

Economic analysis on cadbury assignment



**ASSIGN
BUSTER**

We dedicate our assignment to our Managerial Economics teacher, Prof: Shafts LU Raman Sub who imparted the essential and crucial knowledge of Managerial Economics and assigned us this project to express the knowledge and skills which we have learned in the class. His guidelines and teaching method and technique have been very useful for us not only in preparing of this report but also for our future life. He helped us to find new ways of being innovative and creative; this report was not possible without his help and continuous direction.

Introduction: Catbird is one of the fastest growing companies among all multinationals and national companies engaged in milky and dairy products. Catbird was one of ten children of Richard Taper Catbird, a prominent Quaker who had moved to Birmingham, England from the West Country in 1794. In 1824, 22-year-old John Catbird opened his thurst shop at 93 Bull Street, next to his tamper's drapery and silk business in the then fashionable part of Birmingham. Apart from selling tea and coffee, John Catbird sold hops, mustard and a new sideline – cocoa and drinking chocolate, which he prepared using a mortar and pestle.

Cocoa and drinking chocolate had been introduced into England in the asses but remained a luxury enjoyed by the elite of English society. Customers at John Actuary's shop were amongst the most prosperous Birmingham families, the only ones who could afford the delicacy. Cocoa beans were imported from South and Central America and the West Indies.

Experimenting with his mortar and pestle, John Catbird produced a range of cocoa and chocolate drinks, the latter with added sugar. The products were

sold in blocks: customers scraped a little off into a cup or saucepan and added hot milk or water.

John Catbird had a considerable flair for advertising and promotion. “ John Catbird is desirous of introducing to particular notice ‘ Cocoa Nibs’, prepared by him, an article affording a most nutritious beverage for breakfast,” announced his first advertisement in the Birmingham Gazette in March 1824. He soon established himself as one of the leading cocoa and drinking chocolate traders in Birmingham. The popularity and growing sales of John Actuary’s cocoa and drinking chocolate of ‘ superior quality’ determined the future direction of the business. In 1831, John Catbird rented a small factory in Crooked Lane not far from his shop.

He became a manufacturer of drinking chocolate and cocoa, laying the foundation for the Catbird chocolate business. These early cocoa and drinking chocolates were balanced with potato starch and sago flour to counter the high cocoa butter content, while other ingredients were added to give healthy properties. By 1842, John Catbird was selling sixteen lines of drinking chocolate and cocoa in cake and powder forms. The Quaker Influence: The Catbird family were prominent members of the Society of Friends or Quakers, one of the many nonconformist religious groups formed in the 17th century.

Their strong beliefs carried into campaigns aimed at ending poverty and deprivation and many prominent Quaker-run businesses were part of reforms of social and industrial society in Victorian Britain. John Actuary’s lifelong involvement with the Temperance Society influenced the direction of

his business enterprise. By providing tea, coffee, cocoa and chocolate as an alternative to alcohol he felt he was helping to alleviate some of the alcohol-related causes of poverty and deprivation amongst working people. He also incorporated some of these principles in his industrial relations philosophy.

Catbird Brothers of Birmingham As the enterprise prospered, in 1847 John Catbird rented a larger factory in Bridge Street, off Broad Street, in the centre of Birmingham and went into partnership with his brother Benjamin – trading as Catbird Brothers of Birmingham. The retail side of the business in Bull Street was passed to a nephew, Richard Catbird Barrow in 1849. Barrow Stores, as it became, traded in Central Birmingham until the 1880s. A major turning point for the cocoa and chocolate industry came in the mid-1850s, when taxes on imported cocoa beans were reduced by Prime Minister William Gladstone.

