Cross border strategic takeovers: the case of cadbury

ASSIGN BUSTER

Cross border strategic takeovers test the investment ability to earn above the average market return. But taking over Cadbury explores beyond monetary gain. The deal is a defiance of cultural pride, countrymen sentiment and confidence in corporate.

In free market economy transnational corporations ambition a strategic structure to skirt flat line company growth. Inevitably, organization structures have evolved into very complex ones, where explanations are in many scholastic studies: Egelhoff 1982, Dunning 1993, Stopford &Wells 1972, Franko 1976, Galbraith & Nathanson 1978, Robock & Simmonds 1973.

A traditional structure simply concerned a broad international presence. Typically, these consisted independent operations in the handle of an expatriate. In its proliferation, the facilitation of information flow prompted the creation of offshore headquarters which functioned isolate of the local core group (Barber, J. P. 2002, pp. 1-5). However, these international structures had about one third of the offshore venture in the form of shared ownership (Casseres 2006, p. 4).

What firms manifest these days is cognizant of the global outlook. Less differentiation is placed on the local operations vis-a-vis the international division. Strategic structures shift authority and responsibility to the central domain, without the former ‘ single line authority’ in force, rather a multiple lines responsibility (Barber, J. P. 2002, pp. 1-5). Sheer size is given importance in the new corporate international strategy (Egelhoff 1988, p. 1-14).

A Precise Pair

(Possible reasons why Kraft identified Cadbury as a suitable partner)

Kraft Foods, Inc. envisions “ global domination of the confectionery world” (Wiggins 2010, sc. 3), and Cadbury would be the pair of precision.

These firms have similar and complimenting features, when combined can operate more competently. They are alike because each is an industry icon that spells out of a history of corporate prestige. In the same way these firms compliment, having pursued a different market position in product lines such as novelty brands Oreo cookies over dairy milk chocolate. Cadbury and Kraft supplement one another in geographical footprint, thus distribution lines are less redundant, if not broadened (Beaudin, 2010). In the context and analysis of industry, a pair of firms can operate more competently when combined. In fact, dissimilar capabilities are often synchronized in the manufacture of opposite goods (Casseres 2006, p. 8-12). Acquisitions improve efficiency by seizure of synergies between firms (Crosoni, Gomes, McGinn, & Noth 2004, p. 481-512).

When put together, Cadbury-Kraft becomes an industry powerhouse. Both sum up an unrivalled portfolio of tremendous potential (The Independent 2010, sc. 2-4). The long term forecast revenues are estimated at a strait annual 5% upward trend in revenues and company growth at 9-11%. On its own, Kraft revenues rises at about 4% with company growth of 7- 9%. A prolonged growth in revenues determines annual cost savings of $625 million (Value Expectations 2010, sc. 1-3). It is argued that such transformation creates larger economies of scale higher and larger geographical markets (Lambrecht 2000, p. 1-4).

The takeover is meant to reshape market competition, imposing influence on emerging markets. The industry for chocolate and sweets is quite gaping and loosely split between international conglomerates: Mars, Wrigley, Kraft, Hershey, Ferrero and Nestlé (Beaudin 2010, sc. 1-4). By the acquisition of Cadbury, Kraft assumes to suppress rivalry by the bundle of capabilities (Casseres 2006, p. 8-12). In other words, the industry turns out to be less competitive and too concentrated (Crosoni, Gomes, McGinn, & Noth 2004, p. 481-512). And why global shares are expected to rise by 5% points from the estimated 20% holding for both firms (Value Expectations 2010, sc. 1-3). Takeovers can reduce production costs at minimal or result in bullish strategies such as predatory pricing against remaining industry players (Crosoni, Gomes, McGinn, & Noth 2004, p. 481-512).

Or-simply a means to breakaway from the discipline of market competition, while economic benefits are reaped and a barrier to entry fortified (Herings, Peeters & Schinkel 2005, p. 20).

