

7149

PROFILE OF  
JACOBS-SUCHARD

**somo**  
Paulus Potterstraat 20  
1071 DA Amsterdam

PREP. BY  
PAUL ELSHOF  
SOMO  
AMSTERDAM  
1988

Company profile prepared may/june 1988.

JACOBS SUCHARD A.G.

Head Office: Seefeldquai 17  
80008 Zurich  
Switzerland

**SOMO**  
Pauze Potermarkt 20  
1071 DA Amsterdam

Chief Executive Officer: Klaus J. Jacobs

Net sales 1987 : Swiss Fr. 6.104 mln

Net profit 1987 : " 265 mln ( 4% of sales)

Employees end 1987: 16.053

0. Introduction.

Jacobs Suchard is the result of a merger in 1982 of Jacobs, a swiss-german coffee group, and Interfood, a swiss based chocolate/confectionary group. Interfood itself was also the result of a merger of two leading swiss chocolate companies, Tobler and Suchard, who merged in 1970.

Jacobs was only active in the coffee-branche and was and is still the nr. one coffeeroaster in Europe. In 1980-1981 90% of group-sales came from coffee, 10% from tea. Geographically, group sales were concentrated at the B.R.D. (52%), France (21%) and to a lesser extent Austria, Switzerland and Canada.

Interfood had a same type of dependancy from one product as Jacobs, but now not from coffee but from chocolate: in 1980-1981 85% of group sales came from chocolate and 9% from confectionery. Sales were well spread over the west european countries with highest sales in Switzerland, 17% of group sales. Just over 10% of group sales came from outside Europe through a network of licensees.

The one-commodity dependancy was for both groups a very important reason to merger. Talks started already in 1977, but were cancelled because of the heavy losses Jacobs had in 1977: nearly 100 mln SFr on sales of 2.247 mln SFr. Jacobs got completely surprised by the steep rise of the price of green coffee on the world market.

The tougher competition between the leading companies starting at the end of the seventies in a stagnating consumermarket and the inroads of the retailchains in the marketshares and the margins of the brand-producing companies were together enough impetus for the re-opening of mergertalks in 1981.

With the merger Jacobs Suchard became one of the leading multinational companies in both productgroups. In the german-speaking parts of Europe it got the name K&K-multi ( Kaffee und Kakao).

During the first years coffee was the leading commodity: between 60 and 70% of sales came from coffee. This situation lasted

untill 1986. In 1987, for the first time, was chocolate/confectionery the leading productgroup: 75% of sales. The reason for this change of balance: since the date of the merger the new group started a vigorous expansion-strategy in which take-overs play a crucial role. The most important take-overs were all in the cocoa/chocolate product chain. To mention only the last take-overs in 1986 and 1987: Bensdorp (Austria), a substantial part of the ailing Monheim-group in Germany such as Van Houten (BRD and USA) and General Chocolate (Belgium), Cote d'Or (Belgium), E.J.Brach (USA), Du Lac (Italy) and now Jacobs Suchard is involved in a fight with Nestle to take over Rowntree. The most important argument for this concentration on the chocolate-sector is that a. more than in coffee the markets are still fragmented and offer scope for consolidation through take-overs and b. in the chocolate-industry higher-margins can be achieved compared to coffee: in the coffee-industry raw material costs make up for almost 70% of the consumer-price and price-volatility is quickly passed through to consumer-prices because of the consumer-attracting function coffee has in the retail-chains.

Parallel with this policy of strenghtening in the first place the chocolate/confectionery part of the company went the development of a trading and financial services department. During the last years the company developed into one of the biggest coffee-traders in the world and became also by take-overs one of the leading trading firms in cocoa-products.

In short: Jacobs Suchard is in coffee and chocolate/confectionery a top ranking company : in coffee it comes behind General Foods and Nestle on the third place in the world market but is leader in Europe, in chocolate/confectionery it follows worldwide behind Mars, Nestle ,Hershey, Cadbury Schweppes and Rowntree on a sixth place, but on the european continent it is nr. 1 and in the USA it has the third position. The fight over Rowntree has everything to do with the marginal position Jacobs Suchard has in the UK (only 2% market share), and the same goes for Nestle ( 3% market share in the UK, while the UK is thesecond market in volume in Europe ( after the BRD and before France).

Because it relies for 82% on sales in Central Europe Jacobs Suchard announced a two-pronged strategy for expansion in the coming years:

- expansion in the core-productgroups coffee and chocolate in the Far East, Japan ,the USA and extension from the strong position in Central Europa to the whole of Europe expansion in the Scandinavian countries and in the Mediterranean).
- concentration on those products and brandnames that have potential as global brands. That means a heavy restructuring programme for the coming years.

## 1. HISTORY.

The history of this company is in fact the history of three groups, the coffee group Jacobs and the chocolate groups Suchard and Tobler. To understand the actual position and strategies of the newly formed Jacobs Suchard company a short overview of the

history of both parts is a necessity.

### 1.1. The history of the german coffeecompany Jacobs who went Swiss.

In 1895 Johann Jacobs founded a small coffee and tea shop in Bremen, Germany. He and later his nephew Walter Jacobs builded from this shop within the first half of this century one of the leading coffee companies in Germany. During the sixties Joh. Jacobs & Co. started to internationalize its operations.

One of the most important steps in this policy was the cooperation with the dutch coffeeroaster Douwe Egberts, which started in 1968. The explicit aim of this cooperation was to work jointly on strong marketpositions in other countries. First of all the existing subsidiaries in France and Denmark of Douwe Egberts were transformed in 50/50 jointventures of DE and Jacobs together. The leading french coffeecompany Jacques Vabre SA, which saw Douwe Egberts since 1966 in a majority shareholding position, was from 1968 on jointly owned by DE and Jacobs. In Denmark it concerned Forenede Kaffeekompagnier and a second firm Ali Kaffe. Together Jacobs and Douwe Egberts formed the D.E.J. International Research Company B.V. located in the Netherlands.