The previously prohibitive chocolate products were now within the reach of the wider population. Catbird Brothers received their first Royal Warrant on February 4, 1854 as ‘manufacturers of cocoa and chocolate to Queen Victoria.’ The company continues to hold royal warrants to appointment. During the 1850s business began to decline. The partnership between the first Catbird brothers was dissolved in 1860, a difficult time in the company’s history. John Actuary’s sons Richard and George, who had joined the company in the 1850s, became the second Catbird brothers to run the business when their father retired due to failing health in 1861.

John Catbird devoted the rest of his life to civic and social work in Birmingham until his death in 1889. Although they had worked in their

father's business for some years, the prospects for Richard, 25, and George, 21, were daunting. Their first five years were a eroded of unremitting toil with few customers, long hours and very frugal living. Both seriously considered taking up other vocations – Richard as a surveyor in England and George as a tea planter in India.

George was focused on manufacturing, and Richard with sales, but in the early days both brothers went out and promoted their goods. Due to their dedication, sheer hard work and improvements in the quality of Catbird cocoa products, the business survived and prospered. Technological Advancements Historic packaging Dissatisfied with the quality of cocoa products, including their own, the Catbird rooters took a momentous step in 1866 that not only had a bearing on their business but revolutionized the whole of the British cocoa business.

Until that time English cocoa had been heavily adulterated with starch substances like potato flour or sago to mask the excess cocoa butter. The cocoa drink, as described by George Catbird himself, was a “ comforting gruel”. Following a visit to the Van Hooted factory in Holland to see their new cocoa press, the brothers introduced this new process to their Bridge Street factory. The press removed some of the cocoa butter from the means, producing a less rich and more palatable cocoa essence – the forerunner of the cocoa we know today.

There was no need to add flour and Actuary's new cocoa essence was advertised as ‘ Absolutely pure... Therefore Best’ At that time there was much concern in Parliament about the adulteration of food, including cocoa.

The new unadulterated Actuary's cocoa essence was heralded as a major breakthrough and resulted in the passing of the Adulteration of Food Acts in 1872 and 1875. Catbird received a remarkable amount of free publicity during this period and sales increased dramatically. The marketing of this cocoa essence helped turn a small business into a vast worldwide company.

The introduction of cocoa essence was not the only innovation that improved the Catbird Brothers' trade. The plentiful supply of cocoa butter remaining after the cocoa was pressed made it possible to produce a wide variety of new kinds of 'eating chocolate,' leading to the development of the smooth creamy chocolate produced today. The quality of the chocolates made by the company following the introduction of the cocoa press was such that in the asses, Catbird broke the monopoly which French producers had previously enjoyed in the British Market.

Actuary's Chocolate Box A chocolate for eating had been produced at the Catbird factory since 1849 but it was not, by today's standards, a very palatable product. With the availability of cocoa butter a new chocolate recipe produced chocolate similar to that which we enjoy today. Refined plain chocolate was made for molding into blocks or making bars and chocolate creams that with chocolate-covered fruit-flavored centers.

Actuary's "tangy chocolates"- or assortments as they are now called - were sold in decorated boxes, with small pictures that children could cut out to stick into scrapbooks.

Richard Catbird applied his considerable artistic talents to introduce more ambitious and attractive box designs from his own paintings, using his own

children as models or depicting flowers and scenes from his travels. They were the first British-made fancy chocolate boxes and were very popular. Some of his original boxes still exist. Elaborate chocolate boxes were much prized as special gifts by the late Victorians as they could later be used as trinket or button boxes. Chocolate box designs ranged from superb velvet covered caskets with beveled mirrors and silk lined Jewel boxes to pretty boxes with pictures on the lid.

The popularity of these splendid Catbird boxes continued until their disappearance during the Second World War. Victorian and Edwardian chocolate boxes are now collector's items. Catbird Brothers Ltd The business became a private limited company – Catbird Brothers Limited – in 1899 following Richard Actuary's sudden death at the age of 63. George Catbird became chairman of the new board and his fellow directors were Barrow and William A. Catbird, sons of Richard and two of his own sons, Edward and George Catbird Junior.

