Kraft foods’

Business, Industries

Kraft Foods' recent merger with Cadbury is referred to by Marino (2010) as " one of the biggest hostile deals ever in thefoodand beverage sector and the deal brings with it a number of opportunities for further M&A (Mergers and Acquisitions)". This paper aims to analyze the merger and acquisition of Kraft and Cadbury by using the 10 step acquisition process as well as answer several during the analysis in relation to the merger.

The Acquisition Process

Kraft wants to acquire Cadbury since the latter has exhausted its status as a stand alone organization. Waldie (2009) reports that in a meeting with the Chairman of Cadbury PLC, Roger Carr, the Chief Executive Officer of Kraft Foods, Irene Rosenfeld bluntly made it clear that Cadbury could no longer make it as a standalone company and that a merger with her company would be the best alternative for Cadbury which is a confectionary based in Britain that has nearly existed for 200 years.

1. The Business Plan

McKeever (2008) describes a business plan as a written assertion that describes and analyzes a business and gives specified projections about its future. The plan also covers the financial characteristics of starting or expanding the business, the amount ofmoneyneeded and how it will be paid back.

Kraft's plan revolves around four strategies which are:

To build a high-performance organization by recognizing employees as the driving for their success and putting local business units at the heart of the company so that decisions are made close to the consumer.

Reframing of categories by ensuring that their products make the consumers happy through building a global power house that makes snacks, confectionery and quick meals more delicious than ever.

Exploitation of sales capabilities whereby Kraft takes full advantage of their size and broad reach. It possesses one of the largest and most powerful forces in the food industry therefore having an advantage over competitors. In developing markets, they are expanding their distribution in smaller customary outlets.

Reduction of costs without compromising the quality of the products with the purpose of investing more in delicious products that they are known for.

Cadbury has a plan that focuses on the strategy to exploit the strength of theirleadershippositions with the aim of continuing to grow their market share and therefore considerably increasing the margins and returns.

Kraft Foods Inc is a company that is diversified in its brands. It has featured brands which are Lu, Tiger and Easy Mac. Lu has a prominent presence in France but it is also popular in other European markets as well as the United States. It has 14 brands under it. Tiger is a popular in South East Asia particularly countries such as Indonesia, Malaysia, Philippines and Vietnam. Easy Mac was launched in 2006 and is a popular brand that has more than a 10 percent share in the macaroni and cheese category. It has various flavors which include Original, Triple Cheese, Alfredo, White Cheddar and Cheesy Pizza.

Kraft has a variety of largest brands, one of which is Kenco. Kenco is one of the UK's leading brands of coffee. It was established in 1923 by a cooperative of Kenyan Coffee growers who set up the Kenya Coffee Company to distribute high quality coffee beans to Britain. A new range of three single-origin coffees has been introduced from Brazil, Colombia and Costa Rica. These have all been licensed by the Rain Forest Alliance which is an independent, non-profit organization and a global leader in sustainable farming practices.

Cadbury is the company which is associated with sweets. Its first sweet was the milk chocolate developed in 1897. Two years later, the first chewing gum was launched. It was known as Dentyne. Its purpose was to promote oral hygiene. Several brands have been launched since then such as Dairy Milk (1905), Maynards Wine Gums (1909), Milk Tray (1915), Bassett's Jelly Babies (1918) and Cadbury Flake (1920). It was in the mid-1920s that Dairy Milk gained its brand leader status in the United Kingdom and has enjoyed it since then.

Additional Synergy made by the Kraft Cadbury Deal

Ziyal (2010) reports that Cadbury has contributed to instant consumption conduits such as gas stations and cornershops whereby Cadbury products have made their way into these locations in many countries whereas Kraft products are more concentrated in supermarkets and groceries which display lower margins. Together, these two organizations will experience an increase in overall distribution and margins.

It is also reported that these two organizations will benefit from each other whereby Kraft products will become known in countries like Mexico, South Africa and Turkey where Cadbury has big business. In turn, Kraft will help Cadbury in Brazil and China (Ziyal, 2010).

These two companies will therefore complement each other with their portfolios when their products are introduced in many markets thus resulting in enjoyment of the advantages of larger and well balanced products.

Porter's Five Forces Model for both Companies

Hill and Jones (2009) state that a manager has the task of analyzing competitive forces in the industry so as to identify the opportunities and threats. They research that the developer of the five forces model, Michael E. Porter created it to help the manager with the analysis. These five forces that shape competition within an industry are:

The possibility of rivalry between established organizations within the industry

Scribd (2009) gives information about the possibility of rivalry between Cadbury and its competitors Mars, Hershey and Nestle whereby price wars would occur if consumers were to shift from chocolate to healthy snacks.

Waldie (2009) reports on the rivalry between Kraft and other companies by participating in a bidding war to acquire Cadbury. The announcement made by Kraft led to a rise in stock prices in companies such as H. J. Heinz Co., Campbell Soup Co., Kellogg Co. and General Mills Inc.

ii. The possibility of entry by potential competitors

It is also asserted that " healthy" snacks are the potential competitors to the Cadbury products. This would mean that they would replace the role of the former's products in satisfying customers worldwide (Scribd, 2009).

iii. Closeness of substitutes to an industry's products

The healthy snacks are also the closest substitutes to Cadbury products since it is stated that the company should take note of the consumer buying trend whereby a perception has been made that consumers might change from chocolates to " healthy snacks (Scribd).

iv. The bargaining power of buyers

Ganesh (n. d.) illustrates that in countries like China, Russia and India, populations are growing thus consumer wealth and demand for confectionery products is increasing. Therefore the bargaining power of buyers will create a major force in competition intensity (p. 13).

