Successful strategic re-orientation at Cadbury: an interview with Todd Stitzer

Interview by Journal of Strategy and Management

Cadbury is one of the world’s largest confectionery businesses with number one or number two positions in over 20 of the world’s 50 biggest confectionery markets. It also has the largest and most broadly spread emerging markets business of any confectionery company.

For a number of years management of the 200 years old business endured a difficult relationship with investors and analysts because of a perceived failure to maximize the value of its business and strengthen the operating margins (hovering around 10 per cent). Late in 2007, US activist investor Nelson Peltz threatened Cadbury with “more active” intervention if more “meaningful” progress on profit margins was not forthcoming.

To address investor concerns, in 2007 Cadbury management led by its Chief Executive Todd Stitzer, launched the Vision into Action reorientation plan.

Todd Stitzer was appointed to the Board in March 2000 and as CEO in May 2003. Todd joined Cadbury North America in 1983 as Assistant General Counsel and has gained extensive international experience in senior legal, marketing, sales, strategy development and general management roles within the Company. Todd was President & CEO of Dr Pepper/Seven Up, Inc. between 1997 and 2000 and Chief Strategy Officer between March 2000 and May 2003. Todd’s business leadership, legal and commercial expertise make him well placed to lead the organization as it delivers on its commitment to achieve superior shareholder performance through Vision into Action.

Journal of Strategy and Management (JSMA): Congratulations on your 2008 performance – revenue up by 7 per cent, improved margins, EPS performance, and increased dividend payments. What are the key underlying reasons for such good performance in such a difficult time?

Todd Stitzer:

There are a number of factors that have led to our success. Great brands, great geographical and category footprints, a detailed plan of execution. This plan is what we call Vision into Action and it’s a plan on a page. This enables people to be focused and to link their annual objectives to the company’s overall strategic objectives. It has six financial KPIs and six sustainability KPIs demonstrating our “performance driven, values led” culture.

Our culture and our people are a critical element – you need great people to execute. At the end of the day it is down to leaders and teams to deliver.

This may seem very simple but that’s what it is. It is a mistake to make something unnecessarily complex.
JSMA: What were the strategic drivers behind the de-merger, and sale of the Australian drink business?

Todd Stitzer:

The sale of the Australian drink business was the final act of a big decision taken by our Board in 2004.

After we bought Adams we made a strategic assessment of the beverage and confectionery businesses and identified the success criteria for each. At the time we were a distant number 3 in the beverage business (despite its attractive cash flow characteristics) and number one in the confectionery business. We thought that in beverages it would be increasingly difficult to compete against Coke and Pepsi around the world, and that this might sap our ability to maintain leadership in the confectionery sector. So we decided that we would divest our beverage assets over time to benefit our confectionery business in terms of focusing financial resources and people.

So the Australian beverages transaction in 2009 was the last in a string of big divestures of our beverage business. We sold our European beverages in 2006, and demerged our American beverages in 2007/8. This takes Cadbury back to our roots as a pure-play confectionery company.

JSMA: You mentioned the acquisition of Adams – what prompted this acquisition?

Todd Stitzer:

It made sense to acquire Adams from a growth and share perspective as well as from a financial one. The basic desire to be number one in confectionery which was – and remains – a long-standing company goal. In fact, our previous Chairman, Sir John Sunderland, asked me to join the Board to pursue this goal. So in early 2000 we launched a strategic study and scanned the confectionery world. We found lots of big chocolate companies, mainly owned by families. But interestingly there were a number of chewing gum companies that you could acquire and roll up to make us the largest confectionery company in the world. And at that time chewing gum was the fastest growing, highest margin part of the confectionery sector.

So we put the strategy together and obtained Board approval to move ahead. In 2001 we bought the Hollywood business – this gave us the number 2 position in gum in France. Then in 2002 we bought the Dandy business which gave us the number 1 position in Northern European. As we were doing these smaller acquisitions, we knew that the capstone was the Adams company within Warner-Lambert. Pfizer had just bought Warner-Lambert and we suspected they would be interested in selling Adams. So we hired six or seven former executives to help us understand Adams and how it would fit with our business. We spent about two years identifying how a deal would create value and working out how to be the winner in an auction for Adams. By late 2002, we understood the business well enough to know that there were significant synergies as well as a financial return. We closed the transaction in March 2003 and proceeded to integrate Adams with Cadbury. It's been an outstanding success.

JSMA: What are the key contributors to merger and acquisition success?

Todd Stitzer:

Detailed planning is the most important consideration – making sure that whatever you are going to buy is strategically and financially compatible. In previous times people built conglomerates of disparate businesses – but we focus on buying businesses that are in our space in the confectionery category. Once you find that there is strategic compatibility then you need to make sure that there is financial and commercial benefit. You need a very detailed plan and a group of people who are committed to making that work. On the Adams deal, the senior executives of our businesses from all around the world got
together twice to hothouse how we would integrate and get value out of the Adams transaction.

