communities together to solve supply-chain problems through the adoption and implementation of GS1 standards. More than 200,000 businesses in 25 industries rely on GS1 US for trading-partner collaboration and for maximizing the cost effectiveness, speed, visibility, security and sustainability of their business processes. They achieve these benefits through GS1 US solutions based on GS1 global unique numbering and identification systems, barcodes, Electronic Product Code-based RFID, data synchronization, and electronic information exchange. GS1 US also manages the United Nations Standard Products and Services Code® (UNSPSC®). www.GS1US.org

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Connect with the GS1 US community at www.UConnectCommunity.org.

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