

In the spotlight - Mars' global restructuring

By: Michelle Russell | 22 October 2010

As the value of the global confectionery market looks set to grow by 14% from its 2009 level by 2013, and Kraft ploughs on with the integration of Cadbury to create the world's biggest confectionery group, it is no surprise that Mars Inc has announced plans to restructure its global chocolate operations.

The US-based food group told just-food yesterday (21 October) that the realignment, to make it more focused and competitive in the marketplace, would take place worldwide, although final decisions were still to be made on details of the revamp.

Alison Clarke, corporate affairs director for Mars UK, said the restructuring will allow Mars to be more focused on the consumer and the company's competition within each separate region, something the confectioner will certainly need to keep its eye on.

According to Leatherhead Food Research, within the confectionery sector, the chocolate category is forecast to rise by around 15% to US\$93.5bn.

Much of this is likely to come from developing regions around the world, the report notes, although it is possible that demand for premium chocolate may continue to rise again once the worst effects of the global economic downturn pass.

It is just as well the UK is not the only market in which Mars is looking to reorganise its operations.

"Top line we are making some changes globally and there has been some realignment on where each market fits," Clarke said. "There will be changes in the Asia market and how we set up those businesses, so it's not just Europe and the UK, there is a new Asia region in place."

Independent analyst James Amoroso says Mars has previously had a "one-size-fits-all" policy, which he believes offers both pros and cons for the firm.

"You will see the same Mars bars in most markets of the world but other companies have different brands and products for different markets," Amoroso says. "Chocolate tastes are indeed very different across the globe."

He adds: "This one-size-fits-all policy may be due to a certain residual North American colonialist thinking: i.e. the US market is quite homogeneous and many US companies tend to believe that they can operate like this in the rest of the world and sell the same products everywhere."

However, Amoroso believes the economic reality of the Mars business model is that they pay their people "exceptionally well" and so have to drive costs down in their operations in every other way.

"Standardisation of product is the easiest way to do this: e.g. one factory producing millions of units of identical product," Amoroso says. "But consumers are different and product differentiation can be a competitive advantage. Therefore, it seems as if Mars is trying to adapt the organisation to be able to respond to consumer diversity in a way in which the Mars business model can still remain profitable. Depending on the results, it could be a very exciting development."



Mars is the world's leading supplier in terms of confectionery sales

The current method clearly works for Mars. The firm's key chocolate markets include the US and the UK, where it recorded shares of 34% and 28% respectively in 2009, according to Leatherhead Food Research.

But Mars is also strong in many western parts of Europe, leading the 'countlines' sector in countries such as France and Germany, the report states. Although its share of the eastern European market is lower, it accounted for 15% of the developing Russian market last year, due in part to the Odintsovo/Korkunov business which had previously been acquired by Wrigley.

For Mars, the restructuring will now allow it place more focus on each region separately.

"It is about grouping markets together so that we are more focus and looking at similarities with the consumer and where the competition is," Clarke said. "If you take the UK for example, our biggest competitors are Cadbury, Nestle and Kraft Foods. In continental Europe, Ferrero is a very good player but it is not a very good player in the UK."

Indeed, in the UK in particular, three companies dominate the chocolate market, accounting for three quarters of all sales, Kraft/Cadbury, Mars and Nestle. Although with the recent takeover of Cadbury by Kraft, it is unclear to date what percentage of the global market each now holds.

Nonetheless, Mars Bar remains Mars' biggest brand and is a key player in the total chocolate confectionery market. The firm claims that its media spend in 2010 will be 42% greater than in 2009.

Kepler Capital Markets analyst Jon Cox however, believes the restructuring may go one step further and could result in plant closures.

"Obviously, like most of the chocolate makers, they realise the plants are probably decades old and not running at a particularly efficient level, so I presume the idea behind the restructuring is that [Mars] are going to go through the whole supply chain. We've seen a similar thing with Nestle, Hershey and more recently with Kraft/Cadbury. Will there be plant closures? Probably."

Nonetheless, Cox believes the timing of the decision to restructure could be right.

"It's something they've probably been thinking about for some time and there may be a need to maybe improve profitability, cash flow and free up resources in terms of cash flow," Cox told just-food.

"This is probably a good a time as any to do it," he adds. "It's a bit of an industry trend, there has been quite a lot of this reorganising of the whole supply chain going on, because a lot of the factories are decades old and maybe only running at less than half of their capacity, so it's a bit of a trend really."

While Mars is keen to play down the enormity of the decision, the Twix maker has clearly set the ball rolling with the confirmation of a number of appointments.

Fiona Dawson will head up the UK's chocolate business as president. She has been promoted from the role of managing director.

Peter West, general manager for Mars Snackfood, will run the continental Europe operations. No other appointments have yet been announced.

And so as Mars puts the finishing touches to its plans, the industry will watch and wait for the results of what could be the firm's biggest restructuring to date.