LEVEL 6

MARKING SCHEME

November 2011

‘Kraft/Cadbury’
QUESTIONS

Answer all questions.

All the following questions relate to the case study ‘Kraft and Cadbury: A Sweet Deal?’ and should be answered in the context of the information provided.

Q1 (a) Evaluate Kraft’s acquisition of Cadbury from the perspective of both parties.

(15 marks)

Q1 (a): MARK SCHEME

Question aims:

To test candidates’ understanding of acquisitions as a strategic option
To test candidates’ ability to evaluate a strategic option in relation to a case situation

Syllabus Reference(s): L6-02 1.3, 1.5, 1.7

Core answer content is likely to include:

An acquisition is where an organisation takes ownership of another. It is an external growth strategy. Possible reasons for Kraft pursuing such a strategy include: quick external growth, satisfying shareholders, entry into new geographical and product markets, the eradication of competition in existing markets, obtaining strong brands, cost efficiency through economies of scale, improving its financial performance (revenues and profitability), exploiting Cadbury’s expertise and capabilities, and managerial ambition on the part of Irene Rosenfeld.

Cadbury obviously has less to gain from the takeover, particularly since its existing financial performance in terms of revenues and profits is strong. Its brands may be diluted, with a subsequent effect on customer loyalty, and it is likely to incur the majority of the downsizing pain. However, it may be able to take advantage of Kraft’s expertise in R&D, and tap into its distribution networks. It may also allow Cadbury to improve its liquidity and efficiency weaknesses and exert more leverage in its raw materials supply markets. It has also enabled shareholders to benefit financially.

The majority of acquisitions fail to deliver value, due to either paying too much, over-estimating the potential savings, or through poor operational integration. Lack of cultural fit is another concern that is particularly relevant to the Kraft/Cadbury scenario. Kraft will need to gain the commitment of Cadbury managers, and carefully manage the integration issues in order to achieve the expected synergies.

Candidates should demonstrate a robust understanding of acquisitions (7 marks) in relation to the case situation (8 marks)

Total 15 marks
(b) Explain the benefits to Kraft of adopting its environmental and sustainability initiatives. (10 marks)

**Q1(b) : MARK SCHEME**

**Question aims:**
- To test candidates’ understanding of environmental and sustainability issues
- To test candidates’ knowledge of the benefits of sustainable working

**Syllabus Reference(s):** L6-02 5.5

**Core answer content is likely to include:**

Legislation is increasingly driving the need for organisations to consider environmental and sustainability outcomes alongside their commercial goals. Adopting such initiatives can also have a positive impact on Kraft’s corporate image and reputation. Inclusion on the Dow Jones and World sustainability indices, gaining ISO14001 accreditation, and sourcing only from Rainforest Alliance certified farms can all be utilised as effective marketing tools. Customers are more aware of the issues and are basing their purchase decisions on organisations' environmental and sustainability credentials.

Sustainability is particularly relevant to Kraft because of its global reach, extensive production and distribution systems, and because it operates in many developing countries. Poor publicity can have a detrimental effect on sales and profitability. Incorporating sustainability principles into its policies allows Kraft to market itself as a good corporate citizen and acts as a means of differentiation. Recruiting and retaining staff, and securing reputable suppliers may also be facilitated.

Over-riding all this, however, is that Kraft will actually save money by being more sustainable. Its initiatives in relation to reducing energy use, water consumption, waste and packaging, as well as the streamlining of its transportation and distribution networks, will all have an effect on the bottom-line. Kraft can make a clear economic case for being sustainable.

Candidates should demonstrate a robust understanding of the benefits of sustainability (5 marks) in relation to the case study situation (5 marks).