By 1899, the Brownsville factory had trebled in size with more than 2, 600 employees. With the formation of the limited company, Brownsville entered a new era as the younger members of the Board introduced new ideas – analytical laboratories, advertising and cost offices, a sales department, works committee, medical department, pension funds, education and training for employees. The Brownsville factory site became a series of factories within a factory, as everything needed for the business was produced on site, including tin box pressing plants, carton making units, a design studio and printing plant.

This policy continued until well after the Second World War when the rationalization of the business to mainstream activity – production and marketing of chocolate confectionery- led to the use of outside specialized suppliers for ancillary items. Manufacturing process Cocoa, common name for a powder derived from the fruit seeds of the cacao tree and for the beverage prepared by mixing the powder with milk. When cocoa is prepared, most of the cocoa butter is removed in the manufacturing process.

After the fat is separated and the residue is ground, small percentages of various substances may be added, such as starch to prevent caking, or potassium bicarbonate to neutralize the natural acids and astringents and make the cocoa easy to dissolve in liquids. Cocoa has a high food value, containing as much as 20 percent protein, 40 percent carbohydrate, and 40 percent fat. It is also mildly stimulating because of the presence of Theobromine, an alkaloid that is closely related to caffeine.

The processing of the cacao seeds, better known as cocoa beans, is complex. The fruit harvest is cured or fermented in a pulpy state for three to nine days, during which the heat kills the seeds and turns them brown. The enzymes activated by fermentation impart the substances that will give the beans their characteristic chocolate flavor later during roasting. The beans are then dried in the sun and cleaned in special machines before they are roasted to bring out the chocolate flavor. They are then shelled in a crushing machine and ground into chocolate.

During the grinding, the fat melts, producing a sticky liquid called chocolate liquor, which is used to make chocolate candy or is filtered to remove the fat

and then cooled and ground to produce cocoa powder. The beans are sold in international markets. African countries harvest about two-thirds of the total world output; Ghana, Côte d'Ivoire, Nigeria, and Cameroon are the leading African cocoa producers. Most of the remainder comes from South American countries, chiefly Brazil and Ecuador. The crop is traded on international commodity futures markets.

Attempts by producing countries to stabilize prices through international agreements have had little success. Cadbury makes a variety of chocolates for different purposes but the two main types are Cadbury Dairy Milk, milk chocolate and Cadbury Bournville plain chocolate. The taste and texture of Cadbury chocolate are based on long traditions of expertise in recipe and processing unique to Cadbury. Techniques are improving all the time and new technology enables the whole process to be finely tuned to match evolving tastes and preferences.

Production starts at the Cadbury cocoa factory, where the highest quality cocoa beans are processed to produce cocoa mass containing 55% cocoa butter plus extracted cocoa butter, the basis for all chocolate products. When plain chocolate is made the 'mass' goes straight to the Bournville factory in Birmingham while the 'mass' for milk chocolate production is taken to the Cadbury milk factory at Marlbrook, Hairdresser, in the heart of English dairy country. At the milk processing factory fresh liquid full cream milk is cooked with sugar and condensed to a thick liquid.

Cocoa mass is added, making a rich creamy chocolate liquid, which is then evaporated to make milk chocolate crumb. As these ingredients are cooked

together the very special rich creamy taste of Catbird chocolate is produced. 95, 000 tones of crumb a year are produced at Marl brook to be made into chocolate at the Catbird chocolate factories at Brownsville, Birmingham and Summerdale, Bristol. On arrival at the chocolate factory the crumb is pulverize by heavy rollers and mixed with additional cocoa butter and special chocolate flavorings.

The amount of cocoa butter added depends on the consistency of the chocolate required: thick chocolate is needed for molded bars, while a thinner consistency is used for assortments and covered bars. In the UK up to 5% vegetable fat is added to compensate for variations in cocoa butter, allowing the melting properties of the chocolate to be controlled to a precise standard, and preserving the full taste and texture of the chocolate. Catbird use carefully selected vegetable oils similar in tauter to cocoa butter: African She, Indian Sal and Malaysian Palm oils are all part of the recipe.

