

# Business avce unit 5: cadbury case study essay



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## **Introduction**

The person, who created the Cadbury business, is John Cadbury in 1824. The business started as a shop in a fashionable place in Birmingham. It sold things such as tea and coffee, mustard and a new sideline – cocoa and drinking chocolate, which John Cadbury prepared himself using a mortar and pestle. In 1847 the Cadbury business became a partnership. This is because John Cadbury took his brother, which also made it a family business. The business was now known as The Cadbury Brothers. A factory in Birmingham was rented, to produce their products. In 1854 the company received its first Royal Warrant as ‘manufacturers of cocoa and chocolate to Queen Victoria’. In 1856 John Cadbury’s son Richard joined the company, followed in 1861 Richard and George became the second Cadbury brothers to run the business when their father retired due to failing health.

The first Cadbury factory was built in the country; it was built in the green fields of Kings Norton, outside the city of Birmingham, between 1899.

This place was named “Bournville”, which was named by George Cadbury where he built the factory. This took place because George Cadbury had an image, with a saying,

“If the country is a good place to live in, why not work in it?”

So he took his workers to live and work in (the country) Bournville. Further on the years Cadbury invited new recipes, so new chocolate were been created, for instance in 1915 Cadbury’s Milk Tray, in 1920, Cadbury’s Flake, in 1938 Roses were created.

In 1969 Cadbury and Schweppes that is a beverage business merged together as a business. This business grew worldwide over centuries, it manufactured, marketed and distributed products in over 200 countries and new chocolates and drinks were been created. While confectionery and soft drinks remained the core of the business, the group also expanded into related food categories such as hot beverages and biscuits and also into health and hygiene

The main activities of Cadbury after it merged with Schweppes are to produces confectionery such as crunchie, twirl, roses, mini egg, whole nut, Cadbury's Milk Tray and beverages such as Dr Pepper and Seven up. Cadbury and Schweppes have 180 brands.

Now these days Cadbury and Schweppes the business is functional it is owned by many shareholders (some of whom are members of staff). The company employs around 38, 000 people worldwide but in Britain 12, 000 employees. The company owns 7, 500 vehicles that are used for the business (delivery) in Britain. In Britain there are 17 Cadbury and Schweppes sites.

### Ownership

Cadbury is a public limited company. It has the opportunity to become larger than the other forms of private business organisation. It is allowed to raise capital through the medium of the Stock Exchange, which quotes their share prices, and this creates a fullness of financial possibilities. The initials “ PLC” (or plc) appear after the name of the public limited company. Only two people are needed to form a public limited company and there is no stated

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maximum of shareholders. In Cadbury's case it is owned by many shareowners, some of whom are members of staff.

Cadburys business advantage is:

Shareholders have limited liability, so it means that the shareowners lose what they put in the business and they receive annual dividends.

It is easier to raise finance from banks, because Cadbury has many assets, which means banks are insured their money back or Cadbury's assets instead of the money.

Since it has many assets, it is possible to operate on large scale, which means more production and promotion for the product. This leads to Cadbury's objective to grow the business and also to operate in a wide range of markets. This leads Cadbury to have a high income, which is a success to Cadburys objective, which is to maximise profits.

Suppliers feel more confident about trading with legally established bodies

There are tax advantages associated with giving shares to employees

The disadvantages are:

Since Cadbury is a plc, its affairs are public; e. g., accounts and annual returns must be audited. This gives opportunities to competitors to get information about Cadbury. For example if Cadbury makes a loss, investors (competitors) will know about it and use it to their advantage.

It's a complicated business. Cadbury is a large business it has many different departments for different jobs, all these departments have to work together. Information passes between departments can be confusing.

Cadbury has many assets, which contain many capitals, which are very costly to use.

Since Cadbury is a large business, formatting and running, its costs can be expensive

Since Cadbury is a plc, Heavy penalties are imposed if “ rules” are broken.

