The us firm kraft foods took over cadbury marketing essay

According to the Harvard Business Essential the word strategy originated as a military term, and adopted by businesspeople when refereeing to plans for controlling and utilizing limited resources – human, land and capital. In his classic article, Kenneth Andrews (1971) described strategy as the " goal of promoting and securing vital interest," whilst M. Porter (1980) re-defined strategy as " a broad formula for how a business is going to compete." One of the founders of the renowned Boston Consulting Group, Bruce Henderson linked strategy to " competitive advantage." However, being different is not an instant guarantee for business success.

According to O'Regan & Ghobadian (2009) Cadbury is one of the world's largest confectionary businesses with top ranking in over 20 of the world's 50 biggest confectionary markets. (See figure 1). It has one of the largest and wide spread markets in emerging countries around the world.

Kraft Foods, Inc. is the largest confectionery, food, and beverage corporation whose headquarters is in the United States and the second largest in the world after Nestle. It markets many brands in more than 155 countries. (See figure 2). It is listed as a public company, on the NY Stock Exchange. (Wikipedia, Accessed 02/04/10)

The former chief executive of Cadbury, Todd Stitzer launched the " Vision in Action" program in 2007. At it launch, he said the vision was aimed at driving the company's margin s up by " mid-teen" by 2011. It hoped to achieve this by focusing on 3 key priorities: Growth, Efficiency and Capacity. (Company Annual Report 2009) And as of the present time, the strong performance continues, edging Cadbury closer to its goal.

2. 1. 2 Kraft Key Strategy Performance (see Appendix Fig. 4)

In an article written by booz&co for the Strategy + Business, (Issue No 56, autumn 2009), 11 of Kraft's' top executives were interviewed about their strategy for the 3 year turnaround and campaign for growth. The interview started with the company CEO – Irene Rosenfeld who as at 2005 was in charge of the Frito-Lay division of PepsiCo. Thus when she became the chef executive in 2006, she observed that Kraft concentrated its power to its HQ in the US and this was hindering innovation and growth. Thus her first objective was to decentralise Kraft, and re-focus the company's vision to the challenging macro-economic environment.

The company went about these changes by introducing what it called " Organising for Growth (OFG)" which began in 2007. It included review of organisational structure with a 3-year turnaround time, dismantling of existing centralisation of power matrix, clear operational initiatives such as building up sales capabilities etc, and implementing new operating metrics coupled with financial rewards for executive managers. (See figure 5)

3. Market Driven Analysis of Acquisition

3. 1 Why Kraft could not resist Cadbury (see Appendix fig. 5, 8, 10, 11&12)

According to Andrew Clark of the Guadian, the attraction of Kraft to Cadbury comes down to " brands, sheer scale, geography and distribution channles." Though Kraft has some big brand products such as Maxwell House Coffee and Philadelpha cream cheese, many of these and other products were reported struggled to gain market sector domamnce in spite of the fact that they have been around for many years. (The Guadian, 06/04/10)

Predictably, acquiring Cadbury meant addition of brands products such as Cadbury's chocolate, confectionary and chewing gum products will increase the comapany's annual revenue from 4% to 5% whilst earnings growth which were lagging between 7% to 9% will now increase to between 9% to 11%. This predictation is based on Cadbury's shrewed distribution strategy. For example, it has strong presence within the " instant consumption" channels such as corner shops and petrol stations where prices can be marked up, whilst relying on people making impluse buying. In comparison, Kraft products are mainly seen in traditional outlets such as supermarket and food stores where profit margins are lower. (The Guadian, 06/04/10)

However, the acquistion comes at cost, for example, a cost cut of $675m have been highlighted, this will include effiecency savings of $300m. This amount is as a result of stream lining procurement, R&D, and logostics. Futher $250m will come from duplicated adminstrative work which will now be centralised, and a $125m project synergy saving in " making biiger bulk deals when buying media adverts". (The Guadian, 06/04/10)

3. 2 What next after the takeover? (See Fig. 6, 9&13)

The share magnitude of the two companies coming together is enough to give anyone sleepless nights, as there are many strategic risk factors to consider. A winning Kraft/Cadbury strategy that is well implemented might work for a long while, however according to (ref…) no " strategy is effective forever.

