

PURSUING CADBURY (B)

Ken Mark wrote this case under the supervision of Professor Stewart Thornhill solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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INTRODUCTION

On January 19, 2010, Kraft Foods announced that it would purchase Cadbury for GBP11.9 billion (US\$19.6 billion), valuing each share at GBP8.40 plus a GBP0.10 special dividend, following an all-night negotiation at the headquarters of Lazard, an investment bank. “This is a bitter-sweet moment,” Cadbury’s chairman Roger Carr said to the media after his firm was sold. “As a chairman of a public company, you are paid and required to focus on shareholder value and the process which we have undertaken has delivered shareholder value.”¹ Kraft’s final bid consisted of GBP5.00 in cash per Cadbury share and 0.1874 new Kraft shares. The bid valued Cadbury at 13 times EBITDA.²

The main question for Keith Palmerston, managing director of PKG Capital, was whether or not the combination would continue to deliver shareholder value for Kraft. On February 9, 2010, Palmerston was in the United Kingdom to attend a few business meetings. He took a break and switched on his computer, catching up on the news about Kraft and Cadbury.

Now that the Kraft-Cadbury transaction seemed destined to close — no new competitive bids were forthcoming — the challenge for Irene Rosenfeld, Kraft’s chairman and chief executive officer (CEO), was to oversee the integration of Cadbury into Kraft. Rosenfeld estimated annual cost savings from the merger to be US\$675 million, and that cash costs would be in the range of US\$1.3 billion.³

The deal would bring scale to Kraft’s operations. It would have a total of 40 brands, each with revenues over US\$100 million. Kraft and Cadbury had complementary footprints, as they were strong in different regions and segments: Cadbury was strong in emerging markets and Kraft was dominant in North America; Cadbury distributed to convenience stores and gas stations while Kraft targeted grocery stores.

¹ David Jones and Brad Dorfman, “Kraft snares Cadbury for \$19.6 billion,” *Reuters*, January 19, 2010, www.reuters.com/article/2010/01/19/us-cadbury-idUSTRE60H1N020100119, accessed April 10, 2012.

² Earnings before interest, taxes, depreciation and amortization.

³ “KFT-Kraft Foods To Host Investor Conference Call To Discuss Recommended Final Offer for Cadbury plc,” Thomson StreetEvents, January 19, 2010, p. 4, accessed March 1, 2012.

There were many people, especially on the Cadbury side, who were worried about poor cultural fit and job losses. The impending clash of cultures was underlined by a comment from Felicity Loudon, fourth-generation member of Cadbury's founding family: "I think there is a cultural imbalance. For a quintessentially, philanthropic iconic brand to sell out to a plastic cheese company — there's no mix there."⁴ Cadbury's unions, fearing job cuts in the hourly workforce, were known to be opposed to the acquisition.⁵

Kraft initially seemed willing to make concessions. According to Kraft's initial acquisition proposal submitted in September 2009, it envisioned keeping Cadbury's Somerdale factory open, thus saving 500 jobs. This decision would have overturned Cadbury's 2007 decision to close Somerdale by 2010.⁶

Politicians weighed in on the issue: U.K. Prime Minister Gordon Brown said that he wanted to protect investments and jobs at Cadbury, which employed a total of 6,000 people in the United Kingdom. Brown stated: "The one thing I want to say is this: we are determined that the levels of investment that take place in Cadbury in the United Kingdom are maintained. And we are determined, of course, that at a time when people are worried about their jobs, that jobs in Cadbury can be secure."⁷

On February 9, 2010, Rosenfeld retreated on the promise to keep Somerdale open. Stating that Kraft had held "extensive talks" with senior management at Cadbury, and pointing out that GBP100 million had already been invested in new production facilities in Poland (due to lower costs), Rosenfeld announced that Somerdale would be shut down by 2011. She stated: "It became clear that it is unrealistic to reverse the closure programme, despite our original intent to do so. While this is a difficult decision, we have moved quickly to end any further uncertainty."⁸

The reaction from Cadbury's workers and the Somerdale community was harsh, as could have been predicted. A worker at Somerdale said that Kraft's promise to keep the factory open had been "a big fat lie," and a community activist from the Save Cadbury's Campaign said the move was "absolutely despicable." Unite, Cadbury's trade union, stated that Kraft "deliberately misled many hundreds of decent men and women." U.K. business secretary, Lord Mandelson, added:

This will confirm the fears of those who felt the takeover would result in job losses. Kraft gave me no indication of this announcement when we met last week. It is for the company now to prove the worth of their other statements about investing in the United Kingdom.⁹

Palmerston winced at the negative news coverage of Kraft's decision to close Somerdale. He thought about Kraft's long road ahead. Management had stated in a conference call that synergies would take time to be realized. With Kraft's stock closing at US\$26.70 on February 9, 2010, he wondered what the upside could be for the next few years. Specifically, Palmerston wondered how Kraft should handle the integration of Cadbury, which was the most important acquisition in Kraft's history.

⁴ http://www.daylife.com/quote/05zx4kL7K20t5?__site=daylife, accessed March 1, 2012.

⁵ "Chocs away," *The Economist*, January 19, 2010, www.economist.com/node/15323916, accessed March 1, 2012

⁶ "Mergers, Acquisitions and Takeovers: the Takeover of Cadbury by Kraft," House of Commons, Business, Innovations and Skills Committee, London: The Stationery Office Limited, p. 7.

⁷ Dan Roberts, "Brown warns Kraft on jobs as Cadbury's board recommend £12bn deal," *The Guardian*, January 19, 2010, www.guardian.co.uk/business/2010/jan/19/cadbury-accepts-kraft-bid.

⁸ "Cadbury's Bristol plant to close by 2011," *BBC News*, February 9, 2010, <http://news.bbc.co.uk/2/hi/8507066.stm>.

⁹ *Ibid.*