Objectives

Public limited companies like Cadbury will have objectives such as:

vMaximise profit

vTo be the number one product in a given market

vTo maximise sales

vTo grow

vTo operate in a wide range of markets

vTo give satisfaction to customers

vHave a good reputation

vTo provide the freedom for workers to express them selves and suggest ideas to help the business

vAchieve best possible financial return on capital

vBoost or maintain share market values

These objectives will ensure Cadburys success as a business. From the statistics I have, it shows that Cadbury is a very successful business.

Statistics from 1994 to 1998.

The statistics from the financial overview show the finance has just been increasing positively.

They have satisfied shareholders because their share increased by 6%.

There has been a boost in the share market value, earning 37. 2 pence from 1994 and 39. 4 pence in 1998, which was a 6 % increase with in four years.

Cadbury has been having an increase in profit from 1994 to 1998. From 1994 to 1998 the profit has increased from 575 million to 609 million, an increase of 6 %.

These are recent statistics (1999-2000) for Cadbury and Schweppes, which still show that Cadbury and Schweppes is an ongoing successful business.

19992000% Charge

Million Million

Sales4, 3014, 575+6

Underlying \* operating profits 747841+13

Underlying \* profits before tax 686792+15

Underlying \* ESP 22.5p 25.8p+15

Free cash flow 292401+37

Dividends per share 10p 10.5+5

These figures show:

Cash flow of 401 million pounds

Dividends going up 0.05 an increase by 5% in one year

Relating back to the objectives Cadbury increased sales by 6%. Which gave them a profit increase of 15%

Cadbury is successful because it has promoted itself with the underground. I say this because over 10 million people use the underground and when they do they would find the Cadbury catering machine. This is an example.

Cadburys goes Down the Tube

Chocolate maker Cadbury have now began its contract with London Underground to dispense a range of products through state of the art vending machines at Tube stations in the capital.

A Cadbury spokesman said: “ We are absolutely delighted to have won what is the biggest vending contract in the UK.”

London Underground’s business development manager, Simon Williams, added: “ By entering into partnership with Cadbury we can be sure that the

excellent opportunities to develop the vending business will be fully exploited and that the Underground will benefit from increased revenue at no investment cost.”

### Functional areas

Every public limited company has organisational functions these are the main activities of the following areas at Cadbury, which allow it to exist and become a successful business. This diagram shows the system of the business.

### The factors of production

Land: buildings (site where the business is located)

Labour: Mangers, workers (any jobs roles that need to be filled)

Capital: equipment, machinery needed

Enterprise: the willingness to take risks to earn a profit

The factors of production at Cadbury are (as shown below in table):

Land	Labour	Capital	Enterprise
Cadbury world Cadbury factory (200 around the country)	Managing director Directorate Executive manger Senior manger Line manger Clerical support assistance	Machinery for production Till Calculators Computers Furniture Fixtures and fittings	Work hard Energy- physical Enthusiasm, motivation, commitment



## Finance

The finance department is in charge of and deals with money. The Finance department keeps records of all financial documents this involves reporting and recording expenses spent and profit made, asset value and cash flow (money that goes in and out of the business). Since Cadbury is a limited company the finance department must, each year, file with Register of Companies a set of audited accounts. These will include a director's report, auditor's report, profit and loss account, balance sheet, source and application of funds and an explanation of these accounts. It is also necessary to file an annual return giving details of the directors, shareholders and other information required by law. All this information will be kept on file at Companies House and is opened to inspection by members public. This is a diagram of how financial information can be fed to those who require it, such as information for record keeping and decision making purposes.

This department is in charge of giving budgets to other departments (by doing this it makes sure that the business reaches break even and no less in really bad circumstances). This is also, so that the other departments keep to their main objective and responsibilities and do not waste money. Managers see these targets and compare them with other past targets to find how successful the business is. The targets help the finance department to make plans for the future that will help the business to achieve its objectives. For an example the finance department gives research and development, a budget of 50, 000. The research and development department will use this money within one financial year and not over drawing (not taking more

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money). But under circumstances if research and development department required more money to develop a new chocolate, the finance department will analyse research and development's plans for producing a new chocolate and if they think it will be successful finance will give the money needed. Through this the departments would have achieved their objectives (e. g. making a profit, good reputation, achieve best possible financial return on capital). The way that Cadbury deals with exchanging of money is by SAP, which is an electronic payment system. For example if Tesco purchases a quantity of chocolate from Cadbury. Cadbury can bill Tesco straight away. This process is time efficient and is a straightforward process.

