Corporate strategy analysis of kraft in relation to cadbury acquisition

Business, Strategy

Introduction

I have been asked to investigate and evaluate Kraft's overall corporate strategy in relation to it's acquisition of Cadbury in 2010. Moreover, this report will also highlight some of the critical success factors that Kraft might apply to Cadbury and it will demonstrate and outline the corporate parenting role Kraft could take up inrespectto Cadburys.

Kraft Foods is a well known Americanfoodconglomerate with its presence in over a hundred countries. The $19. 5 billion (Clearly et al, 2010) takeover of Cadbury has enabled them to become the biggest confectionery and beverage giant in the world. This acquisition has enabled Kraft to expand their portfolio in terms of product offering. They now have over forty well known brands each bringing in over $100 million worth of sales each year. (Nasdaq, 2011).

The Cadbury brand is well recognised around the world and they are one of the largest chocolate producers in the world, furthermore they have a well established base in the UK and abroad. Therefore by acquiring such a prestigious company with iconic brands, Kraft will be able to enhance its long term revenues and growth by strengthening their presence in developing markets such as India and Mexico. Cadbury is more of a brand led company whereas Kraft a more of a product orientated company. Cadbury as a result gives them a brand building capability which Kraft needs in order to expand overseas. From this perspective we can see quite clearly why Kraft acquired well known Cadbury. The main intention of Kraft's takeover was so that they could get hold of Cadbury's assets, resources and their core competencies which sets them apart from other rivals.

Corporate Strategy

Corporate strategy is best defined by (Lynch, 2003, p. 5) as ' an organisations basic direction for the future: its purpose, its ambitions, its resources and how it interacts with the world in which it operates'. Likewise, (Porter, 1996 cited in Thompson, 2001, p. 15 describes it as an ' overall plan for a diversified business'.

Kraft has three corporate strategies which are:

To delight global snack consumers
To unleash the power of iconic heritage brands
To create a performance – driven and value led organisation (Kraft, 2011)

By implementing such strategies Kraft are able to manage their activities appropriately and by doing so they are able to identify the skills and competencies which are required to foster organisational growth hence drive profits. Kraft's growth strategy is to build ' a global snacks powerhouse and unrivalled portfolio of brands people love'.

It is essential that managers are able to effectively formulate and implement corporate level strategies' in order to achieve corporate objectives of the firm by means of developing and sustaining competitive advantage. Management must have a clear vision in place as to where it wants to be in the long-term so it is able to identify its strategic purpose as to why the company exists. Kraft's strategy enables managers' to look at ways in which it can add value to the different parts of the firm. Moreover, how it can meet shareholder expectations. Kraft should effectively link its internal capabilities together with its external relations if they want their strategy to be successful in this ever changingenvironment.

Furthermore, strategy also seems to shape organisational behaviour therefore it is vital that everyone in the organisation is focused and that they have a shared a vision because they will be more likely to be working towards the same goal.

Corporate planning and strategic fit is crucial at Kraft as it enable them to conduct environmental scanning so that management can address and identify the key areas which are likely to affect the overall business strategy due to uncertainty within the market. Its purpose is to provide a bigger picture of the environment in which the business is operating in. Strategic analysis helps an organisation to identify what is happening outside of the business so that they can focus on external elements or threats that the business is likely face. This is usually done through PESTEL analysis or even a SWOT analysis so that managers can identify their strengths in comparison to their competitors so that they can improve on their weaknesses.

Furthermore, it also helps them to spot opportunities within the market place so that they can expand and take advantage of change.

Critical Success Factors (CSF)

Also known as key success factors (KSF) best defined by (Lynch, 2003, p. 102) as, “ the resources, skills and attributes of an organisation that are essential to deliver success in the market place. The phrase was first introduced by Daniels in 1961 and has now become a widely studied phenomenon within the field of strategic management. Critical success factors are those business activities which must be managed and performed in order to foster organisational success. Understanding and identifying such factors are crucial as it enables managers to make the right strategic decisions.

