

Comment: Barry Callebaut's tasty business model

By: [Dean Best](#) | 9 September 2010

Today's (9 September) announcement that Barry Callebaut has signed a fresh agreement with Kraft Foods to supply the US food giant with cocoa and chocolate sent the Swiss firm's shares soaring.

The deal marks a broadening of the relationship between the two companies, with Barry Callebaut already supplying Kraft and also Cadbury, the UK chocolate maker Kraft snapped up earlier this year.

Despite our prodding, Barry Callebaut would not disclose whether the new deal marked merely the combination of its existing deals with Kraft and Cadbury.

However, given the Swiss firm's plans to spend US\$65m increasing production capacity in certain markets, it seems likely it will be supplying more products to the 'core' Kraft chocolate business (ie excluding Cadbury).

In any case, even if some details remain under wraps, the agreement is a further sign of the strength of Barry Callebaut's business model. The company is the leading supplier of chocolate and has secured outsourcing deals with the likes of Nestle and Hershey - and also supplies other major consumer chocolate manufacturers on a less centrally structured basis.

Barry Callebaut CEO Juergen Steinemann has long espoused the business benefits for the big chocolate brand-owners of outsourcing production to companies like the one he leads.

Looking at the near 6% rise in Barry Callebaut's share price today, the market has been reminded of the benefits outsourcing also has to the Swiss chocolate maker, which is by far the largest supplier in a sector where outsourcing seems set to continue, particularly given the ongoing pressure on consumer manufacturers of achieving decent returns on invested capital.

Industry consultant James Amoroso feels that the share price is still not reflecting its fair value: "By the look of the share price hike today, the market is simply trying to estimate the extra tonnage that is coming today as a direct result of this agreement. But that would be missing the big picture: the announcement confirms the long-term scope and potential of the Barry Callebaut outsourcing business model. By the way, it also makes the conversion of the rest of Kraft's currently self-produced bulk chocolate very much easier."



Barry Callebaut has major outsourcing deals with Nestle, Hershey and Kraft