Kraft Foods also declares that it is expanding its distribution to smaller customary outlets thus applying the bargaining power of buyers.

v. The bargaining power of suppliers

Ganesh (n. d) also asserts that competitive pressures from other national and global suppliers would lead to potential price wars in the developed markets. Here the bargaining power of suppliers applies.

Kraft Foods states that it drives down costs without compromising the quality of their products. This is where the bargaining power of suppliers applies.

Kraft Foods SWOT Analysis

WikiSWOT provides the following analysis for Kraft Foods' Strengths, Weaknesses, Opportunities and Threats:

Strengths

Scale & positioning in key food groups.

Fiscal strength and business scale.

Varied range of chief brands.

Strong Research and Development focus.

Weaknesses

Trouble launching fresh brands.

Most of the growth is reliant on acquisitions or expanding into new markets.

Opportunities

Functions in numerous rapid growing categories.

International markets.

New categories, products which are organic andhealthfocused.

Value in leading brands.

Threats

Competition from other brands.

Consolidation of the Industry.

Volatile Cost of Goods Sold over short run period.

Cadbury SWOT Analysis

Strengths

· Largest international confectionery supplier with a market share of 9. 9%

· Has an established brand name.

· Has complete focus on chocolate, chewing gum and candy and a unique understanding of consumers in these categories.

Weaknesses

· Dependent on confectionary and beverages whereas competitors such as Nestle have a diverse portfolio.

· The competition has had greater international experience.

Opportunities

· Potential markets in countries like China, Russia and India.

· High level of merger and acquisition of the confectionary market in recent years.

Threats

· International supply in low cost areas.

· Competitive pressures from other national and international brand suppliers.

2. Acquisition Plan

DePamphilis (2007) states that the acquisition plan presents details required to effectively implement the organization's business strategy. It describes the objectives that are to be achieved by the management when an acquisition is completed. Therefore Value Expectations (2008) states that the acquisition was branded as a move to build an international powerhouse in snacks, confectionery and quick meals.

3. Searching

DePamphilis (2007) suggests that during the search process, it is better to employ a small number of criteria such as the industry and the size of the transaction (p. 183). Kraft considered Cadbury because it is a company that is in the food industry and they both specialize in almost the same types of products.

4. Screen

DePamphilis (2007) here states that screening is a refinement of the search phase whereby it involves the application of more criteria in order to reduce the number of candidates that come up during the search stage (p. 212). Kraft Foods did the screening and discovered during a conference call with analysts that Cadbury was one of the few standalone companies in the industry (Waldie, 2009).

5. First Contact

The method in which a probable acquirer initiates contact with the targeted organization depends on the size of the target and the availability of mediators with highly placed contacts within the target organization. If there is interest expressed, then a Letter of Intent is drafted formally describing the reasons for the agreement, responsibilities of the two firms and expiration date (DePamphilis, 2007). The CEO of Kraft Foods approached Chairman of Cadbury PLC, a person of high authority and expressed interest in the company.

6. Negotiation

DePamphilis (2007) describes this as the most crucial stage in the acquisition process. He further states that the decision to buy or walk away is as a result of continuous repetition in the four activities in this phase. If the deal is ultimately finished then the price paid for the target company is determined in this stage. Dorfman (2010) reported that the two were discussing a deal value at 840 to 850 pence per share for Cadbury in comparison to Kraft's offer of 769 pence per share.

7. Integration Plan

The excitement associated with the successful completion of the acquisition fades quickly once the challenge of ensuring the two firms perform directly in line with what was predicted in the business and acquisition plans becomes apparent. Hughlett (2010) reports that the challenge of incorporating Cadbury into Kraft will be a tremendous one as has been the case in all mergers.

8. Closing

DePamphilis (2009) states this phase is where all necessary shareholder, regulatory and third party consents are obtained. In addition, the completion of the ultimate agreement of purchase and sale is done. Hughlett (2010) reports that Kraft Foods Inc. announced that it has won support from 71. 7 percent of the shareholders of Cadbury PLC, thus allowing the food giant to control the world's largest publicly-traded confectionary company.

In integration the actual execution of plans is done. Marino (2010) reports that Kraft foods had made some divestures. DePamphilis (2009) states that evaluation criteria can include market size, growth rate and profitability. Marino reports that the Kraft Foods CEO had said that a meaningful entry into India, Mexico and growing markets like Turkey and South Africa is expected. She also said that the merged company should considerably grow itself in Brazil, Russia and China as well.

In conclusion, Waldie (2009) reported that the Chairman of Cadbury had not been convinced by Rosenfeld's offer and days later the offer had been rejected. However, later the merger happened and therefore profits are expected since Kraft plans to create a powerhouse in snacks, confectionery and quick meals.

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