

Fall 2022 Live Case Study

McCormick & Co.

THE CHALLENGE

Fall 2022 Live Case study focuses on McCormick's effort to develop a digital engagement strategy that capitalizes and combines popular culture and social media trends.

During the pandemic, a great number of people began eating at home, and after almost 15 months of practicing in their kitchens consumers are more comfortable cooking and experimenting with different flavors, spices, and cuisines. Many consumers are also eager to share their newly acquired culinary skills by sharing recipes on social media and posting videos on TikTok. **The executives at McCormick would like you to capitalize on these consumer trends and develop a digital engagement strategy that further engages the consumers and enhances McCormick's brand presence and engagement.** Explain your strategic recommendations and address any risks or tradeoffs of your recommendation.

To successfully complete this case, **you should do the following:**

1. Carefully read the information about McCormick provided to you by the executives.
2. Conduct the analysis of all three focus areas below.
3. Research McCormick, social media usage, and American cooking habits as needed to conduct your analysis

1) External Analysis:

- Outline the market for condiments and spices industry in North America (e.g., size, maturity, market share, growth potential, etc.).
- Analyze the recent market trends that are impacting the industry.
- Describe social media habits of Americans as they affect cooking and eating at home, people's use of spices and flavoring products, and experimenting with various cuisines.
- Apply the Five-Forces Model analysis of industry competition to evaluate McCormick and its top competitors.
- Use other external strategic analysis tools covered in the course if applicable (e.g., PESTEL, industry key success factors, strategic group mapping, industry evolution).

2) Internal Analysis:

- Discuss McCormick's competitive advantage and disadvantages over industry rivals.
- Explain any unique market positioning that McCormick has over its rivals.
- Apply internal strategic tools covered in the course (e.g., value chain analysis, resource-based view, SWOT, financial analyses, vision-mission-objectives, core competencies, balanced scorecard, and transitory rather than sustained competitive advantage).

3) Financial Analysis:

- Estimate the cost to develop and implement your strategy for the next three years.
- Provide revenue projections for the next 3 years for the proposed strategy.

- Provide projected income statements combining revenue and cost projections from the previous two bullets.

Information from the Executives of McCormick & Co.

About

McCormick & Company, Incorporated is a global leader in flavor. As a Fortune 500 company with over \$6 billion in annual sales across 170 countries and territories, we manufacture, market, and distribute spices, seasoning mixes, condiments, and other flavorful products to the entire food industry including e-commerce channels, grocery, food manufacturers and foodservice businesses. Our most popular brands with trademark registrations include McCormick, French's, Frank's RedHot, Stubb's, OLD BAY, Lawry's, Zatarain's, Ducros, Vahiné, Cholula, Schwartz, Kamis, DaQiao, Club House, Aeroplane and Gourmet Garden. Every day, no matter where or what you eat or drink, you can enjoy food flavored by McCormick.

Founded in 1889 and headquartered in Hunt Valley, Maryland USA, McCormick is guided by our principles and committed to our Purpose – To Stand Together for the Future of Flavor. McCormick envisions A World United by Flavor where healthy, sustainable, and delicious go hand in hand.

Our Purpose and Our Vision

Our Purpose is "To Stand Together for the Future of Flavor."

Our Vision is "A World United by Flavor—where healthy, sustainable and delicious go hand in hand." We believe flavor's greatest potential lies ahead. Flavor is foundational to our food and our shared future. Flavor has untapped potential to enhance our health, our communities, and our planet in ways that taste great. We stand with our employees, creating great places to work that offer opportunities for all. We stand with the communities where we work and grow, partnering to ensure they can thrive for generations. We stand with our consumers, using flavor to bring people together across the table and across the world. We stand with our customers through innovating new products that make good food taste great while contributing to happier, healthier lives.

Business Segments

We operate in two business segments, consumer, and flavor solutions. Demand for flavor is growing globally, and across both segments we have the customer base and product breadth to participate in all types of eating occasions. Our products deliver flavor when cooking at home, dining out, purchasing a quick service meal, or enjoying a snack. We offer our customers and consumers a range of products to meet the increasing demand for certain product attributes such as clean-label, organic, natural, reduced sodium, gluten-free and non-GMO (genetically modified organisms) and that extend from premium to value-priced. Consistent with market conditions in each segment, our consumer segment has a higher overall profit margin than our flavor solutions segment. In 2021, the consumer segment contributed approximately 62% of consolidated net

sales and 75% of consolidated operating income, and the flavor solutions segment contributed approximately 38% of consolidated net sales and 25% of consolidated operating income.

