

Kraft Heinz is not the only food giant in trouble, *The Economist*, July 17th 2025

When Warren Buffett, a venerable investor, and 3G Capital, a private-equity firm, merged Kraft and Heinz in 2015 to create a packaged-food heavyweight, consumers' appetite for its colourful condiments, sugary snacks and processed cheeses seemed insatiable. The deal now looks to have been a big fat flop. Kraft Heinz's market value, at \$32bn, is down by three-fifths since the tie-up. The company expects its operating profit to fall by 5-10% this year. It is now said to be exploring a break-up.

The dismal situation at the company, which owns brands from Oscar Mayer to Jell-O, is partly the result of a decade of mismanagement, including some overly enthusiastic cost-cutting. But it also shows the shifting fortunes of big food more generally. The shares of the 12 American packaged-food companies in the S&P 500 index, including Kraft Heinz, General Mills and Hershey, are down by a weighted average of 9% over the past year. After proving surprisingly resilient through the post-pandemic surge in inflation, sales are flagging. Competition from upstart brands and regulators' wariness of ultra-processed foods are starting to pose a threat just as shoppers are tightening their belts. Leaner times could beckon.

Starting in 2021, packaged-food companies jacked up prices to protect profit margins in the face of rising costs of ingredients and workers. While politicians railed against "greedflation", consumers in America, the companies' biggest market, continued to spend ever more on their goodies. Lately, however, sales for most of the firms have stagnated or are in decline. One reason is the cumulative strain on shoppers' wallets from stubborn inflation and a cooling jobs market. Donald Trump's Big Beautiful Bill, which eliminates food subsidies for perhaps 1.3m Americans, will not help. Nor will the rising adoption of weight-loss drugs, which lessen cravings for junk food in particular. According to one estimate, around 4% of American adults took these last year, double the share two years before.

Meanwhile, big food's higher prices have created an opening for smaller brands (particularly at the premium end of the market) and retailers' in-house labels (mostly at the cheap end). The top 20 producers of food, beverage and pet products in America—many big firms sell all three—have seen their combined market share slip from 42% in 2018 to below 40% last year, according to Robert Moskowitz of TD Cowen, a bank. What is more, big retailers including Walmart, Costco and Target have responded to Mr Trump's tariffs by forcing suppliers and consumers to swallow the increase in costs while bearing none of the burden themselves, notes Bernstein, a broker.

The final problem for big food is regulation. Robert F. Kennedy junior, health secretary and leader of the "Make America Healthy Again" movement, is leading a crackdown on the use of food dyes and other chemicals in ultra-processed foods. Tweaking recipes to remove them may not always be straightforward, and risks irritating consumers who are not yet ready to give up on beloved foods, even if there are doubts about their nutritional value. John Baumgartner of Mizuho, another bank, points to the uproar at breakfast tables when General Mills temporarily removed artificial colours from its Trix cereal a decade ago. "Food manufacturers will have to walk a fine line between satisfying regulators and consumers," he says.

As for Kraft Heinz, its plan seems to involve spinning off a chunk of its grocery business, including ready meals and packaged meats, leaving it with its well known sauces and spreads, which are more profitable. Such break-ups can turn out well for shareholders, particularly when acquisitions follow. A few years ago Kellogg's, another mainstay of supermarket shelves, split itself into WK Kellogg, containing its American cereal business, and Kellanova, with the rest of its portfolio. These are now being acquired by Ferrero and Mars, two more food companies, respectively. Shareholders have so far gained more than 40% since the firm was carved up. Even as some food giants shrink, others may bulk up.