Everything seemed to work in the direction of a full merger between these groups. In 1973 Jacobs moved its holding company (still completely family owned) from Germany to Zurich (Switzerland). The arguments: a. the need of a neutral place regarding the coming merger with the dutch company Douwe Egberts b. easier entry to the swiss financial markets c. Jacobs Management & Consulting AG was already located in Zurich. In this company worked already the most important managers of the whole group. Tax-evasion played already a role in moving this management headquarters from Germany to Switzerland. In 1973 the chairmen of the two companies announced already the merger into Douwe Egberts Jacobs AG planned for 1984.

If realized it would have meant a company with sales of 2 Mrd DM and 8000 workers and a coffee-company as strong as Nestle and General Foods, the companies who dominated the world coffeemarkets. For undisclosed reasons, the merger failed. The jointly managed activities and companies (research and the french and danish subsidiaries) stayed under joint management, but for the rest both companies followed from 1974 their own individual way.

Jacobs had acquired in 1971 the german firm Ernst Grosch and bought in 1976 Nabob Foods, the leading coffeeroaster in Canada (sales of Nabob /Vancouver in 1975 60 Mln Can \$ : Jacobs itself had in 1975 sales of 1,3 Mrd SwFr with employment for 4000 workers).

In 1977 Jacobs and Douwe Egberts parted ways completely. The joint researchcompany was split up and Jacobs took over Douwe Egberts' share in Jacques Vabre (France) and Ali and Forenede (Denmark).

To finance the take-over of Nabob Foods and the shares in the french and danish subsidiaries the shareholders equity of Jacobs was raised by placing a package worth 25% of total share-capital in the hands of SBZ ( the Schweizer Bankgesellschaft at Zurich).

The ownership structure of Jacobs AG was then:

- Jacobs Holding (Zug), the family holding	50,25%
- Schweizer Bankgesellschaft Zurich	25 %
- Walter Jacobs	17,25 %

- Daniel Jacobs	6,0%
- H.Ludecke	1,5%

The sale of the 25% package to SBZ was meant as an intermediate step before going public and becoming a stock-exchange fund. This step was planned for in 1979/1980.

The very bad business-year 1977 for Jacobs made management to postpone this step indefinitely. In 1977 the company made heavy losses for the first year in its history : on net sales of 2.247 Mln SwFr. losses were made of 98 Mln SwFr.

The main reason: prices of green coffee raised steeply and multiplied with a factor 7 within 2 years (1976 and 1977). Jacobs was insufficiently prepared and had to buy for high prices. On top of that it had to pay gigantic costs in advertising and trade-promotion to support its market shares. In West Germany it had a share in the roasted coffee market at Jan. 1986 of 22,8%. That share rockted down within one and a half year to 14%. The high marketing expenses lifted this share again to 25,8%, but at the cost of heavy losses.

This development resulted in:

- a. postponement of the introduction on the stock-exchange till after 1980 and
- b. postponement of diversification-projects which were prepared.
- c. postponement of introductory merger-talks with Interfood

First aim now was to consolidate the marketposition in existing markets, concentration on the product on which 85% of the company depends, roasted coffee, and prepare in this way for further expansion.

In this concentration on the roasted coffee-market it followed a clear policy: emphasis on the quality-market and cost-cutting measures/rationalisation in production and distribution.

In the years 1977-1980 it expanded its position by the take overs of:

- 1976 Nabob Foods (Canada) marketleader with sales of 60 mln Can.\$.
- 1977 50% and thus complete control in Les Cafes Jacques Vabre (France) marketleader in France
- 1977 idem for Ali and Fornede in Denmark
- 1977 Foundation of a 100% subsidiary in Belgium: Jacobs Belgique SA at Brussels
- 1979 Le Chat Noir ( belgium family-owned coffeeroaster: nr 3 in the belgian market. Both belgian subsidiaries were merged.
- 1979 majority share in WB Holding with subsidiaries Narok AG and Zebra Kaffee & Tee AG.: two strong brands in the gastronomy-market. The retailchains Migros and Coop control together 80% of the coffeemarket. But of the roasted-coffee sector 45% of sales comes from the gastronomy-branche.
- 1980 Coffex AG (Switzerland/Neuhausen): a small pioneer in decaffeination of coffee by using water and not chemical solvents: patented as the secoffex-process.
- 1980 start of the construction of a new Group R&D center for Coffee at Bremen-Hemeligen. R&D is concentrated on

quality-improvement of the endproduct, economies in the roasting technology and productinnovation.

Some basic facts on the period	1974	-	1980	:
Net sales ( Mln SwFr.)	: 1.322		2.644	x 2
Net profits( " " )	: 13,5		62	x 4,5
Employment	: 4.493		3.928	- 565.
Shareholders equity as % of total assets	: 34		30	

During this period all investments in fixed assets could be financed completely out of depreciation. Take overs were financed also by raising the share capital. Goodwill of the companies taken over has been written off against equity.

The end of the seventies saw a fast growing competition between the main contenders of the market: big producers and retailchains. General Foods entered the german market, still good for 65% of total Jacobs sales, by taking over Kaffee Hag. The parture from Douwe Egberts in 1977 was reached under the agreement not to entrude each others home markets. In 1978 Douwe Egberts was taken over by Consolidated Foods ( a US food company, later renamed Sara Lee Corp: CF took a majority share but has a minority voting position).

Improving marketpositions was sought by:

- diminishing personel costs by rationalizing production. Bringing back employment figures with 565 in a periode that many coffeecompanies have been taken over shows a permanent policy directed at optimal productivity.
- raising advertising and promotion expenses: these expenses raised from 112 mln SwFr in 1978 to 147 in 1979 and 209 in 1980. In 2 years time double expenses.
- optimalization of coffee-commodity trading policies. The company learned its lessons in 1976 and 1977. With minimal risks it developed a trading activity that gained volume and got into one of the biggest coffee-traders: the Taloca AG with headquarters at Zug, has subsidiaries in important coffee-growing countries. Zug Switzerland is the most important coffee-trading place in the world, thanks to its tax-paradise position. Minimalizing costs of the commodity coffee makes much sense because it makes between 65 and 70% of net sales.
- the search for marketniches with more than average growth-figures such as the health-market which could be tapped by the water-decaffeinated roasted coffee through the secoffex-process.
- expansion was further prepared in new markets with growth-potential like the U.K. , Japan and South America.

