Kraft food inc's hostile takeover of cadbury

Introduction A multinational company of Kraft Foods is an American firm doing the business for food and beverage. It produces belong to a global markets and has many brands that over 170 countries (Kraft Foods, 2011). And its brands are divided into five main sectors: snacks, beverages, cheese, grocery, and convenient meals. The major competitors of Kraft are Nestle S. A. ; Unilever; ConAgra Foods, Inc. ; Groupe Danone; H. J. Heinz Company; Sara Lee Corporation; etc. One of the world’s fourth biggest suppliers of chocolate and sugar confectionery is Cadbury, which merged with Schweppes in 1969.

One of its products, which is Dairy Milk and it is very successful molded chocolate in UK. The main products of Cadbury are bars, drinks, ice-cream and desserts, cakes and biscuits. The major competitors are Nestle, Mars, and Philip Morris. The first offer for Kraft to takeover Cadbury on September 2009, and the offer price was 10. 2 billion pounds (BCC News, 2009). On November 2009, Kraft offered 9. 8 billion pounds to takeover Cadbury, but Cadbury’s director rejected it (BBC News, 2009).

On 19 January 2010, Kraft offered the final offer to Cadbury and the valued the entire issued share capital of Cadbury at 11. 9 billion pounds. 2 February 2010, Cadbury accepted the offer (Kraft Food Annual Report, 2009). 1. The following are the relevant environmental factors: There are three areas of the layer of external environment that included Macro environment, industry, competitor and market. Cadbury is belonged to confectionery industry, and the major competitors are Nestle, Mars. The confectionery market included chocolate, non-chocolate and gum products.

According to Datamonitor’s Product Launch Analytics online database of new product Stock Keeping Units in 2009, it showed that there were 2, 843 new confectionery products. The new confectionery products were 1, 760 chocolate, 969 non-chocolate, and 114 gum products (Foodprocessing. com, 2010). Introduction of framework I used PESTLE and Porter’s Five Force to analyze the framework. PESTLE refers to Political, Economic, Social, Technology, Environmental and Legal (Johnson, G. , Scholes, K. and Whittington, R. , 2008). Economic: In September of 2008, there was a Financial Tsunami that led to global economic ecline. And this Financial Tsunami influenced until to the whole year of 2009. Moreover, in the research of United States Confectionery Market 2008-2009 did by National confectioner Association (National confectioner Association, 2009). It stated that over the past year the prices of sugar and corn sweetener continently to increase and the price near the historical high in 2009. Sugar or corn sweetener is the most important raw material in confectionery industry. Business Opportunities in different regions: There were some opportunities in the industry of chocolate confectionery industry.

Since based on the Mintel report in December 2009, it stated that the chocolate sale of worldwide continue to grow (Foodprocessing. com, 2010). For example, the chocolate sale in China and the Ukraine were continually to increase, that separately rose 18% and 12%. And Mintel forecasted the continued growth will until to 2013. Social Customer’s living style: According to NCA 2010 Candy Show, it showed that in the past few years, the customer became more health for their living style (Foodprocessing. com, 2010). The customers sought for more health style.

Since in this report found that the companies of Mar and Nestle also produced the more health candy. For example, more sugar-free options and more fruits, nuts, etc. Customer’s taste: According to the United States Confectionery Market research 2008-2009 showed that the chocolate sales rose 28% in 2008, and dark chocolate sales rose 12% (National confectioner Association, 2009). So the customer’s taste was the normal chocolate rather than dark chocolate. Porter’s Five Forces included bargaining power of suppliers, rivalry among established competitors, and bargaining power of buyers, threat of entry and threat of substitute (Johnson, G. Scholes, K. and Whittington, R. , 2008). Bargaining power of suppliers: There are lots of farm in Brazil and South of American, so that the bargaining power of suppliers is low in this industry and the buyers can compare and choose the lower price and quality supplier (International Cocoa Organization, 2012). So, this is positive to the business. Rivalry among established competitors: There are lots of companies around the world for the confectionery industry that lead to this industry violent for the competition. So, this is negative to the business.