3. 2. 1 The Stakeholders (see fig. 7)

Figure xxx shows an illustrative mind map of the different group of people that are interested in the financial strength of the two companies. It is worth nothing that whilst the government is interested in Corporation Tax and no breach of legislation especially e. g. National Minimum Wage Act (1998) ref, shareholders are particular about shares especially ROI. Whilst the workforce are interested in job loses, pensions etc. Other points of interests are competition from other competitors. Likewise, the general public wants to be reassured that the acquisition will not led to exploitation of Child labour in other to fight off price war competitions. Hence the strategy to manage these groups of people will be paramount in the coming years – 2010 and beyond – for the acquisition to be judge successful.

4. Balance Scorecard Introduction

The notion of the Balance Scorecard (BSC) was brought into existence in 1992 in a business review article written by David Norton and Steve Kaplan (Kaplan and Norton 1992). The article was born out of the notion that the ability of a company to measure its intangible assets had a direct bearing on company performance and its ability to achieve company strategic objectives.

The BSC brings additional value to the traditional measurement of historical financial perspective by including the measurement of internal business processes, innovation and learning and customer perspectives-all key indicators of future successful implementation of company strategy.

The BCS is thus seen as a 3-way tool: Measurement System, Strategic Management System, and Communication Tool. See Fig 3

Fig 3

Source: Wiley and Sons (2003)

The need to include lag and lead indicators in determining strategic performance is important. Lead indicators are those that affect future performance of Cadbury e. g. increasing market share. Lag indicators are those that indicate what has happened in the past, e. g. financial performance. Whilst lag indicators are important, Cadbury needs to focus on the future indicators of strategic success i. e. customer perspective, business perspective and learning and growth perspective. Cadbury's governing objective at the start of 2009 was to deliver superior shareholder returns by realising their strategic vision " to be the worlds BIGGEST and BEST confectionary company". (Cadbury Report 2008). Stakeholder theory identifies 5 main groups who have a vested interest in the commercial undertakings of the company.(Kaplan 2010) Cadbury's strategic focus placed emphasis, primarily, on one stakeholder group; the shareholders.

Fig 4: The strategy map links intangible assets and critical processes to the value proposition and customer and financial outcomes.

Fig 4 shows the causal connection between these different metrics and the ultimate strategic aim of delivering shareholder value. The " upward" flow identifies the cause and effect relationship in the BSC that lead to superior performance. An e. g. is that innovative practices identified by learning and growth lead to more efficient internal business processes which in turn lead to a superior customer experience and eventually long term shareholder value.

4. 1 Financial

Cadbury continues to increase its profit margin towards its goal in the mid teens.

4. 2 Customer Measurement

Cadbury creates customer loyalty by identifying the exact amount of pleasure that customers derive from the “ Cadbury” experience. This ensures that customers returned repeatedly and remain loyal. This has been an essential part of the strategic focus ensuring strong performance in 2008. (Cadbury Corporate Brochure 2008)

Emerging markets have been identified as part of the overall strategy to reach “ more people, more quickly. As stated in the Cadbury India report in 2008, the overarching goal is this sector is to have more “ grams in more mouths. The potential for growth in this segment of the market is significant as the per capita consumption is very low compared to other non-emergent markets. 0. 03kg compared to 4. 3kg in Europe. (Cadbury’s India Report 2008). The link between Cadbury’s relationship with Fairtrade is crucial to ensuring that company achieves its strategic objective of sustainability by increasing its supply of raw materials and ensuring the livelihood of the farmers who produce these raw materials.(Cadbury 2008 corporate brochure)

4. 3 Innovation and Learning

The challenges include managing different pay structures, different ethos, work patterns and hiring methods. The management of all of these aspects will have a significant impact on Kraft's ability to successfully integrate Cadbury into its global family and reap the financial rewards that will make the union a profitable one. Successful integration studies have shown that monetary rewards do work, but on their own are not enough to promote a successful collaboration between two different companies engaged in a merger or acquisition. (Montmarquette et all 2004). Kraft's pledge is to " take the best of both approach" to the acquisition. (Kraft Final Offer 2010) Kraft culture is different to Cadbury's culture and this will have major implications for the successful synergy of the two companies. Tetenbaum (1999) identifies culture as being at the centre of any successful merger or acquisition. Hofstede (2001) identifies culture as the collective programming of the mind that distinguishes the members of one group or category of people from another"

4. 4 Internal business processes

Innovation and research and development are key aspects of strategic success. Continuous investment in the development of new product ranges, especially in emerging markets, will be necessary to achieve strategic objectives. Cadbury's extensive distribution networks ensure products are easily accessible to all consumers, from the large supermarket chains to the small corner kiosk in a remote part of India. The BSC is only as effective as the action taken as a result of the metrics indicated and measured.