Kraft benefits the niche knowledge and experience of Cadbury. And the new firm brings together invaluable insights by encountering methods of another industry player (ArticleSnatch. com, 2010, sc. 3).

Bitter Deal

(Why a “ hostile takeover” was considered the most appropriate means of acquisition)

There could be no appropriate manner to put an end to an Englishman’s 186-year old dairy milk maker. Simply because Cadbury is a source of pride and

pomposity “ nearly as important to British culture as the Beatles” (quoting Bloomberg Businessweek publication 9 Feb 2010); the deal shall forever be looked upon as a hostile takeover. Not that it is forgivable, a hostile takeover is assumed when organization management is unreceptive of the acquisition process, even when the company has a market valuation below net asset (Casseres 2006, p. 8-12).

Theory and practice determine that stock price maximization sits as the foremost objective of a corporation. In the Kraft-Cadbury situation, the business outline of both companies show a consistent cash flows but a severely incapacitate growth opportunities. Market value net investment capital remained flat for some period of time (Value Expectations 2010, sc. 1-3). It is reasoned that the Cadbury takeover allows for a strategic structure expected to churn annual revenues of $50 billion across 160 countries (Wiggins 2010, sc. 2-6). Cadbury by itself consistently held about 10% share in the global market or what Wiggins describes as a “ slim lead over competitors.” That is, with little put into marketing, innovation and capital expenditure, the company growth waned (Wiggins 2010, sc. 2-6).

The restructuring mechanism offered a handsome post merger ownership share. What the investor obtains of the new firm is a crucial payoff and decisive gain (Lambrecht 2000, p. 1-4). The closing price of 850 pence in 60% cash plus 40% stock ratio (Wiggins 2010, sc. 2-6).

Cadbury was a vulnerable target, the takeover timing immediate. The company suffered losses and financial targets berserk. The 75 age old plant at Somerdale was earmarked for closure with 500 jobs slashed. Onsite

operations were to be moved to the Bournville plant in Birmingham by 2010 and to the new Poland facility. Brands manufactured at Somerdale are the Cadbury Mini-Egg, Curly Wurly, Chocolate Creeam, Fudge and Turkish Delight (House of Commons 2010, p. 9). The Salmonella contamination of 2006, recalled over a million chocolate bars plus a breach of safety penalty of £1m and an accounting scandal in Nigeria took out on profits (Wiggins 2010, sc. 2-6).

Domino Effect

(What external events gave rise to the opportunity of acquiring Cadbury?)

The global economic turndown triggered innovations and larger transformations, which in turn gives rise to the hostile takeover of Cadbury. Any basic change in the economic environment can do so, such as alterations in policy or industry innovations (Lambrecht 2000, p. 1-4). It can be said that globalization itself heightens brand definition and competition that firms are continually on the look out for strategic moves. Growth patterns are also seen to shift the Asia region, as the result of population growth and consumer style.

Change in consumer habits: the American consumers were moving into health drinks, affecting upon Gort's ' economic disturbance theory'. This suggests that the high level mergers among soda companies: Coca Cola Company, PepsiCo and Danone, resulted instabilities in the umbrella company and the eventual separation of Dr. Pepper Snapple Group (Ganesh 2010, p. 17-25). Strategist Todd Stitzer sought out to demerge its US soft drinks and confectionery businesses, which was carried out a few years

ahead (Wiggins 2010, sc. 2-6). Given these events put forth uncertainty, Cadbury shareholders had differing opinions as on the true value of share. The economic disturbance theory asserts that valuation differences cultivate ground for takeover transactions.

The narrowing profit margin expensed into raw materials is one compelling external factor making takeovers palatable. As the economic turndown cuts deeper into food companies profits, many brands downgrade ingredients. The Cadbury attempt to shift to palm oil stirred consumer outrage and disapproval of environmentalists, even losing out considerable money. Decisions of acquisition touch further the organizational effort and cost savings on information transfer, contracts, principal-agent relationships, incentives and transaction costs (Casseres 2006, p. 8-12). Cadbury profit margins plunged by 7 percentage points in 2008 from 22% in 2004 (Value Expectations 2010, sc. 1-3).

