Food fight

Kraft and Cadbury need to think about the loyalty of future consumers as well as existing ones.

It seems that food still trumps everything. The past few months have seen a parade of proposed corporate marriages in all sorts of gee-whiz industries, from entertainment (Disney and Marvel) to information technology (Xerox and ACS). But none of these has attracted as much attention as a possible tie-up between America's biggest food conglomerate, Kraft, and Britain's best-loved chocolate-maker, Cadbury.

There are lots of reasons for this interest. The mating dance has been unusually long and the deal is unusually large. Kraft first proposed a purchase at a price of £10.2 billion ($16.7 billion) in early September and it now has until November 9th to make a formal offer or give up the fight. The courtship has unleashed a barrage of bad puns ("Cadbury gags on Kraft bid"). It has also stirred up atavistic fears across Britain of a faceless American conglomerate wrecking a great British institution and forcing Britons to give up Dairy Milk chocolate and Creme Eggs in favour of Cheez Whiz and Jell-O.

Schumpeter sympathises with these fears. A succession of studies has shown that three-quarters of mergers and acquisitions fail to produce any benefits for shareholders, and more than half actually destroy shareholder value (remember Quaker and Snapple, Daimler-Benz and Chrysler, Time Warner and AOL). The danger is particularly pronounced in hostile bids that cross borders and involve much-loved brands.

A Kraft-Cadbury deal sounds as if it is designed for failure. Todd Stitzer, Cadbury's boss, argues that his firm is an embodiment of a distinctive style of "principled capitalism" that was inspired by its Quaker founders nearly two centuries ago and has been woven into its fabric ever since. Destroy that tradition and "you risk destroying what makes Cadbury a great company".

Chocolate companies as a breed also have a peculiarly intimate relationship with their customers, partly because chocolate is involved in so many childhood, romantic and festive rituals, and partly because people acquire their tastes in chocolate at their mothers' knees. Most Britons would rather eat scorpions than Hershey bars. The giants of the chocolate business have all dominated their respective regions for decades. Britons have been stuffing themselves with Dairy Milk since 1905, Creme Eggs since 1923 and Crunchies since 1929.

But none of these problems is insuperable. It was not certain as The Economist went to press that Kraft would go ahead with its bid. But Schumpeter's inclination is to applaud it if it does and to criticise it for missing a big opportunity if it balks. Despite its provincial Quaker roots, Cadbury has proved a master of reinventing itself, first joining the British establishment (moving its headquarters from Birmingham to London's Berkeley Square) and then joining the global corporate establishment (moving once again to an anonymous London suburb near Heathrow airport). It merged with Schweppes, a fizzy-drinks firm, in 1969 before thinking the better of it and spinning the unit off again in 2006.

Mr Stitzer is an American lawyer who has more in common with Irene Rosenfeld, Kraft's boss, than with the firm's high-minded founders. In 2007 he announced a four-year profit-boosting plan that involved cutting 15% of Cadbury's workforce, closing some factories and shifting others abroad. Two years later he provoked a storm when he (temporarily) replaced some of the cocoa-butter in the company's chocolate with palm oil.

Besides, there are plenty of examples of "faceless conglomerates" doing an excellent job of nurturing local brands. Unilever's portfolio of "local jewels" includes such unlikely companies as

Ben & Jerry's (the favourite ice-cream of the anti-globalisation crowd) and Marmite (which appeals to only the most refined palates). Kit Kats are just as delicious as ever despite the fact that Nestlé bought their original maker, Rowntree, over 20 years ago. Kraft has already proved that it can be a successful steward of such much-loved European chocolate brands as Milka and Toblerone.

The fact that people are so loyal to their favourite food brands is an argument for going ahead with the merger rather than rejecting it. Across the developing world millions—perhaps billions—of people are currently forming tastes that will endure for the rest of their lives. Put one of Kraft's Oreos or Cadbury's Flakes in their hands and they may become loyal customers for decades to come. Allow Unilever or Nestlé to get ahead of you and you could permanently lose the war for people's taste buds.

Many of Kraft and Cadbury's rivals have already stolen a march on them. Mars reinforced its position as the world's biggest confectionery company in 2008 when it bought Wrigley for $23 billion. Mars has also outperformed Cadbury in China since the early 1990s. Cadbury stumbled there last year in particular, when it had to recall some chocolate made with contaminated milk, even as one of Mars's flagship products, the Snickers bar, became the official chocolate of the Olympic games in Beijing. Today China accounts for only 0.5% of Cadbury's worldwide sales.

A chocolate colossus

But a Kraft-Cadbury combination would create a rotten-toothed behemoth, with $50 billion in annual sales, a significant presence in every market worthy of the name and a real chance of making up lost ground in China. Kraft has a strong position in mainland Europe and operations in 150 countries. Cadbury is worshipped wherever the British empire held sway (the company commands 70% of the chocolate market in India, for example) and a lot of other places besides (notably Brazil and Mexico). It also has an unrivalled distribution system among small shops in India and parts of Africa. Sceptics are right to point out that grandiose mergers more often destroy brands than strengthen them, particularly when those brands are such delicate confections as chocolate bars and gooey eggs. But then few mergers offer the chance to establish a global empire of taste.

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