

Cadbury Schweppes

In 1969 Cadbury merged with Schweppes to form the international confectioner and fizzy drinks giant Cadbury Schweppes. Both companies have a long history. Cadbury has come a long way from its days as a chocolate manufacturing family firm with Quaker values and ideals. The original shop was opened in 1824 selling chocolate as a virtuous alternative to alcohol but the company went on to



become large-scale manufacturer of chocolate based at the now legendary Bournville factory, built in 1879, and its picturesque village with its red-brick terraces, cottages, duck ponds and wide open parks. Over the next 100 years it developed the products that have become so familiar: *Dairy Milk* in 1905, *Milk Tray* in 1915, *Flake* in 1920, *Crème Egg* in 1923 and *Roses* in 1938. Jean Jacob Schweppe, a German, invented a system for making carbonated water in 1793 and opened a factory in London in 1790. Ownership changed in 1834 and the company started making flavoured soda drinks like lemonade. It produced Ginger Ale and the famous Tonic Water in 1870, popular in India because the quinine helped prevent malaria.

Most of Cadbury Schweppes' core products are at the mature stage of their life cycle and sales are therefore stagnant, so it must search for ever more inventive ways of achieving the ambitious growth targets it sets itself. However, these core areas are also hugely cash generative, giving the company between £300 and £400 million a year. The company is constantly looking for new markets for its products, but since most of these products already sell around the world, it has now developed a two-pronged growth strategy, both reliant upon the company's strong cash flow.

Firstly, because about 70% of its products are bought on impulse, it is looking for new channels of distribution so as to encourage sales, or 'indulgence opportunities' as they are called. Chocolate bars and drinks are now sold anywhere from petrol stations to off-licences. Vending machines selling them can be found anywhere from factory floors to tube stations. The company wants more products to be sold in restaurants and pubs.

The company's portfolio of beverage products are sold around the world and many are international brands, such as *Dr Pepper* and *7UP*. In the late 1990s the company decided to focus on strong regional beverages – in particular in the Americas and Australia. In 1999 it sold off its beverage businesses in about 160 countries to focus on these regions. In 2006 it concluded the sale of its European beverages business.

North America is the largest market for its drinks. But distribution here was complex and problematic. Coca-Cola (40% of market), Pepsi (30%) and Cadbury (20%) all used franchisers to manufacture, bottle and distribute their products within geographic areas. However, Cadbury had no dedicated distribution system of its own and channelled 20% of its product through those of Coca-Cola, 30% through those of Pepsi and 50% through independent bottlers. Relationship eventually broke down to such an extent that Cadbury sued Pepsi alleging that the company tried to block the distribution of its products to a large US restaurant chain. As a result the company decided to distribute all of its product through the independent bottlers, but at the same time took shareholdings in five of them and merged them to form the Dr Pepper/Seven UP Bottling Group, in which it now has a 40% stake. In this way it now has more control over its distribution in the USA and present more consumers with

'indulgence opportunities'. In Australia the company bought the Pepsi Lion Nation joint venture to secure its distribution channels.

The second strand to the company's strategy is buying into other related high growth segments, where the company can capitalise on its existing distribution chains. The company has followed an acquisitions strategy for many years. In 1986 it bought *Typhoon Tea*, *Kenco Coffee* and *Canada Dry* and *Sunkist* soft drinks. In 1989 it bought *Crush* soft drink and *Bassett* and *Trebor* in the UK. The best selling US brands, *Dr Pepper* and *7UP*, were purchased in 1995. The company has also diversified out of fizzy drinks, which in 1998 accounted for 85% of the important US market, with the acquisition of brands like *Snapple*, *Hawaiian Punch* and *Nantucket Juices*. By 2002 fizzy drinks accounted for only 50% of sales. The latest target for acquisitions is the fast growing chewing gum market. In 2000 it bought *Hollywood*, the French gum maker, and *Dandy*, the Danish gum maker. In 2002 purchased the US company Adams from Pfizer. Adams' brands include *Halls*, *Trident*, *Dentyne*, *Bubbas*, *Clorets*, *Chiclets* and *Certs*. But there have been other acquisitions such as *Green & Black's* in 2005. These acquisitions makes Cadbury the market leader in non-chocolate confectionery including gum and 'functional' products such as sore throat remedies, and will give it a foothold in markets such as Japan and Latin America.

Cadbury Schweppes growth exceeds market trends, despite its ageing portfolio of products. In 2005 sales increased 7% to £6.5 billion and profits from operations rose 8% to £1,033 million. This continuing growth comes from three sources: organic growth, mainly through finding new channels of distribution; acquisition of new brands; efficiency saving (profit only) as aging products are produced at a lower cost.

Case questions:

1. List, in broad terms, the product/market offerings mentioned in the case.
2. With it's aging portfolio of products, what are the main strands of Cadbury Schweppes' strategy for continued growth? Do you think this strategy is sound?
3. What do you consider to be the main challenges facing the company?
4. Is the company just good at sales and marketing or is there any evidence to suggest that it is 'entrepreneurial'? What is the difference?
5. Is there a limit to this growth? If so, when might it be reached? What external factors or events might affect this?