The 1980 market position of Jacobs in coffee in a short overview: Production plants and sales in 7 countries of which:

- \* West Germany in 1980 55% of net sales
- \* France " 21% " "
- \* Austria, Switzerland, Canada, Belgium and Denmark 24% " " together.

gave 45% voting rights.

Chocolate Tobler started in 1867 with a confectioners shop in Bern. In 1905 the second generation Tobler introduced the Toblerone brand.

Also Tobler started quite soon the internationalization of its production. In 1970 it had production plants in West Germany, France, Italy, Belgium, U.K., Ireland and Australia.

Both were in the first place the producers of high-priced quality products.

The merger in 1970 of both groups in one group Interfood was proclaimed as a "new chocolate concern of outstanding importance in Europe". An important argument to merge was the threat that came from the rapidly growing market shares that Mars with its filled bars could realize in the European markets.

As Interfood the group continued its international expansion. An early setback was decided in 1970. The Chocolate Tobler factory in Italy (Turin) was closed because of continuous losses.

Successful marks in the internationalization were the take-overs of:

- Andes Candies Inc. in Delavan, Wisconsin USA : with sales of \$23 mln and 176 employees it was the first production outlet in the USA  
This take over took place in 1980
- Chocolaterie Callebaut in Wieze Belgium. Callebaut employed in 1980 347 workers and was at the time of the take-over already one of the best known producers of industrial chocolate in Western Europe. Interfood had already a minority share and raised that in 1981 to a 100% control-position.
- in 1980 Interfood bought a minority position in Perfetti SAE in San Sebastian/ Spain
- to secure the supply of its main commodity cocoabeans and cocoa butter better it constructed together with the Caisse de Stabilisation (Marketing Board for Cocoa) at Ivory Coast the Procaci cocoa-processing factory. The Caisse held 60 and Interfood 40% of the shares with Interfood responsible for management. Construction started in 1974 and overall-experience was for the Interfood group very negative. Even in 1987 management mentioned the Procaci-experience as the main argument not to start own production in third world countries as long as there were no imposing arguments to do so. The Caisse preferred to sell the good quality beans on the world market and sold only big quantities of off-grade bad beans to Procaci. In 1982 Interfood sold its stake to the Caisse after neglecting maintenance of the factory for years.

From 1970 till 1981 sales doubled to SwFr 1.530 mln. But the results on these sales were meagre. In the years since 1975 group earnings never exceeded 1 percent of sales. And equity as percentage of total assets showed a downwards trend: from 41% in 1979 to 29% in 1981.

And just as the Jacobs group was 90% dependant on coffee, Interfood was 85% dependant on chocolate and for the other 15% on related sweeties.

Against this background management of Interfood under the direction of Nello Celio, the ex-minister of finance of Switzerland, started in 1981 a policy of rationalizing production. A new chocolate-factory was under construction in Bern to replace the old one, in Argentina a new factory could start production and the Andes (USA) and Callebaut (Belgium) take-overs started to contribute to better financial results.

It is important to note that apart from the argentinian factory and a minority share in Copate (Brazil) Interfood had no production-facilities in the third world. Sales realized there ( ca. 100 mln SwFr over the years from 1978 to 1981) came from licensees in Thailand, Indonesia, Mexico and from J.Kras in Yugoslavia.

Just before the merger between Interfood and Jacobs their basic facts showed this picture:

	Interfood	Jacobs
net sales (SwFr mln) :	1.500	2.700
cash flow " " :	50	97
net profits " " :	15	70
employment :	8.671	3.801

## 2. The reverse take over of Interfood by Jacobs, sold as a merger.

Both groups were essentially european companies with their main emphasis in the center of Europe: West Germany, Austria, Switzerland, France. And both strong in their own branch but nevertheless vulnerable because of their dependance of own commodity.

Both followed more or less the same strategies: concentration on the quality-segment of the market, expanding marketshares in existing markets by productinnovations and expansion in new regional markets and apart from that all diversification in branches of the food branche which have much in common with the 'own' branch.

Jacobs with headquarters at Zurich and Interfood at Lausanne took a long time to study all ins and outs.

The Jacobs family and the Interfood-management agreed to combine operations in the middle of 1982: the next step should be the approval of the Interfood-shareholders.

The Chocolat Poulain group which held 45% of the voting rights in the share-capital in Interfood and which was itself controlled by the Midy family concsented already with the plans. Another important share-holdersgroup was the Tradition Suchard Tobler: a combination of shareholders who wanted to limit the influence of the french Poulain group and to keep Suchard Tobler a swiss company. The way in which the factual take-over of Interfood took plae proved to have for the main actors in the field a lot of advantages.

The auditors Price Waterhouse valued the two groups in a relation of 1 Interfood to 3 Jacobs. But instead of a take-over of the Interfood group by Jacobs the choice was made for a buy-in of Jacobs in Interfood. Jacobs AG would go up in the Interfood group. On the base of the evaluation of the intrinsic value of both groups Interfood raised its sharecapital from 33,8 mln SwFr (nominal value) with 101,4 mln SwFr to 135,2 mln SwFr. This threefold raise of interfood sharecapaital was then exchanged for the Jacobs shares and resulted in an ownership-structure of the new Interfood:

\* the old Jacobs-shareholders would own 79,6% of Interfood-shares which meant: the Jacobs family controlled the new Interfood



group through Colima Holding, the family holding with 75% of shares and 88% of votes in Jacobs AG and some individual share-packages of familymembers.

