CADBURY: A STICKY SITUATION

James Foster
Brad Brooks
Steven Cox
Queens University of Charlotte

Kraft Inc. had recently purchased Cadbury, one of the UK most iconic brands. One of Cadbury's most beloved products was the Egg Crème. Sold only at Easter, the eggs had been a British tradition for decades and was considered by many English consumers an important part of the Easter celebration. Due to pressures to sustain profit margins, Kraft was proposing to change the chocolate formula used in the eggs to a less expensive powered chocolate rather than the traditional Dairy Milk formula. Customer reaction to the proposal was swift and negative. Executives at Kraft need to consider the effect of changing to the less expensive chocolate on Cadbury's profits and brand equity versus profit margin erosion.

INTRODUCTION

Increasing demand for cocoa beans as well as potential supply restrictions due to the Ebola epidemic in West Africa was resulting in a dramatic increase in the cost of the base ingredient for chocolate and threatening to seriously affect the profit margin for one of Cadbury's leading products, Crème Eggs. Executives at Mondelez International, a wholly owned subsidiary of Kraft Inc., makers of Cadbury Crème Eggs, an iconic Easter confection in Britain, were facing an the decision of how to insure the continued profitability of Crème Eggs without causing a significant consumer backlash.

AN INTERNATIONAL TREAT

Crème Eggs were sold only between New Year's and Easter. The Crème Eggs consisted of an egg-shaped chocolate shell covering a creamy, runny white and yellow filling that provided an egg-like appearance. While in the UK, Cadbury used its popular Dairy Milk brand for the chocolate shell used for products sold in the UK, in the US the product was manufactured by Hersey's in Pennsylvania and the chocolate shell was made with a less expensive powered mix similar to the mix used in Hersey's other chocolate products for the US market. Over the years, using Dairy Milk chocolate, Cadbury's eggs became a traditional part of the English Easter celebration. Boxed in groups of 6, the half dozen sizing retained the image of egg products.

Cadbury produced approximately 500 million Crème Eggs each year (Stuff.co.nz, 2015). Approximately 40% of the eggs were sold in the UK during the Easter season – which averaged about three eggs for every UK citizen (Dee, 2013). For many consumers, the brand had become an iconic staple of the Easter celebration. Crème Eggs brand equity was estimated to be around £45 million (nearly $68 million).

BRTISH HERITAGE

Cadbury began in Birmingham, UK in 1824 when John Cadbury opened a grocery store in which he sold cocoa and chocolate drinks in addition to other products (Cadbury.com, 2015). He began producing his own chocolate seven years later. For close to two centuries, UK consumers had enjoyed Cadbury chocolate products and associated it with a certain level of pride for its British heritage.

Throughout its history, Cadbury manufactured a wide offering of chocolate products. The company's marketed its first chocolate Easter eggs in 1875. These original eggs consisted of dark chocolate shells surrounding sugar-coated chocolate filling (Cadbury.com, 2015).

Cadbury created the Dairy Milk chocolate brand in 1907. With a higher percentage of milk than any existing chocolate bar, Dairy Milk was Cadbury's answer to popular Swiss chocolate makers (Cadbury.com, 2015). Dairy Milk bars became the iconic chocolate confection in the UK, similar to the place Snickers or Hersey Bars hold in the US. In 1971 Cadbury began using the popular Dairy Milk chocolate for the outer covering of its Easter eggs and called them Crème Eggs. It was an instant hit.

HOSTILE AMERICAN TAKEOVER

With Cadbury's average annual profitability around £100 million (approximately $150 million) (Ford, Gainsbury, and Houlder, 2013), Cadbury became an attractive takeover target for American food giant, Kraft Foods in 2009. Sir Roger Carr, chairman of Cadbury, initially resisted the hostile takeover but ultimately accepted an offer of $19B on January 18, 2010.

In 2010, the regulatory environment regarding takeovers of UK companies by foreign entities was fairly benign. In fact, the UK was considered by most to be the “friendliest” country in Europe for such cross-border deals. Since there were no monopoly issues involved with the combination of Kraft and Cadbury there were relatively few legal hurdles to satisfy the UK Takeover Code. However, the absence of legal barriers did not necessarily mean that there was no controversy. Felicity Loudon, a fourth-generation member of Cadbury's founding family, was appalled that the company looked destined to fall to Kraft, predicting jobs will be lost and its chocolate will never taste the same (Jones and Dorfman, 2010). Cadbury executives warned the British community that it could lose its unique culture if acquired by a foreign corporation (Wearden, 2010). From the Christmas chocolate coins to the chocolate eggs, Cadbury held a special place in the hearts of the British public. The hostile takeover by an American company turned quickly into an emotional issue with employees, consumers and even members of Parliament expressing concern. Even after the takeover was completed the controversy continued.

Soon after the acquisition, British officials were incensed to learn that Kraft would be moving much of Cadbury’s operations out of the UK to secure more favorable tax advantages (Ford, 2013). When Kraft broke its promise and closed a plant in Somerdale, West England, the public demanded that the UK Takeover Code be strengthened. After much discussion, the 2011 Takeover Code “Cadbury” changes were adopted to protect UK target companies. New measures now place several restrictions on foreign company takeovers.

Then in 2012, Kraft Foods created the Mondelez International Company to market its snack food products such as the Cadbury confectionaries as well as other popular brands such as Oreo cookies and Ritz crackers outside of the US (Strom, 2012). Mondelez became the manufacturer for Cadbury Crème Eggs sold in the UK. Mondelez continued to use Cadbury’s traditional Dairy Milk chocolate for the outer shell while in the US Hersey’s, the manufacturer of Cadbury eggs in the US, before and after the takeover used less expensive powered chocolate product to make the chocolate egg shell for the US market. Eggs with the US formula were not exported to the UK.

Shifting manufacturing from the UK and changing the formula for the chocolate in the Cadbury eggs was not the only significant change to one of Cadbury’s iconic brands. Since 2010 Kraft and now Mondelez eliminated chocolate coins a traditional Christmas candy, rounded the corners on Dairy Milk Bars thus changing the shape and in so doing shrunk the size of the bar, and it eliminated the Bournville – not only one of its oldest brands, but one that paid homage to the great Birmingham home of Cadbury from the variety box.

THE RISING DEMAND FOR COCA BEANS AND EBOLA

Amid the controversy brought on by changing or eliminating traditional Cadbury products, Mondelez was facing a serious increase in raw material prices. Chocolate consumption was increasing faster than cocoa production – and the increase was not sustainable according to Tony Lass, chairman of the Cocoa Research Association (Green Antilles, 2010). The global cocoa bean deficit was predicted to reach 1 million tons by 2020 at current production levels. (Hecht, 2014) Soaring demand from Asian consumers, and increasing Western appetite for darker chocolate was resulting in major supply shortages. Cocoa output had already been struck by difficulties in 2014, as the deadly Ebola virus took a heavy human and economic toll on West African nations. The region was responsible for 70% of global cocoa production, and fears that the epidemic would worsen and spread led to significant increases in the price of cocoa.

THE DECISION

The executives at Mondelez needed to make a decision. How should they react to the growing possibility of much higher raw material prices? Several options seemed possible, maintain the current product in its current form/price and risk loss of profitably, increase the price of the eggs at a time when the UK economy had not fully recovered from the recession, change the formula for the eggs in line with the US formula and save cost, reduce the size of the eggs or number in a package to lower cost, or some combination of these options. What were they to do? Decisions had to be made soon, as production for the next Easter season was approaching.

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