The acquisition of snapple by quaker oats

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In an effort to raise the company's growth rate and avoid a takeover. Quaker Oats, acquired Snapple beverage corporation for $1, 7 billion, a price considered by many to be valued a billion too much. Snapple captured a significant loyal following by being an innovator in the ready-to-drink tea. The RTD tea segment of the beverage market was a quick developing area with promising returns , that's why it attracted giants like coca cola and Pepsico, who entered the market through joint ventures with popular tea brands.

Quaker Oats has known success in the past in the beverage market with the widely popular Gatorade drink and thought it could do the same with Snapple. So in order to repeat the Gatorade success story Quaker officially acquired Snapple on December 6 of 1994. The c. e. o of quaker , William Smithburg overcome with hubris resulting from his previous success overpaid for the company an estimate of a billion dollar premium despite warnings from Wall Street. By the time Quacker aquired Snapple the RTD tea industry was maturing and the competition was rising because of the new independent brands that entered the market.

Quacker believed that with its financial resources and experience, it could expand the Snapple brand and through the acquisition establish itself as a leading beverage producer competing with the likes of coca cola and pepsico. Quaker acquired the company by divesting profitable but slow growing petfoodand candy businesses. Quaker thought it could create a Snapple/Gatorade combination and planned to exploit the synergies resulting from such combination while improving the efficiency of operations.

They wanted to achieve economies of scale by unifying the manufacturing and distribution of Snapple and Gatorade. What quacker failed to realize is what realy made the success of Snapple. The company , didn't operate like most beverage producers. Instead of having a company owned plant that handled the manufacturing, Snapple awarded co-pack contracts to independent manufactures and handled the distribution using independent distributors who were allowed to carry different brands of beverages, but had direct access to the stores, restaurants and vending machines in their region.

Due to distribution, structure problems and unrealistic optimism about the future of Snapple, quacker had a hard time integrating its new division and had yet to beneficiate from the synergies and economies of scale projected. During the first year as a part of quacker oats , the Snapple division did not break even and lost an estimated $75 million in1995 sparking the resignation of the president and c. o. o who was in charge of the Snapple unit.

The loss in revenue was mainly driven by weaker-than-expected sales and an estimated $40 million dollars to buy back the contracts from the co-packers and other suppliers. During 1996, Snapple slipped to the second place in the ice tea market and despite positive projections by quacker. The unit failed to achieve any sales gain and sow it sales decline by 20%, resulting in operating losses exceeding the $120 million for that year. By 1997 snapple's market share slipped to the 3rd place behind lipton and nestea.

The company was behind even in production methods and processes. On March 28, 1997 Quacker decided to take a $1. 4 billion write-off and sold the company it purchased 29 months before for $300 million. All this led to a loss in performance for Quacker oatas a company resulting in a takeover by Pepsico in December 2000 in a $13. 7 billion all stock bid. The mismatch of big corporateculturewith the one of small entrepreneurial firms didn’t work and what quacker was trying to avoid by purchasing Snapple happened .