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# Andrew Bass's *Pragmatics* Newsletter

## Practical techniques and thought-provoking ideas

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## Cadbury and Kraft. Big Deal: What Can We Learn from it?

*(At the time this article appeared, the big business story locally (Birmingham UK) was the Kraft takeover of Cadbury. The article raises questions of relevance to all sorts of businesses)*

I don't know if many of my readers are contemplating a multibillion acquisition this year, so I won't go into an extended conversation about the (de)merits of the deal, but here are a few ideas it raises which are relevant to almost all businesses:

### 1) Past performance is not an automatic guarantee of future results

Studies show that corporations often acquire good businesses, but then forget that they need plenty of ongoing attention merely to stay good (after all, demanding expectations for the target company will already be priced in by the market/owners). As they say in the investment adverts, past performance is not a guarantee of future results. Before an acquirer gets too excited about "synergies", they still need to remember to keep the current plates spinning.

*Question for your own business:* where are you assuming that prior performance (of individual products, services or individual clients/customers) will continue? Are those safe assumptions? Do you need to be protecting those areas, or develop replacement income streams?

### 2) Where is the attention and emotion going?

Cadbury management spent the previous four months telling their staff (and indeed the world) that Kraft had an unappealing low-growth business model and would be bad for the business. Now employees at all levels are worried about job losses, and even if they stay, they are now working for a company they have heard nothing but bad about. Where do you think all the attention at Cadbury has been going: on the customer, or internal matters?

*Questions for your own business:* where does the majority of attention go – inside the business or outside? Where should it be for you to realise your aspirations?

**3) Is bigger really always better?**

Evidence from demergers (including funnily enough Cadbury's sales of Premier Foods in the 1980s) shows that demerged units are often more profitable than they were when under centralised corporate control. Why? Well, some of the reasons are that they are more focused, faster (less bureaucracy means quicker decision making and agility), and people feel a greater sense of ownership for results, which is more motivating. You need a lot of "synergies" to offset that.

*Question for your own business:* is growth seen as a route to higher sustained profitability, or simply as a route to controlling something bigger?

**In summary, try putting these questions on your next senior team meeting agenda:**

- Where are we resting on our laurels and trusting that a line of business will continue as it always has?
- Where are we being ostrich-like about internal issues (usually people-related) which are sucking attention away from our customers/clients/markets/competitors and into internal nonsense?
- What's our current priority: size or profitability? Are our actions consistent with the answer?

To learn more about aligning action on the ground with the strategy set in the boardroom, contact Andrew at andrew@bassclusker.com or explore the free resources available on our website: www.bassclusker.com.

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*The Performance Papers: Incisive Briefings for Busy Leaders*, by Andrew Bass. Available at Amazon: http://www.amazon.co.uk/dp/1907498710.

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