## Production

The production department produces the products; any activities associated with production are wealth creation. A simple example of wealth creation would be the production of a chocolate bar. The difference between all of the costs of the production and the price of the finished chocolate represents the wealth that has been created. The contribution of all those involved in its development have added value to this process and helped to create that wealth.

In production there has to be an input, which is transformed to an output. The transformation is taken through by processes, these add value to the output such as materials and Labour so that the finished product can meet customer needs. The output could either be a service or a product (in Cadbury's case). The business will need to have a system to ensure that the

production process and the product itself are of constant high quality production. For example Cadbury reduces the amount of food wasted:

The example of Curly Wurly

An example of this is, while Cadbury was producing Curly Wurly (the chocolate bar). A great amount of waste was created. When the chocolate Curly Wurly was cut to size there were little pieces of chocolate that were cut off and thrown away (waste). A member of staff (floor manager) that was cleaning the waste of the product (the little left over of Curly Wurly that were cut off), went to the production department and told them that these little pieces of chocolate that are wasted could be used as another brand of chocolate. This chocolate (waste of Curly Wurly) was then further known as Squiggles.

Primary, secondary and tertiary production,

1. help to add a bit more value to something the customers benefits from
2. improves the welfare of our society
3. Provides us with the standard of living to which we have become accustomed.

For example:

1. Primary production, is the earliest stage in the production and is concerned with extracting raw materials e. g. Cocoa

2. Secondary production is the second part of production process. It involves process that transforms raw materials from the primary stage into finished product.

3. Tertiary production is the productivity activity of the service sector of the economy.

The production department in Cadbury is concerned with the following issues:

Costs of production

The condition of the means of production (machinery, etc.)

Keeping production going

Health and safety

Keeping employees motivated

Keeping up to date with technology

Satisfying the requirements of customers

Maximising the use of plant

Minimising the waste of materials

When Cadbury produces a chocolate it produces it in a Flow Production, which is a continuous process of parts passing on from one stage to another until completion. Units of production are worked on in each operation and then passed straight on to the next work stage. In order to make the

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production line work smoothly, Cadbury insures each operation must be of equal length and there should no movements or leakages from the line. E. g. hold ups to work in process. Because there is a continual demand for chocolate this process (flow production) is successful.

This is diagram shows a flow of production:

Stage 1stage 2stage 3

Machine A'smachine B'sMachine C's/people

Before production takes place, a brief is done, to find out what to produce? Then it is backed up by primary and secondary research. Then Marketing department basically takes place, " what product should be produced, for what price, where to locate it, " place" and how to promote it", (Read Marketing). This will help Cadbury to achieve their objective to give satisfaction to customers through selling them a certain product for certain price, will also help them operate in a wide range of markets and Help Cadbury to be noticed through Promotion.

The system that Cadbury produces its products is

(Refer to page 26 and onwards for more specific production.)

Human resources

Human resource is concerned with the whole range of activities to do with looking after the people that work within an organisation and those with whom the organisation comes into contact. In Cadbury, staff members are one of a business's most expensive and valuable assets. Human resource

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department plans the manpower needs of the business, recruits not just the people who work but for their qualifications, talent and well motivated; it is also responsible for Health and safety, training of staff and making staff record. Cadbury would use human resources because it is a very big organisation. Human resources would help them meet their objective of developing staff skills. By giving staff subsidised training, staff for Cadbury will be able to improve their skill like gain a degree (mature student) Cadbury does this all and employees the right people for a smooth running of the organisation.

### Administration

Cadbury does not really have a main administration department. Each department has its own administration. Each department is responsible for its inputs of information, processing information and out put of information; does its own filing, photocopying, correspondence, mail and telephone calls.