\* the former Interfood shareholders were left with 20,4% of shares with the Poulain-Group 5% of shares and 9% of votes.

This construction had for Jacobs a lot of advantages: firstly in this way they got the stock-exchange quotation they had wanted for a long time but never realized. Secondly: it prevented that Jacobs had to raise equity to buy Interfood shares. Thirdly, it gave the new company a neutral name under which umbrella many brandnames could be carried on. And next, this solution kept the swiss-identity of Interfood intact which smoothed down potential opposition of the Tradition Suchard Tobler group. A further reason to keep the Interfood identity intact was the decision to keep company-headquarters in Lausanne.

Nello Celio, the chairman of Interfood, would continue this function in the new Interfood and Klaus J. Jacobs, the managing director and factual owner of the Jacobs group would be vice chairman and managing director of the group.

In febr. 1983 a special shareholdersmeeting agreed with the change of name into Jacobs Suchard: the expression of the strategy to concentrate on the two core-products: coffee and chocolate.

In 1984 it was approved that the holding company and management headquarters should move from Lausanne to Zurich. At that time Klaus J. Jacobs had already succeeded Celio as chairman and was as the main owner (controlling 62% of the Colima Holding) the ultimate decisionmaker who is heavily involved in day to day decision making and takes in fact all crucial decisions.

In 1984 it became clear that the Poulain group had sold its 5% share-package in Jacobs Suchard to the Colima-holding, in fact to Klaus Jacobs.

The new company with sales in 1982 of SwFr. 4.066 mln got the nr. 2 position in Switzerland behind Nestle, but was in comparison to Nestle much more an european company. West Germany, France and Switzerland were the markets where 75% of sales was realized.

### 3. Strategy of the Jacobs Suchard group.

The history of the Jacobs AG and Interfood have been described extensively because the strategy of the Jacobs Suchard group followed to a great extent the lines which were already laid down before the take-over.

The first important decision was to concentrate on the two core-products coffee and chocolate with coffee in the first years responsible of two third of total sales. Some not core-group related companies were sold or left out of the consolidation: Tuvomont (in France), Conserveries de Laita (also in France) and Finalima (Spain). In 1983 Chocolat Amman (marshmellowproducer) was sold.

The first years 1982 and 1983 were used to digest the combination of both groups internally. Substantial restructuring was prepared:

- the organization was reorganized into a structure based on 4 regions: West Germany, Denmark / France, Spain / Switzerland, Austria, Belgium, UK export and licensees / N. and S. America. Both the coffee and chocolate-interests were organized following these regional lines. First goal was trying to use all synergy possibilities by merging administration, sales and distribution departments of the former coffee and chocolate companies in each region.
- corporate management was concentrated in Zurich and trimmed into a small 60-persons employing headquarters.
- in Belgium also the production facilities for chocolate were concentrated, a policy which was started in all countries in the years to follow.
- for the products and brandnames in which management saw international and global potential one-product high volume plants were prepared and designed: Toblerone/Milka/Nussini.

Investments in the first years were mainly concentrated on rationalizing the chocolate activities and in coffee in the construction of a new coffee-roasting process in existing factories: the short-time roasting procedure (Turbo-roasting: instead of the conventional way of roasting green coffeebeans 4 to 8 minutes the turbo-procedure kept roasting-time down to 1,5 minute and, says Jacobs, results in a better aroma.

After the first years aruthless expansion was started by take-overs:

\* from 1984 onwards Jacobs Suchard bought itself a strong position in the commodity-trade of coffee and cocoa. The commodities coffee and cocoa are responsible for 60-70% of costs of total net sales. Wages, salaries and social security counts for around 10% and advertising/promotion for a percentage which grew from 10% to 14% last year. From all chocolate-multinationals Jacobs Suchard is the only one which followed this strategy of vertical integration into the commodity trade in such a voluminous way.

\* a similar pattern was followed in the cocoa-grinding branche. Interfood had already taken over the belgian industrial chocolate-producer Callebaut in 1980. In 1986 was taken over the grinding part of Monheim AG, which meant Van Houten, General Chocolate and Comet (Canada). In 1987 a deal was concluded but not carried out to take over Chadler in Brazil and the company made an offer for (parts of) Cacao Barry, since 1982 part of Sucres et Denrees the french agribusiness group. The strategy seems to be the composition of a grinding division big enough to be within the top 5 grinding companies on the world market.

\* in 1985 Jacobs Suchard started a take-over strategy in the chocolate-sector in Europe and the USA which led to a consolidation-process of the branche worldwide with the take-over battle on Rowntree as its peak early in 1988.

At the shareholdersmeeting of 1985 Klaus Jacobs declared that Jacobs Suchard wanted to be in confectionery the number 3 in the world just as it was the number 3 in coffee behind General Foods and Nestle already for years. He kept words. Within 3 years time so many and big companies were bought

that Jacobs Suchard is by now one of the members of the top-5 league. If Jacobs Suchard wins the fight with Nestle and takes over Rowntree it is then by far the biggest confectionery company. If not, Nestle will be bigger in size in confectionery and a much more difficult company to compete with.

World consumption of coffee and chocolate is stagnating or at best slowly expanding. Growth for a company means trying to raise own marketshares in a highly competitive branche. The fastest way is to buy marketshares and well known brandnames by take-overs. It offers also the possibility to enter new regional markets, as was done by buying EJ Brach in the USA.

\* geographical expansion is the next step. In the coffee-branche it is involved in an expansion strategy with a very carefull entry in the US market by testmarketing now in California. It is important to note that this step is the first since many years outside the 7 european countries plus Canada in which Jacobs operates already for years and where it has strong marketpositions. Japan has been mentioned and for coffee and for confectionery as an important market to gain a foothold in. In confectionery the recent take-overs had as a result entries in markets which were not covered till that time by the company.