**Total 10 marks**
Q2 Using appropriate theory, assess the leadership behaviours and styles demonstrated by Irene Rosenfeld. (25 marks)

Q2 : MARK SCHEME

Question aims:
To test candidates’ understanding of leadership behaviours and traits
To test candidates’ knowledge of leadership styles and approaches

Syllabus Reference(s): L6-01 1.2, 1.3, 2.1, 2.4

Core answer content is likely to include:

The case demonstrates a number of leadership behaviours that have made Rosenfeld successful during her career: determination and competitiveness in gaining her academic qualifications; ambition and enthusiasm in the Kool-Aid project; persuasion, tenacity and commitment in relation to new ideas; dynamism, assertiveness and fearlessness at Frito-Lay and during the Kraft turnaround; decisiveness in off-loading brands and replacing staff; and vision in identifying the Cadbury opportunity. She displays intelligence, persistence, courage, risk-taking, innovation, and creativity, which are all seen as effective leadership behaviours.

However, there are also a number of softer behaviours that leaders often display which appear to be missing in relation to Rosenfeld. These include: self-awareness, empathy, encouraging others, involving others, communicating and motivating. She is not warm or persuasive in dealing with shareholders and Cadbury’s senior management. Although she has set the vision in terms of acquiring Cadbury, she seems to be unable to articulate that vision to stakeholders. Furthermore, the Somerdale debacle questions her integrity, and her failure to appear before the House of Commons committee or the Cadbury employees undermines her role as a figurehead or spokesperson. The remarks made on the video in relation to Trident gum and Cadbury eggs could be seen as ingratiating.

Rosenfeld appears to be a task-driven rather than a people-driven leader, her actions focused on achieving a task rather than building a team or developing individuals. Her style is more directive than democratic or facilitative. According to Blake & Mouton’s managerial grid, Rosenfeld’s style could be seen as “authority-compliance”, where efficiency of work is arranged so that human elements interfere to the minimum. A directive approach is effective in situations of low follower readiness (Hersey & Blanchard), such as during the Kraft turnaround, but may not succeed when it is necessary to win the hearts and minds of high performers. Rosenfeld appears to rely on positional and reward power rather than the referent type.

This is a rather open question, but candidates should demonstrate a balanced assessment of Rosenfeld’s leadership as demonstrated in the case (13 marks) in relation to core leadership theory (12 marks).

Total 25 marks
Q3  (a)  Compare the corporate cultures of Kraft and Cadbury.  

(10 marks)

Q3(a) : MARK SCHEME

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<th>Question aims:</th>
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<td>To test candidates’ understanding of corporate culture.</td>
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<td>To test candidates’ ability to compare different corporate cultures.</td>
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| Syllabus Reference(s): | L6-02 1.4 |

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<th>Core answer content is likely to include:</th>
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<tr>
<td>Cadbury’s corporate culture is something that it emphasises greatly. It draws on a strong Quaker heritage and is people- and values-based. Self-awareness, coaching and two-way communication are key elements. The company addresses both hygiene factors (working environment, occupational health, fitness facilities) and motivational factors (awards, recognition, responsibility). However, harder aspects are not forgotten, as the culture is also said to be performance-driven.</td>
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<td>Kraft’s corporate culture is less discernible. It appears to be a hard-nosed, capitalist organisation which has undertaken many acquisitions, mergers, and divestments over the years with little mention of people or values. Its focus has been on external growth and product development. Even its environmental and sustainability initiatives appear to be driven primarily by economic and cost reduction imperatives.</td>
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<td>Candidates should demonstrate a robust understanding of corporate culture (5 marks) in relation to the two case study organisations (5 marks).</td>
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Total 10 marks
(b) Identify the forces for and against change that may be present in the period after the takeover and suggest how these may be managed.  
(15 marks)