Both milk and plain chocolate, which has had sugar and cocoa butter added to the mass before pulverize, undergo the same final special production stages, producing the famous smoothness, gloss and snap of Catbird chocolate. Products of Catbird: Blocks of Chocolate Boxed Chocolates Old Gold Coco by Catbird Be treatise Chocolate Bars Bites Pre-teens Confectionery Pascal Confectionery Nut Free Products Kosher Products Dairy Milk[(#)]Dairy[(#)]milk chocolate block is Australia's favorite chocolate.

It has ' the equivalent of a glass and a half of pure full-cream dairy milk in every egg of Catbird Dairy Milk, Milk Chocolate'. Catbird Dairy Milk, milk

chocolate is the defining taste of chocolate in Australia and is perfect for treating yourself and sharing among family and friends. Catbird Dairy Milk block is available in a variety of formats for all occasions: egg, egg and a egg shareware. Ingredients: Ingredients: Full Cream Milk, Sugar, Cocoa Mass, Cocoa Butter, Milk Solids, Emulsifiers (Soya Lecithin, 476), Flavors. May contain traces of Nuts. Milk Chocolate contains Cocoa Solids 26%, Milk Solids 28% Nut Free Products Catbird manufactures a wide range of products, some of which contain nuts and nut oils. All our products are packaged and labeled as required by Australian State and Federal food laws. We have stringent world-class manufacturing standards and strive to ensure that all our products are fresh, in an excellent condition, and contain the intended ingredients. All Catbird Chocolate products are made in an environment where there is the possibility that non nut products may inadvertently contain nut traces. We will always include a statement on the product label to advise nonusers of this.

There is a very low probability that the Pascal range of sugar confectionery will be contaminated with nut material, as they are manufactured in a nut-free environment. Kosher Products: We do not have any Kosher-certified products, however some of our products are listed in the Machine Kosher Food Bulletin from time to time. Globe Market Share Confectionery of Catbird and Nestle: Flow Chart of New Product launch Catbird : Catbird Market Share of production: market share Dairy milk alone accounts for 30% of market Other power brands include Perk, 5 Star, Gems

Targeting youth and adults through new products A amazing 120 billion chocolate bars are sold in every year, 60 million of these are made by Catbird! Catbird uses 33, 000 liters of milk every day for chocolate production at its one plant! Catbird sells over 3. 5 million boxes of chocolate every year! Catbird Dairy Milk is the oldest chocolate brand! Cost Structure: The increase in the price of the product over the given three years wiz 2010, 2011 and 2012 reflects the increase in the inputs because of the inflation over the given years.

This inflationary tendency is reflected in the increased cost of material, recessing, financial cost, sales team expenses etc. Despite these increases the company enjoys such a demand for its product that the production and the demand has increased over the given years. 2011 per pack Per cotton Material 260 1300 processing 200 financial cost 320 sales team expo 103 515 others (Off, HER) 45 225 Total 512 2012 1600 65 325 415 132 3300 Pricing Strategy: Despite the unstable economic factors causing increase in the cost of material, labor and others the company is maintaining a steady gross margin of approve 20% around TTS years to production.

This is despite the tact that they having 5% snare to this market which gives them an almost monopolistic status, since all other players sin this industry have significantly less share of market compared to them thus we can say that in future they are likely to see a significant increased demand and their share of the total market increasing significantly.

These is a healthy attitude for a company to adopt keeping in view their costumers requirement who belong to a very important sector of the

economy there product stands to influence the output of the agricultural sector which will greatly enhance the overall national economy Our pricing strategies are as follows Weight GM pack, 50 GM Pack, 150 GM Pack, 350 GM Tin, 500 GM Tin, Prices RSI. II RSI. 30 RSI. 90 RSI. 175 RSI. 350 And it is concluded from the survey that customers by looking this price chart have accepted the prices and called it as an economical.