\*horizontal diversification is in preparation. It is another way of looking for growth: diversification in products and branches quite near to already known ones. An example was the take-over bid Jacobs Suchard made at the end of 1986 for Hero, a swiss food company with international well known brands in Western Europe of jams, canned vegetables and drinks. The bid failed and Hero bought back a nearly 33% package of shares in Hero which were bought by Colima Holding in the months before. The condition was that for a periode of 4 years Jacobs Suchard has first rights to buy should Hero want to lose its independance or been raided by others.

In interviews Klaus Jacobs let know that also Bahlsen, the german bakery products group and that type of companies are very wellcome take-over companies. The reasoning is clear: both type of products can be marketed in connection with chocolate and or coffee.

One of the options seems to be to develop a kind of breakfast-package including coffee, jams and related products, to be sold through gastronomy channels.

Another example is the high volumes of non chocolate confectionery sold by Brach in the USA. The incorporation of Brach makes it possible to internationalize these products to Europe, just as using the Brach marketing channels in the USA to sell higher volumes of the Suchard and Tobler brands.

A last example of horizontal diversification is the development of new types of marketing-outlets. In West Germany the company started the Cafeserie chain, shops inside the big retailchains. In these shops the company sells only specialities in the coffee and chocolate branches. Jan. 1988 it took over DS Italiana, a company distributing chewing gum and sweets in Italy (sales of SwFr. 70 mln). In the same light has to been seen the energy the company spend to have its products and brands distributed in various retailtypes: from the retailchains to kiosks, petrolstations and so

on. The explicit goal is to develop so many outlets that the company products can be bought 24 hours a day and as close to the final customer as possible.

#### 4. Basic financial data on sales, profits, markets.

Before giving some more details on the recent developments in the main activities of the company it is important to look into the financial figures and results.

#### Sales, profits, cashflow and investments 1982-1987 (in mln SwFr.)

	1982	1983	1984	1985	1986	1987
1. Total sales :	4.066	4.565	5.111	5.382	5.236	6.104
- of which coffee :	2.590	3.060	3.325	3.557	3.101	2.608
- " " chocolate:	1.476	1.505	1.786	1.825	2.135	3.496
2. Net profit :	91	110	120	150	191	265
- Net profit as % of sales :	2,2	2,4	2,4	2,8	3,6	4,3
- net profit as % of shareholders equity	15,4	16,9	16,6	14,1	13,6	20,5
3. Cash flow :	164	191	205	243	294	394
4. Investments :	156	145	153	100	85	158
- of which in coffee	75	51	46	26	27	38
- " " in chocolate	81	93	107	74	58	120

#### Regional breakdown of sales (in % of total sales)

	'82	'83	'86	'87
West Germany	46%	44%	45%	38%
France	17	21	25	21
Switzerland	12	13	6	3
Other Europe	18	16	17	20
North America	5	5	6	17
Other regions	2	1	1	1

**SOMO**  
Paulus Potterstraat 20  
1071 DA Amsterdam

Some remarks:

\* the regional concentration in sales is still very strong in central Europe.

The 3 main regional markets were in 1982 and 1983 responsible for 75% and 78% of total sales. In 1986 this percentage was still 76% notwithstanding all acquisitions and it was the take-over of Brach in the USA mainly which brought that figure down to 63%. One of the explicit strategic aims is to reach at least 20% of sales in the USA.

\* coffeesales were 60% or more of total sales until 1987. The first time change of position in 1987 with chocolate accounting for 57% of total sales is due to the combination of two developments: a. the recent take overs of Cote d'Or and Brach and the fallen price of green coffee. While volume sales in coffee rose, prices went down.

\* important to note is that consolidated in sales are only the sales to final customers. Not included are the very substantial sales made in trading. Of these sales only costs/expenses and profits are consolidated. In this way the company tries to keep hidden the share it has in worldtrade of the coffee and cocoa commodities.

\* the two aims related to profitability and declared in 1985: net profit should reach a level of 20% of shareholders equity and 4% of net sales had been realised already in 1987. The ratio's then were 20,5 and 4,3% respectively.

\* Investments in capital expenditure could be easily financed internally. Cash flow ( as the addition of net profits and depreciation) showed in the last years a surplus related to investments of more than 200 mln SwFr a year. This was a substantial bulk of money which is partly used for marketinvestments like advertising campaigns, support in the introduction of new products but it was also used to strenghten the war-budget for take-overs of other companies. The other way was raising the share-capital.

\* Of the investments realized during these 5 years more then 60% was spend in rationalizing the chocolate-group. Modernizing equipment and concentration of production together with specialization of some plants in high volume one-product plants was the main content. The results of this vigorous rationalization are reflected in the development of employmentlevels in the company: every year the total employment went down with a percentage of 7-10%.The only reason that this development is difficult to discern is the permanent sequence of take-overs in the last years who in most cases added more jobs then got lost through restructuring.

\* But this means clearly for the actual situation that the incorporation of Cote d'Or, Brach and van Houten will result in a rethinking of the production organisation. And still more concentration of production. At this moment for example, cocoa beans are grinded at 5 places into cocoaliquor, the base for

the chocolate production. Klaus Jacobs said recently in an interview that probably it could be done much more efficiently in two places. Apart from that: substantial provisions have been made in 1987 for restructuring connected to the harmonisation of the internal European market. And where Jacobs Suchard developed already cross-border distribution in combination with single product factories for the whole of Europe it has the experience at home to extend this strategy. The old rounds of restructuring are not yet finished and the new ones related to the Europe 1992 issue and the recent acquisitions are coming .

\* This development gives way to a company-organisation structure with high volume robotised and computerised production plants for global brands. With a extremely minimal group of employees. Only the local niche-market products will give some extra employment. All with all it has in it the tendency that wages and social costs tend to give way to advertising and promotion costs in the total costs-structure of the company: an overview of the development of the main costs of the company over the years 1982-1987 makes that development clear:

COST-STRUCTURE OF SALES 1982-1987

	1982	1983	1984	1985	1986	1987
Net sales :	4.066	4.565	5.111	5.381	5.235	6.104
Of which :						
* raw materials :	65%	66%	69%	69%	64%	54%
* wages, social costs :	12%	11%	10%	10%	11%	14%
* advertising/ promotion costs :	9%	9%	9%	10%	10%	14%

Costs for advertising and promotion rose from SwFr 359 mln in 1982 to SwFr 831 mln in 1987 and tend to raise further. Costs for wages were lowered since 1982 but started to raise in 1986 as a result of the take-overs. There the tendency will undoubtedly be anew a downwards trend through restructuring and minimizing personal costs.