One of the pitfalls of acquisitions can be that a central group of people have a wonderful idea – go out and buy a company without having talked to the operators around the world. Of course, the operators then say “it is not our idea but yours, so it’s up to you to integrate it!” The goal is to have a plan that everybody buys into and understands their part in getting the value out. That of course requires detailed due diligence – in the case of Adams we had detailed knowledge of how the company worked, how its brands worked and we knew its innovation profile.

There is no substitute for that combination of planning and knowledge, and genuine buy in from the local operators. We had an integration committee whose sole task was to make sure that the 200 integration tracks were being pursued – this was reported to the Board every quarter – an incredibly disciplined task. But that is the key to making M&A work.

M&A generally have 70-75 per cent failure rates – our company has the opposite experience. Over 75 per cent of our acquisitions (about 40 companies) over the past 25 years have been successful. This is all down to having a group of people who are very focussed, who learned by doing over the years and created a centre of M&A expertise. This is a small group of people who have worked closely – and intensely – together over a long period. So they know what has to be done, and then bring in others as required.

Culture is also an important factor in each acquisition. For example, the Adams people had operated within a largely pharmaceutical corporate environment. When they joined Cadbury there was a feeling of “coming home” to the confectionery world; a coming together of compatible cultures. With Snapple – a very quirky, innovative company – at first we thought they should be kept separate. We already had a beverages headquarters ten miles up the road in Stanford, Connecticut, and the Snapple headquarters was in Westchester. But we allowed ourselves to think that they should stay separate – this was a mistake. In 2003 we successfully put the two companies together.

That said, you do have to be sensitive with the cultures that you are bringing together, and you have to be fair and honest with people. But if you have to keep the cultures separate, then perhaps the businesses are not strategically compatible.

In every transaction, we interviewed the top 50-100 people using an outside person so that people knew that there was an objective decision on who stayed and who didn’t. There was always a promise that in a merger, the best person got the job. With Adams all of the top people that we wanted to stay and who themselves wanted to stay, stayed. The merger has to be seen by the constituents on both sides as a “coming together” rather than a “takeover”.

**JSMA: What are the implications for Cadbury of the Mars purchase of Wrigley’s?**

**Todd Stitzer:**

Mars and Wrigley individually were great competitors and no doubt collectively they will also be great competitors.

The immediate implications are obvious – they have a 14 per cent share of the confectionery market compared with our share of 10.5 per cent. They are much bigger than we are in the United States – but take the US out of the equation and we are actually slightly larger at 11.5 per cent compared with their 10 per cent, and we have the best emerging markets platform.

We have to be sharper and smarter in an increasingly competitive world. There is no doubt they will be a good company – and we have to be as good as we can to compete with them. They will go through what I call the “fog of integration” – they are two big companies and it may take a while for the new enlarged company to find its feet. Meanwhile – as we don’t have that fog – we can focus on being sharp, fast and better.
JSMA: Earlier you mentioned the “Vision into Action” plan – could you elaborate on its underlying principles?

Todd Stitzer:

It’s meant to define all those things you would want people to think about when a new company is being created. It’s meant to portray an aspiration – our vision to “be the biggest and the best”, our governing objective of delivering shareholder value, and our culture (“performance driven and values led”).

It sets targets – both financial and sustainability KPIs – and describes what we have to do to deliver the performance against three priorities – growth, efficiency and capabilities. I think of it as a performance sandwich with financial KPIs on the top, the meat of our priorities in the middle, and our sustainability KPIs and values at the bottom.

It describes in one page everything you need to know about the company. Each part of the company has a broadly similar VIA plan – with some modifications according to their specific, local agenda. This “plan on a page” is prominently displayed around the building and has been translated into 13 languages.

So it’s really pretty simple – you create a strategy; communicate that strategy; motivate people to execute the strategy; evaluate how we do – and then either renovate, innovate or eliminate activity accordingly. The final element is to celebrate the results. My job as CEO is to ensure that the strategy is implemented across the group – everyone has to know their part in delivering it.

JSMA: Finally what issues keep you awake at night?

Todd Stitzer:

The sheer complexity of the things that you need to keep track of. There are around 45,000 people who work directly for Cadbury – and many, many more across our value chain. We have operations in around 60 countries; and we sell in over 150. It’s a lot to keep track of and enough to keep anyone awake at night. Our chocolate, gum and candy brands are simple pleasures for our consumers but we take the business of creating them very seriously! Cadbury is a challenging and interesting company – but to be frank I like the variety of it.

December 2009.

This is a shortened version of “Successful strategic re-orientation: lessons from Cadbury’s experience: An interview with Todd Stitzer, Chief Executive of Cadbury”, which originally appeared in Journal of Strategy and Management, Volume 2 Number 4, 2009.

The authors are Nicholas O'Regan and Abby Ghobadian.