

Gerber Case

Basic Facts

- 73-year-old firm from Fremont, Michigan.
- Produces and sells baby food – 165 varieties.
- Focus on Quality vs. price. Pediatrician recommended, etc.
- Held 72% of US Market, but the US only counts for 3% of world babies.
- The company is looking to grow traditional business, after failing in other areas such as day care centers.
- Decided to focus on Eastern European market to attack local market and as a platform for entry to Western Europe.

Poland – Reasons for closing deal

- Needs FDI.
- Needs hard foreign currency.
- Has to signal to the world that it is embracing market reforms. Has the goal of the EU in the future.
- Needs to generate exports. This project will create stimulus to the important agricultural sector.

Gerber - Reasons for closing the deal

- Platform to sell in France and other Eastern Europe countries.
- First mover advantage: Heinz is also looking at opportunities.
- Seems to be a low price (\$ 25 million) vs. \$ 100 million of investment to build plant from scratch.
- Attractive existing market: both Gerber and Alima
- Related industries are developed: local farmers, similar to Fremont and glass producers.
- Promises from government: tax breaks, profit repatriations and duties.
- Alima's plant is in good shape, reasonable technology and good manager.
- Cheap inputs: labour, agricultural products, etc.
- Great opportunities to improve the operation.
- The deal increases the speed of Gerber's entry to these markets.

Risks

- Unstable environment, doubt about market reforms.
- Property rights: claim to land from previous nationalization waves.
- Sustainability of Financial system.
- Expectations of inflation? Social pressures & unrest?
- No international regime on FDI to resort to in case of problems.
- Opposition to deal from church and workers.
- Logistical problems such as retail channels and distribution.
- Environmental hazards.