The rise in raw material costs for 1984 and 1985 reflects the rise of the green coffee price on the world markets. And while in the consumer price for coffee the commodity price for green coffee is responsible for 70% of costs, in chocolate the price of the commodity cocoa is good for only 50% of the consumer price. The fall with 10% of the cost factor raw material in 1987 has therefore mainly to do with the grown importance of cocoa/chocolate in the company port-folio.

The advantage to be in these both commodities is for Jacobs Suchard that the price-cycle historically never had the same timing: it has never happened that both reached in the same year their lowest or highest prices.

## 5. Growth by take-overs.

Expansion was sought along two lines: by concentration on a certain number of products in the assortment the company realised to gain volume-increases. But the most important way to attain growth was the acquisition strategy over the last 3 years. Within the newly created company the first years were used to prepare the restructuring in the existing activities, mostly by merging the same type of activities in the same regions. Sales staff of for example the Tobler, Suchard and Jacobs plants in one of the relevant countries would be merged, as was done for administration. National offices were put together in France in Choisy-le-Roi, Belgium at Brussels, Switzerland in Neuchatel. The various production plants for the same type of products in various countries followed. In France production was concentrated in Strasbourg, in West Germany in Lorrach (at the cost of Stuttgart), in Belgium in Wieze but to gain the volume to reach real economies of scale acquisitions were very important. Through them the marketshares were bought much faster and at lower cost then could have been done by supporting the existing brands in marketing campaigns over many years. The list of acquisitions in only 3 years is very impressive and it is no exaggeration to say that it is Jacobs Suchard in the first place which took the lead in the actual phase of consolidation of the chocolate-market on the world.

### List of acquisitions of Jacobs Suchard 1982-1988

#### 1982:

- \* Cafe Grand Mere (Lille/France) : bought was 66% of shares.  
Grand Mere was the number 3 in the french coffee-market.
- \* Chocolaterie Callebaut (Lebbeke, Wieze/Belgium) 20% marketshare of Belgian chocolate market. Total production divided between industrial chocolate (85%) and consumer products (15%). Employment: 347

Sold was: Tuvomon SA (France)  
Consolidation not continued and sold in 1984:  
Conserveries de Laita (France)  
Finalima (Spain)

#### 1983:

Sold was : Chocolat Amman (Switzerland)  
No acquisitions.  
Consolidation not continued  
Copate (Brazil)

1984:

- \* Taloca and Sopra founded a coffee-and cocoa buying operation in Abidjan/Ivory Coast.  
All important coffeegrowing countries are now covered by buying offices of Taloca. Sopra is half this way.
- \* Industrias de Chocolate Lacta SA, Sao Paulo/Brazil. A minority holding was bought and the minority holding in Copate was used to merge both companies.

1985:

- \* Sopra U.K. London/.K. was founded as subsidiary of Sopra SA at Zug/Switzerland. Sopra SA is the company-subsi-dary specialized in buying cocoabeans and cocoaproducts. The UK subsidiary makes Jacobs Suchard the first major chocolate company with its own trading activity on the London Cocoa Terminal Market.
- \* Banco Aleman-Panameno SA, Panama. This bank is specialized in financing the commodity-trade, in the first place that of green coffee.
- \* German Merino Cia Ltda, Colombia. Jacobs Suchard bought a un-disclosed stake in this coffee-export firm. Taloca was already active in the columbian coffeetrade with its own office. German Merino was merged with Taloca.
- \* Bernhard Rothfos KGaA, Hamburg/West Germany. Jacobs Suchard and Rothfos agreed in JS buying an equity-participation in Rothfos, big enough to need the consent of the German Kartellamt. That means at least a 30% participation. Rothfos is the most important trader in the worldmarket of green coffee, with sales of DM 3 billion. (that means a volume of 6 mln bags of 60 kg). Jan. 1986 the Kartellamt objected because it would in fact result in a near-merger between the biggest trader in green coffee and the first roaster in West Germany/Europe. Take over prevented by Kartellamt.
- \* Bensdorp, Tulln/Austria. Bought from Unilever for an undis-closed sum. Bensdorp employed 310 workers and produces chocolate-products.

Sold were: Cle d'Or and Chat Noir, coffee-brandnames in Belgium  
Cafe Solvey, coffee-brandname in Spain.  
All were sold to Douwe Egberts/Netherlands, subsidiary of the US food company Sara Lee. JS kept the factories.



1986:

\*Ibero-Amerika Bank AG, Bremen/West Germany. This bank is specialized in financing export trade from South America. JS bought a controlling interest in this bank. The minority position is held by the National Coffee Organization in Colombia. The bank has important subsidiaries in Argentine/Brazil/Colombia/Costa Rica/ Venezuela and Uruguay.

Banco Aleman-Panameno and Ibero-Amerika Bank had a combined balance sheet at the end of 1986 of SwFr 673 mln. and formed together a very important banking operation granting loans to commodity-exporters who traded on the United States, Europe and Japan.

So important that Jacobs Suchard grouped them in a specially formed division: Trading and Financial Business.

\*Monheim AG, Aachen/West Germany. For the sum of DM 150 mln and the take-over of between DM 450 and 500 mln outstanding debts Jacobs Suchard took over the biggest west german chocolate-company. But after a. first the license for the Lindt production was sold back to the original company ( sales of Lindt were DM 235 mln in 1985) and b. the former owner Ludwig had founded Ludwig Schokolade GmbH at Aachen with the aim to buy-out the production of the chocolate-products under the brand name Trumpf, Mauxion, Regent and Novesia (sales in 1985 of ca. DM 500 mln.) Added to these was also the contract for the export of Van Houten chocolate-products (sales 1985 DM 100 mln). Last known sales figures of the Monheim AG were those over 1985: totale sales DM 1.900 mln.

