Title: BACK TO BASICS AT QUAKER OATS
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Source: ***The New York Times***. (Nov. 29, 1986): News:
Document Type: Article
The New York Times

Full Text:

During the last 15 years, the Quaker Oats Company has struggled to diversify, trying everything from clothes and hardware to fast-food restaurants and video games. But with one notable exception - its Fisher-Price toy line - Quaker has kept coming back to the same conclusion: Its traditional name-brand packaged foods base is the company's only sure-fire source of growth.

That lesson has been the driving force behind the company's recent flurry of acquisitions and planned restructurings.

In August, Quaker agreed to pay $278 million for the Golden Grain Company, adding Rice-a-Roni to such formidable brand names as Gatorade, Ken'l Ration, Aunt Jemima and the Quaker labels. The next month, Quaker beat out the Ralston Purina Company to acquire Anderson, Clayton & Company for $812 million. This time the prize was the Gaines pet food line.

And just this week, Quaker announced that it had agreed to purchase Kretschmer Cereals, known for its wheat germ, from the International Multifoods Corporation. Terms were not disclosed, but analysts put the price at about $40 million. Retail Division for Sale

In the process, Quaker's chairman and chief executive, William D. Smithburg, has all but abandoned the company's diversification strategy.

To pay for Golden Grain, he has put Quaker's specialty retailing business on the block. Acquired six years ago, the division - which consists of Jos. A. Banks Clothiers, Brookstone and Eyelab - had never come up to Quaker's ambitious sales projections, in part, Quaker said, because the division was too small to compete with larger specialty retailers.

Similar disappointments led Quaker to sell its chemical division, Magic Pan restaurant chain and video game operations in the last three years.

And two weeks ago, Quaker announced that it would sell all the businesses of Anderson, Clayton, except Gaines.

When the dust clears, the one nonfood business that will remain - and which the company insists it will never sell - is the expanding Fisher-Price unit. 'The Name of the Game'

"The name of the game is meaningful position," Mr. Smithburg, a 48-year-old former brand manager, said in a recent interview in the company's headquarters here. "We want a stable of brand franchises with No. 1 or No. 2 positions, and divest ourselves of those that are not."

Indeed, Quaker is even selling Anderson, Clayton's Seven Seas salad dressing and Chiffon margarine, which are ranked 4th and 11th in their respective segments.

Quaker's decision to focus again on its core business underscores the attractions of building on success, especially in the face of the frustrations of adding new and unfamiliar units.

"Quaker has such a formidable marketing and distribution system that they can take something like Gaines and Golden Grain and run it through with minimal costs," said Roger W. Spencer, an analyst with Paine Webber Inc. More important, he said, "It makes more sense to put more product through what you do best, rather than fool around with a nonrelated business." The Golden Grain Strategy

Acquiring Golden Grain is a perfect example of this strategy. While Golden Grain's Rice-a-Roni and Noodle-Roni hold the No. 1 and No. 2 brand positions, respectively, they have been losing market share to Uncle Ben's and Lipton, which makes rice side dishes. Quaker officials said they planned to expand Golden Grain's rice, pasta and microwave lines. Quaker has already dramatically increased the advertising budget for the products.

Packaged goods were largely responsible for the 85-year-old Quaker's record performance in the fiscal year 1986, which ended June 30. Net income jumped 14.7 percent, to $179.6 million; sales increased 4.3 percent, to $3.67 billion, and return on equity reached a record 21.2 percent. After adjusting for a recent 2-for-1 split, Quaker's stock price has nearly doubled within the last year. [On Friday the stock closed on the New York Stock Exchange at $82.50, up 25 cents.] While controlling a leading share has always been important in the packaged food industry, it has become much more so in the last five years, as retailers got better at recording which products sell and which do not.

As a result, it is "a lot easier to get more shelf space if you're first or second," Mr. Spencer, the analyst, said. "As you move down the list, you've got a lot of things working against profitability." Pet Food Share Jumps

Quaker officials say that was the main reason behind the Gaines acquisition. With the purchase, Quaker's share of the pet food market doubled, to 15 percent, catapulting the company from the No. 5 spot to just behind the industry leader, Ralston Purina, which controls 28 percent.

Conversely, that was the same reason that the company soured on its specialty retailing business, which had sales of $216.8 million in the last fiscal year, a disappointing share of Quaker's total revenue.

One key problem was competing against much larger specialty retailers, which enjoy better economies of scale. "We searched for a number of years for additional acquisitions, but were just not able to find enough of them to build up a sizable portfolio," said Mr. Smithburg, who joined the company in 1966 as a brand manager for Aunt Jemima frozen waffles.

Industry insiders credit Mr. Smithburg with capitalizing on Quaker's existing brand strengths by introducing new products to old lines and increasing advertising. An example of an innovation in an older product line would be the addition of dried fruit to instant oatmeal, which has proved to be quite successful. Advertising Increased

Quaker beefed up advertising for Stokely-Van Camp, which makes canned pork and beans and Gatorade, a non-carbonated soft drink, after acquiring it for $238 million in 1983. In part because of licensing agreements with the National Football League and the National Basketball Association, Gatorade's sales have almost doubled, to $135 million.

Since Mr. Smithburg took over as chairman and chief executive in 1981, advertising spending has increased by an average of 18 percent annually. In the fiscal year 1986, Quaker reported $724 million in advertising and marketing expenditures.

But Quaker has also had its share of setbacks in packaged foods. The $400 million granola bar industry -which Quaker started 10 years ago by clumping granola into a chewy bar -slipped 3 percent last year, after growing 20 percent annually. Part of the problem was Quaker's zeal to fend off competitors by making the bars more like candy, analysts say.

"They tried to shake some of the competitors out but all they really did was blur the distinction between granola health food and granola candy," said Keith J. DeVore, an analyst with Piper, Jaffray & Hopwood in Minneapolis. A Fudge Bar Problem

Granola bars suffered another setback this summer when Quaker tried to introduce a Fudge Dipps bar. The fudge would not stick to granola without refrigeration. In October, the company decided to scrap the project indefinitely.

The company's $289.9 million ready-to-eat cereal business, although a strong performer, has been losing market share to Kellogg and General Mills. "They're lucky that the industry is so profitable," said William Leach, an analyst with Donaldson, Lufkin & Jenrette. "But they need new products. Even the small players like Ralston are able to crank out some silly sounding but profitable cereals every two months."

To date, Quaker has developed only one new cereal in 1986, called "Ohs!" Analysts have rated it a moderate success.

The one nonfood business that remains, Fisher-Price, reported sales of $485.3 million in the last fiscal year. Fisher-Price, which concentrated until recently on younger children, is now expanding its line to attract pre-teens, by marketing radios and cassette players, sports and kitchen appliance lines and construction sets.

"While demographic trends are favorable for the industry over the near term, they alone don't promise success," said R. Bruce Sampsell, president of the toy unit. "The key is to maintain our pre-eminence in the pre-school category and continue to expand in toys for older children."

But, he added, "We have real competitive advantage in the Fisher-Price name." QUAKER STICKS TO ITS BASICS Niches of the food market where Quaker has a leading position. (Source: Quaker Oats)

CAPTION(S):

Photos of William D. Smithburg and some Quaker food products (NYT/Steve Kagan and Bill Aller); Graph of Quaker's products' contribution to profits for fiscal year ending June 30 (Source: Standard & Poor's)

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Top of page