Bullheaded

(How differing negotiation styles could have had an impact on the initial discussions on Kraft and Cadbury)

Kraft paid a wildly higher price by sheer ill conduct while negotiating the deal. Had it not focused only on its own interests and empty of concern in the emotional significance of the deal, the acquisition could have cost less. Ill conduct was an expressed a lack of respect, what is an essential ingredient in cross border transactions. The initial offering of 10. 5 billion pounds -or $17. 1 billion was slammed as " derisory" (London Associated Press 2010, sc. 1), KFI proposed to buy 300 pence in cash plus 0. 2589 of the new Kraft

Foods share, which comes to the value of 745 pence (Value Expectations 2010, sc. 1-3). A turnaround recommendation by the Cadbury board was made on the offer of 850 pence in 60% cash plus 40% stock ratio (Wiggins 2010, sc. 2-6).

Too low an opening bid stirred resentment, if at all tore apart members of the board in humiliation. Seemingly very American is the abrasive and brute, which in return lagged the negotiation and KFI risked its credit rating and dividends by borrowing heavily to fill out a high closing price (Value Expectations 2010, sc. 1-3). A bid opening price forecasts the value of these combined entities which under the new strategic structure ought to be much higher. The price derives from cost reductions in labor or Capexes, market power, consumer access and specialization, supply chain accountability, debt tax shields, management empowerment, financial controllership, and many factors studies. The same way, it leaves a psychological imprint on board members of the target firm (Baker, Pan & Wurgler 2009, p. 7-20).

Corporate motif permeates negotiating style. Having that KFI is made up of everything and anything it swallows, with a high subsidiary turnover rates, speculations on a one sided talk lets up an overprotective Cadbury board (Beaudin 2010, sc. 1-4). It seems Kraft took advantage of the announcement to close the Somerdale facility, using this as a reference point for perceived value (Baker, Pan & Wurgler 2009, p. 7-20). A better manner would be to propose acquisition, after the potential synergies are identified and additional value determined (Crosoni, Gomes, McGinn & Noth 2004, p. 481-512).

Compelling Convictions

(How could such disparate cultures have an impact on the initial period of the new organisation)

In an interview with Namrata Singh during his Asia tour of duty, mention that the company was working “ quickly, but thoughtfully” on issues related to mending cultural differences. Clearly, the excitement set in and people at work look forward to the growth opportunities of the merger. KFI is noted to have built a depth of cross-cultural talent, leadership soars with the exceptional fusion of leaders with global mindset. People begin with identifying similarities. KFI and Cadbury share a familiar passion for brands and are ready to trust in local groups. Preparatory seminars are held to brainstorm how to begin growing faster together. Employee enthusiast seek ways to unleash the best of both companies (The Times of India 2010, sc. 1-3).

Insofar Cadbury culture is distinctive of a reputation for evenhandedness with employees and in its business practices. It practiced philanthropy during wartime, as it a forerunner of fair trade practice (House of Commons 2010, p. 23).

The Englishman Employment Policy is subject to TUPE (Transfer of Undertakings-Protection of Employment). Private sector companies are to carry over appointment contracts unchanged between the transferor and the transferee, to prevent the dismissal. Many services in the bureaucracy are expected to be outsourced to the private sector. These contracts will require TUPE 2006 to be fully taken into account. TUPE provides transferring hires

the choice to join a replacement pension scheme with equivalent conditions and matched contribution rates up to 6% of basic salary (Huard 2010, p. 2-7).

A takeover succeeds when key employees are encouraged and motivated to start new work arrangements. KFI could rue the day failing to come across a commitment to reemploy several knowledgeable, experienced workers at Cadbury Keynsham. The house of Commons notes that the commitment only extends to Kraft employees in manufacturing, and do not apply for post redundancy in divisions of finance, legal and communications (House of Commons 2010, p. 9).

