

Nestle-rowntree essay



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Main idea: To what extent Rowntree had to be more prescient in taking measures to prevent a hostile takeover? Although negotiations concerning an alliance with Nestle were already going on for over a year and although in less than one month time Jacobs Suchard owned 5% of Rowntree shares, both Suchard's and Nestle's raids came as a complete surprise to Rowntree. The clear indications of takeover risk, explained below, provide evidence to the fact that Rowntree should have been more alert to the potential takeover danger. The chocolate industry: general tendency towards takeovers/acquisitions The risk of takeovers is inherently present in the chocolate industry because it is very difficult and costly to launch a new brand and build up international recognition. Due to the inherent nature of the product, inventing a totally new product is not possible, as the ingredients remain essentially the same.

In addition, launching a new brand is a rather risky undertaking because consumers in the chocolate industry display considerable brand loyalty. They have tendency to stick to popular established brands. So, it is extremely hard to increase the market share of a new brand. The more because launching a new brand is associated with extremely high marketing costs with long payback periods; it could lead the initiating company to a financial disaster.

These high entrance barriers and the fall of the cocoa price between 1977 and 1988, that made the business as a whole more profitable, make sure that there is a persistent threat of big industries to diversify into the chocolate business. The takeover risk was not only present; several major chocolate producers had also really proceeded to acquisitions between 1983

and 1988. As it is rather difficult to build out a competitive advantage based on manufacturing process or on product features, extra profits could be gained through increased economies of scale. Those were more easily achieved in the production of block chocolate and countlines.

So this means that there was a potential risk that a company specialized in block chocolate would be taken over by a firm with major strengths in countlines or the other way around. Whereas chocolate industry had experienced a 2, 8% growth between 1982 and 1987, it was especially the countlines segment that was doing extremely well with average annual growth being 7%. In contrary, the block and boxed chocolates were facing a slight fall in demand. In Europe, the United Kingdom being the biggest chocolate consumer was a well-established market. Any firm seeking for growth may well find opportunities in entering the British market and concentrating on countlines production.

Only 13% of the British market is owned by less known brands, which indicates that British are rather faithful to the traditional brands. So, the only way for a company to increase the market share into the British market was by acquiring a British-based confectioner with good reputation and well-established brands. Rowntree's potential attractiveness as takeover target
In 1987 Rowntree was primarily a confectionery company with major strengths in boxed chocolates and the fast growing countlines segment. In 1988 Rowntree's management announced its intentions to concentrate on its core business, which is confectionary, retailing and UK grocery activities. Thus a company who took over Rowntree with the aim of expanding its chocolate

business would not have to bother about the sidelines in which it is not interested.

Another reason for which Rowntree was a really good target of takeover was that its major market was the United Kingdom in which it owned 26% market share. The UK and Ireland accounted for 40% of the group's total turnover. The Rowntree group had expanded rather quickly and by 1987 it was operating in nine different countries among which France, which together with the UK accounted for about 70% of European boxed chocolate consumption. Rowntree's market share in France being 26% was the biggest among the six major chocolate manufacturers. Given the fact that it is extremely hard and costly to launch a new brand and to increase its market share, possessing a portfolio of well-established brands is definitely a competitive advantage.

Here again the attraction to Rowntree is very high as the essence of its strategy was branding. As indicated above, consumers have tendency to go back to the “ old familiar” brands. The most popular ones are over fifty years old, which is definitely the case for Rowntree's extremely popular Kit Kat that was introduced in 1935. Rowntree's brands have identity on their own, which means that their success does not depend upon the name of the parent company. So, this means that these well-known products would nicely fit into the product portfolio of any company that took over Rowntree without affecting the sales in a negative way. More so because between 1982 and 1987 Rowntree had invested nearly £400 million to upgrade manufacturing facilities and develop high volume, product-dedicated equipment for several

of its leading global brands and because Rowntree's share price didn't reflect the value of those brands, it became extremely prone to takeover.