Kraft: Expect More Price Increases

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PORTLAND, Ore. (AP) -- Kraft Foods Inc., like many of its peers, is feeling some pricing pressure.

The company reported Thursday that price increases it made to cope with higher ingredient costs are not going to be enough to sustain its profitability and it plans further hikes this year.

As one of the world's largest food companies, Kraft is feeling the pinch from higher costs for wheat, corn, sugar and other commodities.

The company already raised prices on most of its products in Europe and more than half in North America. But it said its input costs rose nearly $500 million during the fourth quarter and its profit margins suffered accordingly.

Company leaders expect costs will remain high for the year, but they said profit margins should recover in the second half of the year as price hikes begin to offset those costs.

Kraft is one of many food makers talking about price hikes to cope with increased costs. In the past two weeks, Kellogg Co., Sara Lee Corp. and J.M. Smucker Co. also announced them.

Despite these challenges, however, Kraft delivered fourth-quarter earnings Thursday that met analysts' expectations.

The company reported after the market closed that it earned $540 million, or 31 cents per share, down 24 percent from the prior year. The decline was largely due to costs of integrating Cadbury, which it acquired a year ago.

Excluding those costs and other matters in both periods, Kraft earned 46 cents per share, versus 47 cents per share a year earlier, and that's what analysts expected.

Revenue rose 30 percent to $13.77 billion. Analysts expected $13.48 billion, according to data from FactSet.

Kraft saw strong revenue growth around the globe, due largely to integrating Cadbury.

The company also reported strong sales of its own core products such as Oreo cookies, Ritz cracker and Maxwell House coffee. It saw softer sales of candy and gum as consumers felt they had a bit less pocket change to splurgeÃ, -- particularly teenagers, Kraft's core customers for those products.

Kraft said it sees a tough road ahead with weak consumer confidence and higher costs for ingredients, and it softened its full-year outlook.

The company said it expects operating earnings per share to grow by 11 percent to 13 percent in fiscal 2011. In November it projected a rise in the "mid-teens."

"We are cautiously optimistic," CEO Irene Rosenfeld said. "Cautious about what we can't control (and) optimistic about what we can."

Kraft said it has increased its productivity and is lowering its debt. It said savings from integrating Cadbury are ahead of plans. The company also is investing in marketing to bolster gum and candy sales and support its core brands.

The company declined to discuss its pending legal battle with Starbucks Corp. over a distribution agreement that the coffee maker plans to end on March 1.

Shares of Kraft fell 60 cents, nearly 2 percent, to $30.50 in after-hours trading.

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