Bargaining power of buyers: According to the research, it showed that the demand of chocolate confectionery industry had the potential for increasing, as the chocolate sales rose 28% in 2008, and dark chocolate sales rose 12% (National confectioner Association, 2009). Thus, this is positive to the business. Threat of entry: When a company entry to a new industry, a company require lots of capital. Since the company needs to buy the plants, machines, etc. So, it lead a company to have a large economic of scale. Moreover, it is difficult to access to supply and distribution channels.

Threat of substitute: In Walmart can find lots of related chocolate products from different companies, that means there are lots of substitute for the customers (Walmart, 2012) Potential partners: There are lots of benefits or advantages for the contractual partnership. The four processes to build contractual partnership are appraising suitable strategic to build partnership, choosing the right partner, negotiating the terms, implementing and managing the partnership. The criteria for selecting the partner are experience, compatibility, understanding, etc.

Experience: In the past, Cadbury merged with Schweppes in 1969 and until to 2008 to demerge (Cadbury, 2012). It means Cadbury had the experience for international partnership history. On the other hands, Kraft has lots of international partnership experience (Kraft foods, 2012). For example, joint venture with General Foods that created Dong Suh Foods in Korea in 1970, joint venture with Ajinomoto and formed Ajinomoto General Foods in Japan in 1973, etc. The company’s goal of Kraft was increased their sale, developed leading consumer brands and expanded their business worldwide (Kraft Food Annual Report, 2009).

The company’s goal of Cadbury was maintain its market leadership position, and expand their scale. (Paul Burns, Palgrave Macmillan, 2008). Their goals were congruent, as they also wanted to expand their business. Relative risk of failure: For the previous history for Kraft and Cadbury that can find they already had the experience in managing Joint venture. For example, Kraft joint venture with General Foods and Ajinomoto in 1970 and 1973, Cadbury joint venture with Dr Pepper and 7UP in 1998 (Kraft foods, 2012) (BBC News, 1998). To conclude that Kraft and Cadbury have similarity strategic goals.

For example, their strategic goal also are stronger their brands and develop their global business (Kraft Food Annual Report, 2009) (Paul Burns, Palgrave Macmillan, 2008). Conclusion: It is concluded that the external environment of confectionery industry is a potential industry for the existing companies. Since the sale of confectionery industry rose in 2008 that showed that this industry had the potential. And the analysis of Porter’ Five Force showed that there are three areas negative for entry a new business in this industry, but Cadbury has the manufactories and experiences for product the products.

The expected benefits of Kraft are top confectionery industry in the world and acquire the gum’s market. The expected benefits of Cadbury are expanding their business and sale. Furthermore, Kraft and Cadbury have the experience for international partnership with other companies and their strategic goals are very similar. Thus, Cadbury is a suitable and potential partner for Kraft. 2. Introduction Merger is an activity that two organizations joined together by their agreement and their assets combined to their new business (Stonehouse, G. , Campbell, D. , Hamil, J. ; Purdie, T. , 2004).

Acquisition is an activity that can lead 2 unequal partners to join together (Stonehouse, G. , Campbell, D. , Hamil, J. ; Purdie, T. , 2004). There are two types of acquisition, which are agreed and hostile acquisition. An agreed acquisition is accepted the bid by directors and recommend acceptance to shareholders. And hostile acquisition is directly accepted by the company’s shareholders and not accepted agreement by the target company’s management. In this case is a hostile acquisition, Cadbury is belonged to Kraft. Kraft is belonged to high control strategy. The risks of Acquisition

The focal firm in high-control strategies requires abundant resource commitments. The firm needs a long term in a foreign market, the firm to become stable situation that lead the firm less flexibility to reconfigure their operation. For example, it is very difficult to change the management structure. Longer term involvement in the market is one of risk, as the political and the customer environments are uncertainty. For example, Kraft after the acquisition, then plan up to close down the factory of Cadbury that near the Bristol that lead to lose 400 jobs (BBC News, 2010).

After released this news, the UK Government interrupted this, and would like to change the policy that the takeover of companies can go ahead or not. Conclusion in the risk of merger and acquisition To conclude that the risks of merger and acquisition are the firm require abundant of resource, less flexibility to reconfigure its operation and long term involvement. Other feasible alternative: There are some other alternatives for the company to consider. The alternative is collaboration – Joint Venture (Styles, C. ; Hersch, L. , 2005).