State Intervention

(Critically appraise the involvement of national Governments in cross border transactions such as Kraft in the acquisition of Cadbury)

State intervention in the Cadbury takeover is less authoritative, if not feeble. Unlike Governments of China or Japan, were extensive sensitivity and involvement is put out to bail legendary business institutions. To some nations, a taskforce is established for the purpose of overseeing takeover procedures. While State actions could end up futile or restraint, the gesture looks out for future generations, the same as protectorate of heritage. The House of Commons convened to investigate the Cadbury takeover only after the deal came through.

Changes in public policy must step up with Cadbury gone (House of Commons 2010, p. 3). The overall idea is to re think a British market that is

less open or permissive. The takeover Code was authored in an environment where ownership models were quite different (Wiggins 2010, sc. 2-6), and neglect on the part of the State is a subject of public debate.

Economic policy in other advanced nations, France and USA, are designed to ward off corporate scavengers. Policy stipulates existing shareholders can acquire voluminous shares at a price below the market if a prospector influences a buyout without board approval. The provision, which is granted to privilege holders typically the founders and top executives, wards off corporate scavengers deliberately. In effect it has reduced costs on litigations and worry on hostile takeovers (Mebran 2005, sc. 1-5).

Due Diligence

(You are to review and critically analise the concept of due diligence and present a reasoned argument as to why it should help companies like Kraft avoid acting ‘ irresponsibly and unwisely’)

Due diligence is a requisite for a smooth and subtle takeover. It is expected that the bidder conducts exhaustive study on the subsidiaries that make up a firm such to arrive at an agreeable, suitable acquisition structure (Birkett 2003, p. 1-6). With reference to the opening price of 745 pence per ordinary share, this translates to about $50 per ADR. Equally, the new firm should achieve a top line growth of 10% annually and EBITDA margins of 27%. To justify the price offering, that bottom line pattern should continues from 2010 to 2014. Experts think this is too ambitious a proposition (Value Expectations 2010, sc. 1-3).

The impact of psychological pricing is very real (Baker, Pan & Wurgler 2009, p. 7-20). Although a quick refusal transpired after KFI rendered an opening bid, it set out bad blood (The Wall Street Journal 2010, sc 1). A bidder who comes prepared will gauge psyche of the target and set out to build a good working relationship. On the average, investors are disposition averse; the prospect theory suggests that more are hesitant to sell stocks with losses on paper than when stocks show gains. It is also Perceptiveness is expected at the senior level, and trickles down to the rest of the firm (Baker, Pan & Wurgler 2009, p. 7-20).

Kraft borrowed heavily to buy Cadbury (Beaudin 2010, sc. 1-4). The purchase is outsourced through the sale of the DiGiorno and Tombstone pizza brands to Nestle SA (Chicago Business 2010, sc. 2-5). This suggests that Kraft could have overvalued the operational performance to come through with the assumptions of the transaction (Value Expectations 2010, sc. 1-3). Or possible, that the takeover results from a inaccurate valuations on the stock market (Lambrecht 2000, p. 1-4). The $19 billion takeover places KFI in sizeable debt, the pay down of integrating two formidable, transnational businesses. The estimated cost synergies from the putting together Cadbury and KFI has been raised to $750 million (Cordeiro 2010, p. 1-4).

Principled negotiations focus on what is meaningful to a target (Birkett 2003, p. 1-6). Consider what is valuable to the target business, other than costs. A negotiator can lose something more valuable, such as company reputation, when engaging without evaluating this dimension. This can extend to understanding the social dynamics in which the target operates (Lambrecht 2000, p. 1-4).

It is unwise to say anything about the terms before this is formalized this could break the agreement. A week after the takeover, or on 9 Feb 2010, Kraft presents conclusively, its intention to shut down the Somerdale factory. The decision is a reversal of its foremost commitment to Cadbury at the outset (House of Commons 2010, p. 17).