Jacobs Suchard took in this way over a company with sales of slightly more than DM 1 billion. The Ludwig buy-out has been constructed to gain the approval of the German Kartellamt which had obstructed already the purchase of an important stake in Rothfos.

Most important in this acquisition is by far the acquisition of the Monheim subsidiary Van Houten. Van Houten is one of the most famous cocoa-grinding companies on the world and is involved mainly in trading of cocoabeans and cocoaproducts: the Van Houten Berlin cocoa-processing factory grinds together with its US-affiliate 80.000 tons of cocoa (4% of world cocoa harvest). Sales over 1986 are estimated on DM 900 mln.

Jacobs Suchard succeeded in this take-over in heavy competition with WR Grace /Cacaofabriek De Zaan.

Van Houten sales will not be consolidated. Only expenses and profits are consolidated under the heading Other income and expenses as is also the case for the trading and banking operations itn owned already.

Together with Van Houten, General Chocolate (Belgium), and Comet (Canada) are part of the Monheim AG.

- \* Perugina, Italy. In a search for building up a better presence in Italy, Jacobs Suchard bided for the Perugina chocolate-company. Perugina formed part of the C.I.R. , the holdingcompany of Carlo de Benedetti. C.I.R. didn't accept the offer of Jacobs Suchard and rejected the take-over in the mid 1986. But Perugina is for sale, while it is impossible for the CIR to build its own confectionery-imperium around Perugina. Reason: SME, the food-division of IRI, the state controled holding, rejects to sell out its two confectionery-companies, Motta and Alemagna. It worked the other way around: SME officially asked Jacobs Suchard and Unilever for support to internationalize SME-operations in Central and NW Europe. Unsuccessfull bid. In May 1988 Perugina was taken over by Nestle.

1987:

- \* Du Lac , Italy. Net sales 1986 \$23,3 mln. Du Lac was already for many years the Italian Licensee for Milka, Tobler and Suchard products.
- \* Hero, Switzerland. End 1986 Jacobs Suchard took a shareholding of 30% in Hero and made an official take-over bid. If succesfull it would have been the first important diversification: Hero, net sales SwFr 425 mln in 1986, is a company with as main productlines jams, drinks and canned foodproducts. The take-overbid was strongly opposed by Hero-managament and in Jan. a settlement was arranged in which Jacobs Suchard sold back its 30% stake but kept for a 4 years period the first buying rights in case Hero would (have to) give up independance.
- \* E.J.Brach, USA. This company, nr. 3 in the US confectionery market way behind Mars and Hershey, with an estimated 8-10% of the market, was taken over for US \$ 730 mln. Net sales in 1986 were: US \$ 500 mln and employment was 4.300 workers. With Brach Jacobs Suchard added
  - a. much more base to its chocolate-activities in the USA which started with Andes Candies/Delavan in 1980 and
  - b. added more then new chocolate-brands to its portfolio while Brach is known in the first place for its non-chocolate confectionery.
 Brach operates from its main location Chicago ( headquarters and main production facilities: 3.200 workers) and soon after the take over all Suchards chocolate-activities were transfered from Delavn to this location.
- \* Cote d'Or, Belgium. Net sales in 1986 : SwFr 320 mln, employment 1500 workers, was taken over for SwFr 185 mln. Cote d'Or it-self was actively involved in a process of internationalization. It had builded up a productionstructure in 10 ( most european) countries. But when and Nestle and

Jacobs Suchard in Jan. 1987 started bidding for the company, the two owner-families declared that it made no sense for them to try to behold their independence with such an offer on the table and with an development in the confectionery-industry that made it terrible difficult for a middle-sized internationally operating company to continue on the middle-term. Jacobs Suchard took over Cote d'Or before the nose of Nestle and controlled by this take-over nearly 90% of the belgian confectionery market (Callebaut, General Chocolate, Cote d'Or).

- \* E.D.& F.Man, UK. In this trading company Jacobs Suchard took a 40-45% share. ED&F Man is a joint venture company and one of the most important trading houses in sugar, coffee and cocoa on the world market. Net profit in 1986 was \$ 58 mln. With this profit figure, sales would be at least \$ 1 bln. ED&F Man owns or has participations in many smaller specialized trading companies, trading in nuts, spices, molasse (sugar-byproducts) and connected products in many countries.
- \* Credit Francais International S.A., France. A majority share (80%) was bought in this bank, specialized in financing commodity trade. The other shareholder is the 'Banque Francaise du Commerce Exterieur (BFCE)'.  
.
- \* Chadler, Brazil. In november Jacobs Suhard concluded take-over negotiations with the family-owned Chadler processing factory in Salvador, Brazil. Arrangement was reached over the price, but in the end the deal didn't take place. Reason: the Chadler, cocoaprocessing factory in Salvador, is logistically very bad located. The number 3 cocoaprocessor in Salvador, is too far from the place where all rehabilitation and investments in the cocoa-grinding branche in Brazil take place, Ilheus. The fact, that Jacobs Suchard took this negotiations till the end proves that their aim to spread their grindingcapacity into the most important cocoaregions in the world, is sought after very actively.