Collaboration means two or more firm co-operate their business together and it against hostile. International Joint venture is a partnership approach to two or more firm. There are three types of joint venture, which are equity, and non-equity joint venture and project-based ventures. Joint venture is called partnerships and strategic alliances in sometimes. Moreover, collaboration helps to reduce the often abundant risk and high costs, when the firm doing international business. It can achieve the ability to project more than an individual firm.

When set up the Joint Venture in Brazil that can help a company to share resource, distribution and the market knowledge in Brazil. Advantages for joint venture are through economic of scale or increased knowledge can help to reduce costs, gain the new technology more easily, inhibit competitors, reduce time to market, improve quality, etc. It also can help for learning to access know-how, locking out to reduce competitive pressure, etc. 3. There are two types of culture, which are National and Corporate Culture.

The meaning of national culture is a nation of people sharing beliefs, values and practices (Browaeys, MJ ; Price, R. , 2008). Hofstede’s Dimensions of National: Power Distance is for different people to accept the power for unequal distribution, the score of UK is 35, and the score of US is 40 (Richard H. Franke1, Geert Hofstede2, Michael H. Bond3, 1991). For example, financial department and account department never communicated to each other and they worked individual that means the score of power distance is very high, when it is low that means each department will communicate with other.

The score of UK and US is very near and the difference is 5, and both of the score of the countries is low, so the communication to both of country’s firms very similar, they also belong willing to communication. Thus, when the firm of UK and US do business they will communicate to each other to achieve their comment goal. Individualism vs. Collectivism that refers to the people’s preference belong to a loosely vs. tightly social network, the score of UK is 89, and the score of US is 91 (Richard H. Franke1, Geert Hofstede2, Michael H. Bond3, 1991).

In this case, the score of UK and US is very similar and also very high. The score is high that mean the country is very individualism. Individualism is pursuing their own goals rather than dependent to others, self-centred, competitive (Hofstede, 1980). So, both of individualism country’s firm do business is very difficult. Since both of firms have their own goals, not co-operate with others, and competitive. Corporate Culture is an organization culture. And it refers to most of people within an organization share the values, beliefs and practices.

Corporate culture can base on the foundation organization culture, or the national cultures or both of two, when an organization develops into a Mutual National Culture (Meschi and Roger, 1994). In determinants of corporate culture only discuss the size of organization, history of organization, nature of employees and management style. Size of organization for Kraft and Cadbury is very similar. Since the number of employee size is similar. History of organization: Kraft started the business in 1767, did their business in different region early in 1900 (Kraft Food, 2012).

And Cadbury started business in 1824, the first merged with different company in early in 1900 (Cadbury, 2012). They also started time for their business is very similar and they also had the experience to do business for different region in early 1900, so their history of organization is very similar. Nature of employees: Kraft recruits Chief Executive Officer by globally decision, but Cadbury recruits Chief Executive Officer by succession (Kraft Food, 2012) (Cadbury, 2012). Management style is very different to Kraft and Cadbury.

Since Kraft recruits Chief Executive Officer by globally decision that different people to manage the company lead to have a new management style. But Cadbury recruits Chief Executive Officer by succession, so the management style as same as past. Conclusion: In national culture, the power distance is suitable for Kraft to co-operate the business with Cadbury, but both of the firms are belong to individualism caused they do the business individually. In corporate culture, both of firms are very similar in size, history of organization, but different in nature of employees and management style.

But in corporate culture, they can use the combination culture for their business. Culture implications on negotiation: National culture influenced corporate culture and corporate culture affected negotiation style. The corporate culture affects negotiation process in terms of high vs. low context and general vs. Detailed. General vs. detail is about the agreement form, and it refers to the Universalism and Particularism (Trompenaars, 1993). Universalism will take a broad approach, as it concern about the principles and concepts. Particularism will take more details and practical approach.

High vs. low context refers to the Affective and Natural Relationship (Trompenaars, 1993). Natural (low context) is clear and direct way via the communication and expect interacted with other parties for dealings. Affective (high context) is likely to gather and assume others understand and during the discussion will pause or long silences. UK and US also a capitalism, so they also like to black and white for their agreement and need to more detail. So, their agreement in negotiation is very similar. The role of UK Government: UK Government took the role in the partnership be a facilitative role.