Consumer Segment. From locations around the world, our brands reach consumers in approximately 160 countries and territories. Our leading brands in the Americas include McCormick, French's, Frank's RedHot, Lawry's Cholula Hot Sauce and Club House, as well as brands such as Gourmet Garden and OLD BAY. We also market authentic regional and ethnic brands such as Zatarain's, Stubb's, Thai Kitchen, and Simply Asia. In the Europe, Middle East and Africa (EMEA) region, our major brands include the Ducros, Schwartz, Kamis and Drogheria & Alimentari brands of spices, herbs and seasonings and an extensive line of Vahiné brand dessert items. In China, we market our products under the McCormick and DaQiao brands. In Australia, we market our spices and seasonings under the McCormick brand, our dessert products under the Aeroplane brand, and packaged chilled herbs under the Gourmet Garden brand. Elsewhere in the Asia/Pacific region, we market our products under the McCormick brand as well as other brands. Approximately two thirds of our consumer segment sales are spices and seasonings and condiments and sauces. Within the spices and seasoning category, we are the brand leader globally and a category leader in our key markets. In the condiments and sauces category, we are one of the brand leaders globally and in the U.S. There are numerous competitive brands of spices and seasonings, and condiments and sauces in the U.S. and additional brands in international markets. Some are owned by large food manufacturers, while others are supplied by small privately-owned companies. In this competitive environment, we are leading with innovation and brand marketing, and applying our analytical tools to help customers optimize the profitability of their sales of these categories while simultaneously working to increase our sales and profit. Our customers span a variety of retailers that include grocery, mass merchandise, warehouse clubs, discount and drug stores, and e-commerce retailers served directly and indirectly through distributors or wholesalers. In addition to marketing our branded products to these customers, we are also a leading supplier of private label items, also known as store brands. In our businesses in China and India, foodservice sales are managed by and reported in our consumer segment.

Flavor Solutions Segment. In our flavor solutions segment, we provide a wide range of products to multinational food manufacturers and foodservice customers. The foodservice customers are supplied with branded, packaged products both directly by us and indirectly through distributors, apart from our businesses in China and India, where foodservice sales are managed by and reported in our consumer segment. We supply food manufacturers and foodservice customers with customized flavor solutions, and many of these customer relationships have been active for decades. Our range of flavor solutions remains one of the broadest in the industry and includes seasoning blends, spices and herbs, condiments, coating systems and compound flavors. In addition to a broad range of flavor solutions, our long-standing customer relationships are evidence of our effectiveness in building customer intimacy. Our customers benefit from our expertise in many areas, including sensory testing, culinary research, food safety and flavor application. Our flavor solutions segment has several competitors. Some tend to specialize in a particular range of products and have a limited geographic reach. Other competitors include large publicly held flavor companies that are more

global in nature, but which also tend to focus on providing integrated solutions extending beyond flavor using other functional and nutritional ingredients.

Raw Materials The most significant raw materials used in our business are dairy products, pepper, capsicums (red peppers and paprika), onion, vanilla, garlic, and salt. Pepper and other spices and herbs are generally sourced from countries other than the United States. Other raw materials, like dairy products and onion, are primarily sourced locally, either within the United States or from our international locations. Because the raw materials are agricultural products, they are subject to fluctuations in market price and availability caused by weather, growing and harvesting conditions, market conditions, and other factors beyond our control. We respond to this volatility in several ways, including strategic raw material purchases, purchases of raw material for future delivery, customer price adjustments and cost savings from our Comprehensive Continuous Improvement (CCI) program. In addition, we rely on third-party transportation providers to deliver raw materials as well as our product to our customers. Reduced availability of transportation capacity due to labor shortages, primarily as a result of the COVID-19 pandemic, has caused an increase in the cost of transportation for us and our suppliers.

Customers Our products are sold directly to customers and also through brokers, wholesalers and distributors. In the consumer segment, products are then sold to consumers under a number of brands through a variety of retail channels, including grocery, mass merchandise, warehouse clubs, discount and drug stores, and e-commerce. In the flavor solutions segment, products are used by food and beverage manufacturers as ingredients for their finished goods and by foodservice customers as ingredients for menu items, as well as provided to their own customers for use in dine-in and take-out eating occasions, all to enhance the flavor of their foods. Customers for the flavor solutions segment include food manufacturers and the foodservice industry supplied through a variety of channels including directly and indirectly through distributors, wholesale foodservice suppliers and e-commerce. We have many customers for our products. Sales to one of our consumer segment customers, Wal-Mart Stores, Inc., accounted for approximately 11% of consolidated sales in 2021 and 2020 and 12% of consolidated sales in 2019. Sales to one of our flavor solutions segment customers, PepsiCo, Inc., accounted for approximately 11% of consolidated sales in 2021, 2020 and 2019. In 2021, 2020 and 2019, the top three customers in our flavor solutions segment represented between 48% and 52% of our global flavor solutions sales.

