



Mars, Wrigley look to a sweeter future

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It was a deal that shook the confectionery industry but what will Mars' US\$23bn takeover of gum maker Wrigley mean for the two companies? Dean Best reports.



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Every once in a while, a deal comes along that stuns even the most experienced of business watchers.

The surprise at yesterday's (28 April) US\$23bn deal between Mars and Wrigley was all the more tangible given the current uncertain economic climate, beset by shaky financial markets and concerns over consumer spending.

But, now the dust has settled, what will the combination between Mars and Wrigley mean for the two companies?

In short, Mars' takeover of gum giant Wrigley is set to create a new number one in confectionery. According to data from Euromonitor, the enlarged company would account for 14.4% of worldwide confectionery sales, leapfrogging Cadbury with 10.1%. The two firms are seen as a good fit; there is little product overlap and Wrigley's growing presence in emerging markets will complement Mars' strength in the US and Europe.

The transaction will create a business generating \$27bn in annual sales with brands from M&Ms to Extra. Wrigley will remain a stand-alone business headquartered in Chicago and Mars will transfer its non-chocolate confectionery brands, including Starburst and Skittles, to the gum giant's portfolio.

As you'd expect, Mars and Wrigley executives were quick to hail the potential of the enlarged business. Wrigley chairman Bill Wrigley spoke of the "cross-pollination of people, ideas and brands" and the "significant enhancements of sales, marketing and distribution infrastructures" for both businesses. Mars Global president Paul Michaels said the deal was "not about being bigger - it's about being the best".

Both sides seemed keen to have done a deal. Talks only started three weeks ago. Michaels approached the Wrigley chairman on 11 April and the speed at which an agreement was struck has raised eyebrows among industry observers.

Mars paid a premium for Wrigley; the \$80-a-share deal was 28% above the price at which Wrigley's share price closed last Friday. However, in perhaps a further indication of the compatibility of the two companies, billionaire investor Warren Buffett has stumped up \$4.4bn to help fund the purchase, through his investment vehicle Berkshire Hathaway.

And both sides stand to gain significantly from the deal. The larger distribution muscle of a combined Mars and Wrigley will make rivals Cadbury, Hershey and Nestlé uneasy. The two companies will have even greater clout in North America and the move will give Mars greater access to the emerging markets of the East, where Wrigley's gum brands are growing in popularity. Just yesterday, Wrigley posted a set of robust first-quarter results buoyed by double-digit sales growth in Russia and Poland - and continued rising sales in markets like China and Vietnam.

What's more, as food industry consultant **James Amoroso** points out, as a category, gum is growing faster than mainstream chocolate, Mars' key business. "Mars was tempted by the higher-

growth category of chewing gum," **Amoroso** says. "If you look at Mars, Twix, Bounty and M&Ms, that kind of category is not desperately exciting."

Certainly, Wrigley will benefit from teaming up with Mars. Wrigley had been facing growing competition from Cadbury in the US and the UK but, by joining forces with Mars' chocolate and candy portfolio, the gum maker will boost its strength and reaffirm its importance in the eyes of retailers. "The move clearly helps [Wrigley] combat Cadbury," **Amoroso** adds.

The combination is likely to lead to some synergies between Mars and Wrigley's global sales forces. However, Wrigley's chairman was keen to point out the benefits of the gum maker's status as a stand-alone unit in the Mars business, adding that, by taking on brands like Starburst and Skittles, jobs could be added at the company's Chicago home.

Indeed, Mars' commitment to keep Wrigley's base in Chicago no doubt made the deal more palatable for a Wrigley family that has been linked with the company since it started selling gum in 1891.

One could argue that losing control over a business after 117 years would be a bitter pill to swallow. Nevertheless, in today's modern business climate, and in a sector in which scale is key, Mars' approach three weeks ago could lead to a sweeter future for Wrigley.

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