### Marketing

The chartered institute of marketing defines marketing as:

“ The management process responsible for identifying anticipating and satisfying customer requirements profitably.”

The marketing department is responsible for,

O Carrying out MARKET RESEARCH

O Developing the right MARKET MIX

Businesses (Cadbury) carrying out market research to identify customers needs. This can be done by,

O Primary research: asking customers ( new research)

O Secondary research: using existing information

The marketing department is also responsible for developing the businesses,

Marketing Mix. This means that they must get the right:

✓ PRODUCTS-what features does the product have that make it suitable for the target market? Cadbury adds its logo to the package, and adds a certain quality to the chocolate that the other competitors don't (recipe) sometimes, this brings satisfaction to the customers.

✓ PRICE- should the products be priced higher or lower than those of competitors? In local areas, most corner shops sell Cadbury chocolate at the same price as competitor e. g. Cadbury whole nut costs 35 pence, while a Mars bar and Galaxy bar cost 35 pence as well.

✓ PLACE- where will customers want to buy the products? Cadbury sells its products to shops (business) that deal with beverages and confectionery e. g. corners shops, super stores (Iceland, Sainsbury, Kwick Save, Tesco, Asda, Safeway), petrol station etc. these business are usually visited by customers on a daily bases.

✓ PROMOTION- where should the products be advertised, to suit the needs of the business's target market? Cadbury advertises its products on television,

Internet, billposter, in beverages and confectionery business by hanging posters.

This would help Cadbury to achieve ones of its objectives, which is “ to be the Number one product in a given market”. By achieving this objective it would lead them to achieve the other objective, such as “ maximising profit etc. (refer to objective on page 4).

### Research and development

The research and development department is the department that researches new products and develops the old products. To remain successful, business must constantly work to create new and better products and processes.

Research-this involves carrying out investigation to come up with new idea, e. g. by carrying out brainstorming, examining competitors products or carrying out research in laboratory.

Development- this involves turning the findings of the research into useful products or processes.

If Cadbury had a mishap with a chocolate, the research and development department would try to correct the mishap. The research and development department must work closely with the marketing and production departments in particular this is because marketing and production are the beginning and end of producing a product.



As you can see from the table above this is the life cycle of the product while being produced.

OThe input would be from the Marketing department.

OThe process would be from the production department

OThe output would be the product or waste

Therefore because there is a mishap from the output, this has to be due to a fault in the input (The marketing department) or the process (the production department)

Management Style

Cadbury who initiate a quality improvement process must incorporate several basic principles into their management style:

OA firm commitment to and support for quality

OA concern for the satisfaction of staff and users of health services

OA focus on problem solving to improve quality

ORespect for staff and their abilities

OA willingness to collect and use data to determine the nature and size of problems and to improve processes

Cadbury has more than one management style. This is so it has the best management. This is in terms of efficiency, training, and knowledge and to

focus more on the loyalty of the workers in Cadbury. Cadbury has three management styles, which are:

**Autocratic:** is the decision-making, made by an individual or a group, without the help or advice of other members of staff.

**Democratic management:** This is when all members of staff work together as a team. They listen to each other's inputs of ideas and suggestions. Then as a team they reach a decision. This management style is good for Cadbury because it motivates workers; with having power and decision making and through this it allows them to be involved in the business. For example refer to the Curly Wurly (Refer to the production section, page 8).

**Consultative management:** This is when all the ideas are received and then analysed. If ideas are found to be achievable and successful by the senior group, then it is taken forward. Since Cadbury is a flat structure, managers working find that they can consult the level or layers of the organisation before making the decision. However power is still centralised by senior groups, who are at the top of the tall hierarchy (structure). (Refer to Curly Wurly example; Decision was given by a floor manager to senior group, the idea was analysed, they found it efficient and successful so the idea was taken forward).

**Paternalistic management:** It treats all its employees as a family. It makes them feel that they belong to a big family. It provides its employees; with their needs e. g. free health care, sport activities, and social club. In order for Cadbury to make its employees as part of the business (family) it advises them to have a share of the company.