Our Acquisitions

In August 2017, we completed the acquisition of Reckitt Benckiser's Food Division (RB Foods) from Reckitt Benckiser Group plc. The purchase price was approximately \$4.2 billion. The iconic brands we acquired from RB Foods included French's, Frank's RedHot and Cattlemen's, which are a natural strategic fit with our robust global branded flavor portfolio. We believe that these additions moved us to a leading position in the attractive U.S. Condiments category, while providing significant international growth opportunities for our consumer and flavor solutions segments.

On November 30, 2020, we completed the purchase of the parent company of Cholula Hot Sauce (Cholula) from L Catterton. The purchase price was approximately \$801 million, net of cash acquired. Cholula, a premium Mexican hot sauce brand, is a strong addition to McCormick’s global branded flavor portfolio, which broadens the Company’s offering in the high growth hot sauce category to consumers and foodservice operators and accelerates our condiment growth opportunities with a complementary authentic Mexican flavor hot sauce. At the time of the acquisition, annual sales of Cholula were approximately \$96 million. The results of Cholula’s operations have been included in our financial statements as a component of our consumer and flavor solutions segments from the date of acquisition.

On December 30, 2020, we completed the purchase of FONA International, LLC and certain of its affiliates (FONA), a privately held company. The purchase price was approximately \$708 million, net of cash acquired. FONA is a leading manufacturer of clean and natural flavors providing solutions for a diverse customer base across various applications for the food, beverage and nutritional markets. The acquisition of FONA broadens our value-add offerings with products that are highly complementary to our existing portfolio. By combining the portfolios and infrastructures, we have added manufacturing capacity as well as greater scale and expect to accelerate our global flavor growth. At the time of the acquisition, annual sales of FONA were approximately \$114 million. The results of FONA’s operations have been included in our financial statements as a component of our flavor solutions segment from the date of acquisition.

Financial Highlights

A message from Lawrence E. Kurzius Chairman, President, and Chief Executive Officer “With our overarching focus on growth and the successful execution of our strategies, we have consistently delivered industry- leading revenue growth. This performance resulted in McCormick’s inclusion in the 2021 Fortune 500. We are proud of being included on this prestigious list. Our sustained performance positions us for continued success in 2022 and beyond.”

Results SINCE 2016

% Represents 5-Year Compound Annual Growth Rate



*Net sales, adjusted operating income and adjusted operating margin are stated in constant currency. The reported amounts are consistent with those in constant currency other than the 5-year compounded annual growth rate for adjusted operating income for the Flavor Solutions segment, which reflects a 1% unfavorable impact from foreign currency.

Financial HIGHLIGHTS

| For the year ended November 30 (in millions except per share data) | 2021 | 2020 | % Change |
|--|-----------|-----------|----------|
| Net sales | \$6,317.9 | \$5,601.3 | 12.8% |
| Gross profit | 2,494.6 | 2,300.4 | 8.4% |
| Gross profit margin | 39.5% | 41.1% | |
| Operating income | 1,015.1 | 999.5 | 1.6% |
| Operating income margin | 16.1% | 17.8% | |
| Net income | 755.3 | 747.4 | 1.1% |
| Earnings per share—diluted | 2.80 | 2.78 | 0.7% |
| Cash flow from operations | 828.3 | 1,041.3 | -20.5% |
| Dividends paid | 363.3 | 330.1 | 10.1% |
| Dividends paid per share | 1.36 | 1.24 | 9.7% |

We are providing below certain non-GAAP financial results excluding items affecting comparability. The details of these adjustments are provided in the Non-GAAP Financial Measures within Management's Discussion and Analysis in the Company's Form 10-K.

| | 2021 | 2020 | % Change |
|-------------------------------------|-----------|-----------|----------|
| Adjusted gross profit | \$2,505.6 | \$2,300.4 | 8.9% |
| Adjusted gross profit margin | 39.7% | 41.1% | |
| Adjusted operating income | 1,101.5 | 1,018.8 | 8.1% |
| Adjusted operating income margin | 17.4% | 18.2% | |
| Adjusted net income | 823.9 | 762.7 | 8.0% |
| Adjusted earnings per share—diluted | 3.05 | 2.83 | 7.8% |