



Cadbury, Hershey in spotlight after Wrigley sale

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Wrigley chairman Bill Wrigley predicted the confectionery industry would sit up and take notice after his company's deal with Mars. Now, the spotlight has once again switched to Cadbury and Hershey. But will the two chocolate giants finally get together after years of flirtation? Dean Best reports.



[view image](#)

Once the shock of yesterday's (28 April) mega-deal between Mars and Wrigley faded, there was only one question on the minds of most industry watchers: is it now a question of when – and not if – Cadbury and Hershey get together?

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%. Hershey, meanwhile, will have a 5.5% share of the market.

Cadbury has spent the last 12 months attempting to sell, and then spin off, its drinks operations in the Americas in a bid to create a pure confectionery player. Cadbury's management, led by CEO Todd Stitzer, has been busy convincing investors that the company's growth prospects are far rosier if it can focus on chocolate, candy and chewing gum.

Indeed, some industry watchers believe Mars' move for Wrigley vindicates Stitzer's investment in gum and, in particular, Cadbury's acquisition of US gum maker Adams in 2003.

"Cadbury will have to think long and hard now – but the company should take a minute to pat itself on the back," Investec analyst Martin Deboo tells just-food. "Who would have thought in 2003 that Cadbury would have driven Wrigley into the arms of a suitor? Of course, however, Cadbury has now created a problem for itself."

That problem is competing against the larger distribution muscle of a combined Mars and Wrigley. The two companies will have even greater clout in North America and the move will create a more powerful firm in the emerging markets of the East, where Wrigley's gum brands are growing in popularity.

For some, the most obvious solution to the problem is for Cadbury and Hershey to merge. Such a move has been touted around the food industry for years but has – so far – failed to get off the ground. A deal between the two foundered in 2002 after the Hershey Trust – which owns a 30% equity stake in the company but 80% of the voting rights – refused to give up control of the US confectioner.

The two sides met last autumn but again the discussions came to nothing. Around that time, Trust chairman Leroy Zimmerman signalled that Hershey's owners might be beginning to look outward, saying that the company would look to grow through investment at home and abroad – but there was still no sign that the owners were willing to cede control.

However, Hershey is struggling. The company is too dependent on the US, where it has wilted in the face of tough competition from the likes of Mars and upmarket Swiss chocolate maker Lindt & Sprüngli. Hershey has also been too slow to expand overseas and, although it has fledgling operations in China and India, it has been left behind by rivals Nestlé and Cadbury.

James Amoroso, a food industry consultant, says the "commercial and industrial logic" for a merger between Cadbury and Hershey is "undeniable".

He says: "Cadbury could use some extra help in the US, while Hershey desperately needs to get out of the US. With Mars and Wrigley getting together, the Hershey Trust may now think: 'Oh, bloody hell'. A merger with Cadbury did make sense; now the Trust may be compelled to do it. It depends on how stubborn the Trust is."

Deboo agrees that Cadbury and Hershey share the problem of an "impending Mars/Wrigley behemoth" but he questions whether the two sides will actually go through with a merger.

"It's right to assume that Mars/Wrigley would be a more formidable competitor but [a merger] is not necessarily a certainty," Deboo says. "It's only a bet that the Hershey bar could be pushed through the Cadbury system worldwide, while it's not clear that Americans would eat Cadbury Dairy Milk either. We have to keep things in proportion."

The analyst community, however, is rife with rumours of the next big move in confectionery. If Cadbury stands on the sidelines or is again rebuffed by Hershey, some see Kraft Foods as a possible acquirer of the UK confectioner. **Amoroso**, however, believes that as unlikely.

"Kraft is busy and has got more than enough to deal with," **Amoroso** says. "Nestlé is busy with its own chocolate strategy. Mars has picked its moment. It realised that the opportunity for companies to put up hostile competitive responses is limited."

For most industry watchers, the most likely response remains a merger between Cadbury and Hershey. History, however, tells us that there will be a few tricky obstacles to cross before any deal is signed – not least the obstinacy of the Hershey Trust.

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