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<th>Q3(b) : MARK SCHEME</th>
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<td><strong>Question aims:</strong></td>
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<tr>
<td>To test candidates’ knowledge of change management principles</td>
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<td>To test candidates’ understanding of driving and restraining forces.</td>
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<td><strong>Syllabus Reference(s):</strong> L6-01 4.5</td>
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<td><strong>Core answer content is likely to include:</strong></td>
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<td>A force-field analysis would identify the various driving and restraining forces involved. These are not just related to people. Driving forces include: synergistic and cost reduction opportunities, sharing of marketing and R&amp;D expenditure, supply chain improvement, Irene Rosenfeld and senior Kraft managers. Restraining forces include: clash of cultures, poor systems compatibility, silo-thinking, natural resistance to change, Cadbury’s managers and employees, the unions and the UK government.</td>
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<td>To overcome the restraining forces, the benefits of the change need to be emphasised and the organisation made ready for change. Steps should be taken to engage staff and gain top management commitment. Communication, involvement and awareness are key to achieving this. Change agents should be incorporated to facilitate the change, and desired practices need to be reinforced by training, monitoring, and enforcement. Sufficient time should be allowed and the affect on organisational culture must be considered.</td>
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<td>Candidates should demonstrate a robust understanding of the forces for change (5 marks), the forces against (5 marks) and the ways of managing change (5 marks).</td>
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**Total 15 marks**
Q4  Analyse the procurement and supply chain strategies that Kraft could adopt in order to achieve its savings target.  

(25 marks)

Q4 : MARK SCHEME

Question aims:
To test candidates' knowledge of procurement and supply chain strategies
To test candidates’ understanding of how procurement can contribute towards corporate strategies

Syllabus Reference(s): L6-02 3.1, 3.2, 3.3, 3.4

Core answer content is likely to include:

Kraft must first of all ensure that procurement is supported at the highest levels of the company and that the CPO, Julia Brown, has a place on the board. Coordinating purchases across both organisations will enable Kraft to utilise its scale and achieve leverage over its suppliers. This should ease the situation in relation to escalating raw material prices. Common purchases should be centralised, and policies and procedures established to regulate the buying activities of the Cadbury division. Procurement should be involved early in the specification process. Kraft’s sustainability goals and initiatives should be adopted by the Cadbury division.

Kraft can also achieve cost reduction through rationalisation, standardisation, supplier performance improvement, supply chain integration, and innovation. There should be good alignment between supply and demand, accurate forecasting and planning systems set up, and robust vertically integrated information systems established. Supply positioning analysis and strategic source planning should be carried out, and a category management approach adopted. All suppliers should be assessed in terms of their capability, competence, capacity, and commitment. Organisations should rationalise their supply base and work closely with key suppliers through supplier relationship management, early involvement initiatives and value-enhancing activities. Supply performance monitoring, and relationship management are key on-going activities.

Procurement should sponsor the adoption of certain lean principles in order to reduce waste and improve efficiency. Non-value-adding activities could be eradicated or reduced and value-adding activities optimised. Build-to-order systems, where upstream leanness is combined with downstream agility, would facilitate flexibility and responsiveness. Quality principles such as zero defects and continuous improvement should be driven throughout the supply chain. Suppliers should be encouraged and supported to drive innovation and technical advances.

Supply chain integration can also aid cost reduction. This can be achieved through customer focus groups, customer relationship management systems, vertical demand information systems linked through EDI, flatter hierarchies, cross-functional working, project teams, continuous improvement teams, early supplier involvement, supplier development, and training and awareness programmes. Kraft’s transportation and distribution networks can be utilised by the Cadbury operations.

Outsourcing of non-core activities is another means of achieving cost reduction. A cross-functional approach to outsourcing is essential, and the relevant costs, benefits, and risks need to be assessed carefully. Particular attention should be paid to issues of asset specificity, and the potential dangers of supplier lock-in and loss of intellectual property. Key performance indicators and service level agreements linked to effectively managed incentive contracts are essential requirements.

This is a rather open question, but candidates should demonstrate a robust understanding of procurement and supply chain principles (13 marks) and how their adoption will enable Kraft to achieve its cost reduction target. (12 marks).

Total 25 marks

END OF MARK SCHEME