

Financial and Business Column

By 'The Trimmer.'

Kraft's Post Acquisition Strategy for Cadbury's.

Kraft's plan for when it has completed its take-over of Cadbury's is clearly to maximise the bottom line. Manufacturing sites will be rationalised, sales and distribution networks will be merged, middle management will be culled; there will be site closures and redundancies, the inevitable consequences of acquisition or merger. How deep it will be, will depend on Kraft's analysis and perception of the Cadbury business when it gets its hand on their books.

What is often not realised is how modifying raw material purchasing can have an important role to play in post-acquisition, bottom-line improvement.

By now, every Cadbury product will have been analysed by Kraft and informed assumptions made about each product's raw material and manufacturing process. As the main raw material across the range is cocoa beans, particular attention will have been paid to which types they are, where they are sourced and probable annual costs. Kraft buy most of their cocoa beans from the Ivory Coast while Cadbury buy theirs from Ghana. This column does not know what the relative costs are, but does know that for some years now the Ivory Coast producers have been accused of using child labour. The assumption therefore is that the Ivorian beans will cost less. Cadbury insist that Ghanaian beans are the best. Between the 'best' and the 'cheapest', the choice is clear when bottom-line improvement is the priority.

Any reader who might doubt that Kraft will fine-tune quality in the charge for lower costs has only to buy a box of Terry's 'All Gold' chocolates. Before the Terry's business was acquired by Kraft, the 'All Gold' brand was a flagship of high quality, individually-flavoured chocolates. Now the quality has been hugely reduced and the taste of the chocolates in the box today is uniformly chemical. Try the 'Honeycomb Jewel', described as 'honeycomb flavour pieces, buried little treasures, within an island of dark chocolate.' Or the 'Caramel Nectar' - described as 'smooth golden caramel melts beneath a devilishly dark exterior.' Both are revolting. The brand is not walking off the shelves - it's frequently on half-price offer in supermarkets.

Jason Volckaerts of Translexion Consulting observed to this column: "Hyperbole costs nothing, but too much quality hurts the bottom-line. Saving on raw-material costs is one of the best ways of improving the bottom line in the long run."