Leadership is important to ensure that the metric information is followed up and changes made to maximise the impact of these measurements on performance.(Neely 2008). Cadbury's developing association with the Fairtrade brand ensures that it is meeting its corporate social responsibility objectives, as well as ensuring a constant supply of raw material for its products, a form of backward integration.

Fig 5

4. 6 Criticisms of the BSC:

The recent global crisis has also highlighted the weakness in current measurement systems as they failed to identify the potential for risk for many companies. Analysis needs to identify, not only the historic performance, but also the potential future risks. Risk assessment and management needs to become an essential part of the any measurement system used in the future. Cadbury/Kraft must now identify, mitigate and manage risk in such a way that it becomes an integral part of their strategic management ethos.

Management Control Systems will need to be agile enough to respond to rapid changes in the environment in which they operate in order to achieve their strategic objectives. Simon's levers of control present an alternative system of measurement that includes complimentary metrics e. g., belief systems, interactive control systems and boundary systems etc. (Simons 1995). Fig 5 The BSC has been criticised as being too simple as a measurement/control tool. Businesses are more complex than just a few controls or levers. The functioning of the BSC has been compared to a pilot in charge of a flight from A to B. The BSC provides the mechanism for control and guidance in achieving the goal. (Kaplan and Norton 1996). The BSC is seen mainly as a diagnostic tool rather than a tool that aids strategic success.

Where is the point of balance in the competing demands of the different measures?. For e. g. Cadbury's overarching goal is delivering superior shareholder returns, but this must be balanced against the needs of staff. A trade off must occur at some level. Companies must understand the cause and effect relationship between the metrics in order to make the most appropriate decisions. Timing difficulties in respect of cause and effect relationships mean that the results of measures introduced may take a significant period of time to have an impact on the financial outcomes.

It is essential to link the four aspects of the BCS to strategy to ensure its maximum effect on performance. Nair (2007) BSC can be seen as too rigid in its measurement matrices, i. e. just 4 elements and does not include risk, corporate social responsibility or environmental metrics. Need to conduct sensitivity analysis to measure responsiveness of performance to certain scenarios. More research is needed on the cause and effect outcomes for companies that use the BSC.

Fig 6

4. 7 Potential problems for Cadbury:

Staff integration poses a significant challenge to Cadbury's governing objectives. This is part of the internal process element of the BSC. This has the potential to derail the recent merger. (Shebioba 2010) Fig 6 shows how Cadbury can translate its mission into desired outcomes. Ensuring that all staff are aware of the new strategic direction that the combined company is now embarking on, and everyone understanding the impact their role has on achieving strategic objectives.(Regan and Ghobadian 2009) Fig 7 shows why companies fail to meet their objectives.

Simon’s levers of control will assist the new Kraft Cadbury combination

Fig 7

Source: Kaplan and Norton 1992

In order to successfully achieve its overarching goal of superior shareholder returns, Cadburys must successfully balance the barriers to achievement as identified above.

5. Conclusion

Cadbury’s has now become a part of the Kraft family and there is a strategic focus on Kraft reaping the benefits of Cadbury’s strengths and position in emerging markets.

The combined company will need to focus its attention on achieving new corporate goals and devising a strategy that maximises the synergy of the union between them. The use of the BSC or levers of control will aid management in measuring and achieving strategic objectives.

It must be noted that in isolation any system that measures the performance of the company will be meaningless unless it is combined with other systems. There is still room for some work to examine the relationship between cause and effect and the impact this will have on Cadbury's strategic performance. This is a crucial part of the integration of Cadbury into the Kraft family. Only time will tell if Kraft will get the sugar rush it envisages from the purchase of Cadbury for £11. 6bn.

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