Pricing Technique for Catbird There are 4 different pricing techniques that are available to Catbird. 1 . First pricing technique is skimming pricing. With skimming pricing, these prices are set very high to take advantage of some peoples desire for a new product or design at any price. Skimming is most effective if demand is inelastic. For e. G. Catbird put their prices at the same as most of their competitors and at the price their customers are able to pay. Cost plus pricing Pricing methods which are based on the cost structure of Catbird that are favored by accountants because they are supposedly more accurate and reliable.

Catbird is trying to maximize it profits. This method works successfully because all costs need to be accurately accounted. In many firms this is a very difficult process which is why the simpler mark-up procedure is used. Cost plus pricing tends to ignore the demand for the product and the competition. Positioning pricing: Catbird uses this method to position prices that are set which reflect the consumers view of the chocolate bean. Demand based pricing: Catbird set their prices based on what they think the consumer is prepared to pay.

If they don't then they won't sell as good as they thought. If they do sell at the customer's price they will have a good reputation and an output to more customers. Cost cuts should significantly benefit Cadbury: Risk Actuary's ongoing restructuring efforts may prove to be disruptive to the firm's operations, and it is still highly unclear whether the company will achieve the significant margin improvement management anticipates. Further, Actuary's profitability may be hurt by elevated commodity costs, particularly cocoa, sugar, and fuel costs.

Finally, with nearly 40% of its sales resulting from developing and emerging markets, the firm is exposed to volatile political and economic climates that could pressure sales. Strategy Actuary's primary objective is to drive margin gains by improving the efficiency of its business. To achieve this, the firm is reducing stock-keeping units and scrapping 15% of its manufacturing and distribution centers by 2011. In addition, Cadbury is placing increased emphasis on its key brands, markets, and customers.

Finally, the firm is concentrating on enhancing operations in Russia and China, which have been a drag on profits. Management & Stewardship Todd Zestier is the CEO at Cadbury, while Roger Carr assumed the chairman role in July 2008. In our opinion, the separation of these roles between two individuals is a positive. We also believe that Sitter's experience of more than 20 years at the firm, most recently as chief strategy officer, is beneficial as Cadbury faces several challenges. Overall, we believe compensation is fair. Two thirds of compensation is variable and performance-based, which is a plus in our eyes.

In addition, we believe the metrics by which management is critiqued—underlying earnings per share and returns on invested capital—appropriately align management’s interests with shareholders’. We are further encouraged that Catbird has put share-ownership guidelines in place for its executive management group. However, we would prefer if directors were elected on an annual basis, rather than the current three-year staggered structure. It is also worth noting that Ken Hanna stepped down as SCOFF in April 2009. We liked Hanna, and he will surely be missed.

However, we believe the appointment of Andrew Bonfires (most recently SCOFF Bristol-Myers Squibb) was a sound decision. Although Bonfires is new to the confectionery industry, we contend that his financial experience should be a plus as Catbird seeks to trim the excess fat from its operating structure and enhance its profitability. Profile Catbird operates as the leading competitor in the global confectionery market, with product lines spanning the chocolate, candy, and gum segments. The firm distributes its well-known brands (such as Halls, Trident, Green & Blacks, and Detente) in more than 80 countries around the world.

After completing the sale of its Australian beverage segment in April 2009, Catbird is now exclusively focused on its confectionery operations. Growth More than \$10 billion of acquisitions have diversified Actuary’s business into faster- growing, more-profitable segments of the confectionery market. Going forward, we expect that the firm will seek to drive growth through small bolt-on acquisitions as well as further penetration of its existing brand portfolio. Profitability Management projects a midterms operating margin by

2011, which we now believe is an attainable goal. In our view, it is likely that Catbird is now more intently focused