Cadbury uses all these management style in order to achieve the best of its business (workers, Equipment). Autocratic is used in Cadbury by the managing director (refer to the organisational structure). It uses democratic to motivate the workers to perform good quality work. Through motivating the staff members (workers), this makes them feel valued and part of the organisation. Members of staff work willingly.

### Cadburys Management by objectives

Management by objectives is a process of management that emphasises the role of leadership and communications in the organisation and control of the business. It is a method of managing managers rather than the workforce at large. This is how Cadbury is managed.

There are three basic elements in Management that Cadbury uses by objectives:

OThe identification of agreed goals by a manager an a subordinate

OThe definition of the subordinate's responsibilities in terms of agreed results

OThe use of agreed goals and responsibilities to control the progress of the business

### Advantages of Cadburys Management by objectives

1. People work better when they have a clear understanding of what they are expected to achieve and how their activities will contribute to the overall objectives of the business.

2. The process of deciding on objectives and responsibilities improves communication between manager and subordinate. By improving feedback it helps with future decision making.
3. It improves training by making managers aware of their own needs and the training needs of subordinates.
4. It provides opportunities for growth and development.
5. By setting identifiable, short-term targets it increase an individual's sense of achievement and provides opportunities for recognition

#### Disadvantages of Cadburys Management by objectives

1. The assessment of objectives can appear judgmental and threatening if senior management lack the necessary interpersonal communication skills.
2. When unrealistic objectives are set the resulting failures can be demotivating
3. Management of all levels must be convinced of the value of the exercise otherwise it will become a meaningless routine

In Cadburys case, members of staff are the building blocks of organisations (Cadbury). They can be organised into working groups and given structures to operate within, but unless they have the motivation to work within those structures they will, either consciously or unconsciously, adapt to their own needs. It has been pointed out that business exists for, by and because of people (staff members). A person is more complex than the most sophisticated techniques and technology employed in the business world.

Therefore Cadbury has to insure that its members of staff are motivated to work to their maximum ability, have a clear understanding of what they are expected to achieve and how their activities will contribute to the overall objectives of the business (refer to advantages of Cadbury management by objectives). Cadburys management style helps it to achieve its basic principles into their management style (refer to management style)

## Culture

Cadbury is a mixture of Cultures such as:

Role culture is doing a job that is very important to the organisation, it is having power over a group (refer to the organisational structure which indicates that Cadbury has role culture because it has many management directors that have power over many groups). This job is an internal job of the organisation it is controlled by having procedures and rules that member of staff should not break or they will lose their position in the organisation. Relating this to Cadbury, marketing directors, who are in charge of market research for new product such as a chocolate, this information (research) has to be confidential.

Power culture is a business being dominated by an individual. The Management director dominates Cadbury, (refer to the organisational structure)

Task culture focus on getting the job done. Groups or teams within this cultural are not fixed but are made up of individuals brought together to achieve a specific task. Cadburys production department has a task culture.

It works as a team to package the chocolate. Packaging the chocolates is done as a team. A member of the production team packages the chocolate in foiled rapping, and then the chocolate is passed by machinery to another member of the production team who packages the foil chocolate in boxes. These boxes are then stacked in many counties on a machine. These stacks are the rapped with cellophane, so boxes don't fall off. Finally these stacks are taken by another member of the production team using machinery to the storage.

Person culture places the emphasis on the individual rather than the organisation and its objectives. For example if any member of staff has any suggestions for improvement, their suggestions are taken to account and if successful they will be used (refer to the Curly Wurly example on page 8).

Cadbury's Culture arises from the traditions, beliefs and values of the Quaker family. This is how Cadbury adopted the paternalistic management. It includes religious beliefs, attitudes towards alcohol, the food we eat and the importance we attach to family life. The Quakers cultural values are very strong and can impose important constraints on the business activity. For example, Cadbury finds, it would be unwise to try to sell products that are seen to insult religions or people, and it would be foolish to try to make people adopt working practices that are disapproved of by the cultural grouping (Quaker). The reason why Cadbury is successful is because it makes best use of its opportunities, which therefore allows decision making understood.