Since UK Government take a free market economy, so it will be a facilitative role. For example, after Kraft takeover Cadbury, and plan to close down the factory of Cadbury that near the Bristol that leads to lose 400 jobs (BBC News, 2010). UK Government only wanted to chat with Kraft’s chairman, but also had not to take any action. 4. Four key benefit are increasing the earnings per share in 2011 nearly USD 0. 05 on a cash basis, returning the investment to a mid-teen, well in excess of Kraft Foods’ cost of capital, retention of Kraft Foods’ investment-grade credit rating, and maintaining of Kraft Foods’ dividend (Kraft, 2010).

Acquisition and shareholder value: From financial point of view the purpose is maximize the shareholder wealth. Shareholder wealth maximization model always accepted for a company’s objectives. The target is helped the shareholder for earning, as shareholder gave money for management. Thus, that is to maximize the return to shareholders, measured by sum of capital gain (share price increase) and dividends, or a given level of risks. The return rate is based on risk level, when there is more riskily for investment, that the people will expected return increase.

From finance perspective, manager’s decisions should aim at enhancing shareholder wealth. Shareholder value: From the shareholder’s point of view, building shareholder “ value” is to grow the firm to grow earning, which is management responsibility as increase share price. The higher the share price will increase higher value of company. Moreover, from the shareholders’ point of view, there are three areas required rate of return for an investment are taking the risk related to that investment, the different investment compared by an indicator, it is also an indicator to the level of risks involved in a particular investment.

The required return means that at a same risk level, the return rate is 7% and 8%, the investors will invest 8%. For the shareholder value theory, when there is acquisition, lead to increase the risk and uncertainty, so the shareholders required return also increase. The excess return on investment: When M; A is successful, it will increase the share and return on shareholder. At least the return on investment is equal to the cost of capital. If an acquisition fails the test of “ shareholder is better off”, so a firm needs to give up the acquisition.

Dividend: Part of return and expected return on investment by shareholders is dividend. After an acquisition the dividend for the expected rate of return of shareholder may be lower. Earnings per share: Building earnings helps to building shareholder value. Increasing the share price will increase the earnings and cause to increase the rate of return to shareholders. When issuance a new shares, the shareholding percentage of presented shareholder will be diluted. When a firm gives the same level of earnings, with more shares, than the earnings per share will be lowered.

Retention of credit rating: Credit rating can showed a firm have or not for the ability of refund to creditors. When a firm of credit rating increase that lead the shareholder feel the risk lower. The most important benefit is maximizing the return to shareholders. Firstly, Warren Buffet’s claimed on November 2009, before than Kraft takeover Cadbury. Moreover, Warren Buffet based on the past experiences of M; A that lead him to feel this acquisition is fail.

Shareholders of acquirers (bid company) experience wealth losses or break even from the past studies of M; A.

M; A in US, acquiring company’s wealth of shareholders were poor or negative return. The reasons for failed to create value: The objective Of M; A are reduce risk of acquire or competitor, rise the market power, etc. The points of high premium on offered price are to achieve the acquisition need to increase total offered price, there is uncertain for a firm use a premium price to buying a company that can get acceptable returns, etc. Part B 5. After studying this module, there are four aspects or challenges that I can learn.

The four aspects or challenges are global business environment, international partner relationship, business operations, including trade, joint venture and M; A, and process of business communications and negotiation. For the Global business environment I can learn more about in external environment and global business trends. For example, case study of DHL, I can learn the global trading. For international partner relationship, I can learn how to identify a partner and maintain partner relationship for doing business. i. e. maintaining partners relationship – quality management.

For example, in case study of Steiff, I can learn the partner in China. Quality management in Steiff’s case, Chinese partner to retain Steiff. i. e. learn management style and quality management. For international business operations, I can learn from organization structure and control system in managerial implication. In the case study of Mercedez Benz, the design of plant; its aim that meet or not to the German style, and it is an international model. For the communications and negotiation, I can learn the daily business process. In the case study of Steiff, When Steiff leave, his attitude toward Chinese partners.