

Gum offers best growth opportunities for Cadbury

Contributed by Euromonitor International
Monday, 18 June 2007

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Date published: 19 Jun 2007

Cadbury today announced it will axe 15% of its 50,000 workforce as part of a restructuring plan. Over the next four years the company also plans to close 15% of its 70 plants worldwide. This announcement comes just a few days after its representatives appeared in court to plead guilty to three breaches of UK food regulations in connection with last year's salmonella contamination. The company is making headlines also through its fast paced recent disposal activity, including the disposals of its popcorn manufacturing unit Butterkist, its Italian subsidiary and its Australian jam and toppings unit, all announced in June.

Focus on margins rather than revenues

The cost cutting plan is expected to result in savings of around Â£ 300 million with the aim of improving margins as well as revenues. Hopefully, it will deliver better results than the "Fuel for Growth" 2003 plan which aimed for a Â£400 million a year cost reduction by 2007. This initiative saw the number of factories and employees fall by 20% and 10% respectively, but failed to boost profit margins, which actually fell from 15.67% in 2002 to 9.94% by the end of the 2006 financial year.

With the beverages unit sale under way and expected to fetch around Â£8 billion, the UK-based company will concentrate on improving its margins in confectionery by 5 percentage points between now and 2011.

Gums offers better opportunities for growth

In order to achieve this goal, the company will have to work on its brand portfolio as well as on cost cutting. According to Euromonitor International, Cadbury should concentrate on its gum business as the 3.3% annual average value growth expected in the global gum market over the 2007-11 period, although moderate, will outperform the corresponding 2.2% average value growth forecast for chocolate confectionery over the same period.

Cadbury's 2006 results anticipated this trend, with its chewing gum brands delivering an outstanding performance with a 10% revenue surge. This compares favourably with overall value growth for sugar free and functional gums, measured at 7% and 5% respectively by Euromonitor.

Cadbury is already moving in this direction, with the February 2007 launch of its signature US Trident brand in the UK. In turn, this ignited a chewing gum war with Wrigley, the leading player in Western Europe with over 42% value share in 2005.

Fortification beyond oral care is the path to follow

Functional gum volume sales have increased on average by over 15% per year since 1998 and currently account for nearly half of the health & wellness gum market. In spite of its high degree of development, this market does not show signs of saturation, with ingredient development driving demand towards even more value added and high margin products, which command a nearly 40% price difference compared to standard, sugarised products.

Most functional gum marketed in Western Europe, which accounts for nearly half of Cadbury's rsp sales, feature teeth whitening and oral care properties, but further innovation will likely take place with energy boosting, vitamin enriched products. Gum is the perfect vehicle for fortification, more so than any other food or beverage product: it is portable, cheaper than a snack bar or drink and can deliver active ingredients to the bloodstream faster than other foodstuffs. Cadbury's competitor Wrigley seems to be at the forefront in functional gum development, having just patented a Viagra chewing gum. This is a direction Cadbury should further explore.

Cadbury to grow in Japanese health and wellness market

Cadbury is also looking at health and wellness sugar confectionery, both in its home market and abroad. In the UK, it is expected to shortly launch a low-calorie version of its Maynards Wine Gum and Bassetts Allsorts brands. In foreign markets, the company is looking to grow via the acquisition of established companies such as the Japanese functional candy manufacturer Sansei Foods Co. Ltd.

Japan is the second largest health and wellness confectionery market in the world after the US and was worth nearly US\$3billion in 2006. Cadbury starts from a good basis in the country, where it acquired a significant presence following the Adams' acquisition. Since the local health and wellness confectionery market shows a higher degree of sophistication compared to other regions, at least in terms of the ingredients used (such as green tea and soy extracts), Cadbury will also benefit in terms of new product development ideas to be transferred back to its more traditional markets

Since the company intends to redistribute the £8 billion revenue from its drinks unit sale to its shareholders, it is imperative that its cost cutting plan succeeds in order to free up resources for investment within the company. Besides innovating in gum and sugar confectionery, Cadbury will have to work on its tarnished reputation in chocolate confectionery, following the recent salmonella incident.

Green & Black not to be neglected

The company should also increase support for its Green & Black chocolate range, which ticks all the boxes for the current trend in chocolate: organic, gourmet and high cocoa content. With competitors Mars and Hershey heavily investing in their CocoaVia and Goodness Chocolate ranges in the US, and increasing competition from European premium manufacturers such as Lindt, Cadbury is in no position to miss any opportunity within premium chocolate.

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