Kraft are now focussing on their top ten power brands such as Cadbury diary milk, trident gum etc to maximise revenue as they have dramatically shifted their focus towards growth in areas which contain higher margins. There are a number of critical success factors that Kraft could apply to Cadbury. Firstly, Kraft is a much stronger company than what it was 2 years ago. It has a hugh market share with an annual revenue exceeding $49. 2 billion. Therefore Kraft could use Cadbury to strengthen their global base and use their core competencies to maximise profits. The market share of Kraft enables them to sustain their competitive advantage over others as they become a dominant enterprise within the confectionery market. Likewise, Kraft can use their brand strength along with Cadbury’s product range to enlarge and broaden their brand portfolio. Moreover, this will enable Kraft to distribute Cadbury’s brands in markets such as China, Brazil and Russia were Cadbury has little or no presence. This opportunity will also open up doors for Kraft so that it can grow and penetrate into India and European Union where it lacks behind. This will help it to boost sales and hopefully increase their market share.

This ties in with effective supply chain networks that both companies have in place. From this perspective we can see that one of the main purpose or benefit in acquiring Cadbury was to control Cadbury’s distribution network and their infrastructure so that Kraft could use this advantage to get into developing markets where they will be able to widen their footprint by increasing their presence in international markets by offering diverse products. This opportunity has also widened their global supplier base which means that they can concentrate on economies of scale by getting their costs down as much as they can, so that they can make more profit per unit. This will enable them to leverage their costs and resources so that they can focus on operational efficiency through systems such as just in time.

Corporate Parenting Role

There are a number of ways in which Kraft has and could take up the corporate parenting role in respect to Cadbury. Firstly Kraft has made a hugh leap in restructuring their organisational structure, which means that decision making is no longer highly decentralized. This has enabled Kraft to be in more control over its business activities. In order to succeed in the global environment an organisation such as Kraft needs to make sure that they have the right people in the right place at the right time so that they can operate efficiently and effectively.

The role of a corporate parent (headquarters) is to reinforce and implement parenting skills so that it can manage and add value to its business units. The main emphasis is so that the company can perform better compared to if it was working individually. The corporate parent can therefore make certain decisions about the portfolio of the business so it can manage global operations more efficiently. This two way process is vital because if a certain business unit or a corporate parent is not adding value to the business a decision is likely to be made by management to sell or break off a certain business section.

Kraft has chosen a synergy manager approach because it enables them to manage synergies across both business platforms so that Kraft is able to manage costs and organisational resources effectively by aligning key targets which must be achieved by certain business units. As this will enable them to create synergy because two companies working together will create more value and therefore Kraft will have the opportunity to market and distribute both brands for the price of one.

Kraft has estimated that around $672 million worth of expenses would be saved by working together with Cadbury. Good brand management is also an important aspect in any organisation, therefore if Kraft wants to prosper it must emphasise on knowledge management so that it can grasp and share its knowledge skills and core competencies with Cadbury. Kraft can coach and aid Cadbury in making the right decisions about product expansion in areas in which Kraft have extensive knowledge and experience. Furthermore they can help Cadbury to develop their capabilities by enabling them to improve their skills at the same time as helping them to improve on their weaknesses. Furthermore, they must effectively communicate across borders and be willing to combine research and development activities, sharing of plant and machinery, new innovative ideas market research e. g. consumer insight, talent, experience or skills. On the other hand, Kraft should avoid adding management costs and bureaucratic complexity because it is likely to hinder business performance.

Conclusion

An effective business strategy will always enable an organisation to thrive and prosper. By focussing on such strategic factors Kraft is able to accomplish theirgoalsand objectives. Kraft is fully aware of the critical success factors which apply to them and those which apply to the industry. They use their capabilities and resources so that they can invest in those areas of the business which are critical for its long term success and by doing so they gain competitive advantage over others. They have paid particular attention towards their customers, as they claim to help people to live and eat better. By providing those products which customers actually want for instance on the go snacks. Therefore, one can say that it is essential that Kraft should manage their resources and capabilities if they want to succeed in the global arena. I believethat product innovation is a vital survival tool which Kraft has implemented within its business process as they are always introducing new products into the market.