#### 1988:

- \* DS Italiana, Italy. Net sales SwFr 70 mln in 1987. The take over of this company strengthens in the first place Jacobs Suchards distribution-network in Italy. DS Italiana distributes confectionery and chewing gum in a distribution channel, otherwise difficult to capture, bars, tobacco stores and so on.
- \* Rowntree PLC, UK. The take-over fight with Nestle in the spring of 1988 has to be mentioned here, although it was in the end Nestle who took over Rowntree for UK Pound 2,55 bln. The sale of Jacobs' 29,9% share-package to Nestle left Jacobs Suchard with profit after taxes and proceeding costs of SwFr. 360 mln, much more than the 1987 net profit figure of SwFr 265 mln. The end-bid that Jacobs Suchard was prepared to pay for Rowntree was UK Pound 2,32 bln. It's up to Jacobs Suchard to make the choice how to spend this profit: a. by spending it in the introduction on the UK market

of a whole series of new products, mostly countline-products, to make life much more difficult for the Rowntree countliners as Kit Kat, Rolo, Lion and so on to raise Jacobs marketshare of 2%. or b: by seeking a joint venture with Cadbury Schweppes PLC, the only big confectioner still open for cooperation in the top-league of confectioner companies.

## 6.The cocoa/chocolate-market completely restructured.

### The confectionery-market in turmoil.

The fight over Rowntree made very clear how fiercely the big multinationals compete each other the leading positions in the struggle over the confectionery markets of the future. It is important to give a very short insight in what is at stake now in this industry because it can be seen as what will happen in the wider foodindustry the coming years. Just because confectionery is not the main daily food, it is in this branche that developments like globalization of brands, eating habits, production structures and so on can be seen slightly earlier than in the rest of the food industry. More than other food or drinks industries it underwent already a process of consolidation in which a very small group of companies dominates the worldmarket.

The most important confectionerycompanies are:

* Mars	USA
* Hershey	USA
* Cadbury Schweppes	UK
* Rowntree	UK
* Jacobs Suchard	Sw
* Nestle	Sw

Mars was the world leader with sales in confectionery of around \$ 3 bln. Together with Hershey it has a 75% marketshare in the USA, the most important regional market. But while Hershey is in fact only operating in the US-market and licences its products in Europe and Asia through other companies, Mars has 4 productionplants in W.Europe and is the marketleader in the countline-bar market in the most important markets in Europe (UK, West Germany and France).

Taken all confectionery (bars and countlineproducts), then Jacobs Suchard was the marketleader in Europe.

These positions have changed after Nestle took over Rowntree in June 1988. Together they have confectionery sales of \$ 2,5 bln. Just behind Mars. In Europe the new combination bypasses sales of Jacobs Suchard. The fight over Rowntree was very important in 3 aspects:

a. The UK confectionery market comes third behind the US market and the West german which is only slightly bigger in sales than the UK-market. Nestle and Jacobs Suchard were in the UK unimportant: the ranks are there 1. Cadbury 29% 2.Mars 25% 3.Rowntree 21% 4.Ferrero 8% 5.Nestle 3% and 6. Jacobs Suchard 2%. For Nestle and Jacobs Suchard buying market share by a take-over was the fastest way of gaining market share. And only Cadbury and Rowntree were open for a take-over: Mars is privately owned, Cadbury and Rowntree publicly, although in Cadbury a trust controls 5% of the shares, but that's a minor position.

b. Rowntree builded in the last 10 years a growing share in the confectionery market on the european continent: over the last years it rationalized production sites and made them into very specialized one-product factories with substantial economies of scale. Profitability in Europe was growing. Besides: it owned production sites and licensed its products succesfully in other parts of the world. Cadbury just starts to expand in other countries outside the UK. In 1987 it took over the Australian confectioner Red Tulip from Beatrice Foods Australia and in 1988 the marketleader in France:Chocolat Poulain. The 2 big UK confectioners tried to internationalize ouf of the UK and what was at stake if they got the chance to expand and compete more with the companies like Jacobs Suchard which builded itself a confectionery-top ranking through take-overs since 1984 and Nestle which was very passine and had to make the choice of or growing or withdrawing from the confectionery market.

c. in the confectionery market the trend is clearly in favour of the countline-bars and not in favour of chocolate-tablets. Sales in the last segment are stagnant or declining,while in the first they are fastly growing. Jacobs Suchard and Nestle are booth very strong in the tablets segment while Rowntree and Cadbury have a lot of brandnames ,internationally sold, in the countline segment. For the two Swiss companies the take over of Rowntree would mean two things in one stroke: buying a very importnat market share in the UK and in some other parts of the world and in the same time add to its own brandpotential a number of countline products which have a very solid name.

Speculations go now in the direction saying that Jacobs Suchard will try to take over Cadbury. It needs a substantial share in the UK market and a better position in the countline market. It is not likely that Jacobs Suchard can pay the price for Cadbury. More likely is that Jacobs Suchard will try to form a commonly agreed joint venture to defend against the two marketleaders by far: Mars and Nestle/Rowntree.

Another option for Jacobs Suchard is to try to gain a substantial UK marketposition in the countlinemarket on own efforts, but that is a very expensive and uncertain way.

In the West German market it follows the same strategy. There Jacobs Suchard is in confectionery for 75% dependant on chocolate tablets under the Milka brandname. In 1985 it succeeded in gaining the marketleadership with 15,4%, just above Ritter that had 14,8. Since 1985 Jacobs Suchards share grew to 22,5% in spring 1988, with Aldi the nr.1 retailchain in West Germany second with 20,0 ( white label brands), then Ritter with 14,3, Trumpf with 8.7 and Sarotti (Nestle) with 9,1%.

But marketperspektives show for the periode 1985-1990 very likely a growth of 10% in value to DM 2,4 bln in 1990. For the tabletmarket there exists already overcapacity, so margins are very meager. And two other confectionerysegments show a much brighter future: expectations are that countline products in West Germany grow between 1985 and 1990 with 45% to DM 2,3 bln and bonbons/pralines even with 66% to DM 2 bln.

The strategy of Jacobs Suchard has been over the last years:

- defend above all the marketleadership in chocolate tablets with its Milka brand
  - diversify in the other two segments to compete with Mars and Ferrero.
- Therefore it used also the Milka brandname and developed a whole sries of Milka Lila Pause products in different tastes.
- extend the number of distributionchannels: apart from the retailshops

(60.000) it added more than 300.000 other sales-points by looking for overall-presence in kiosks, petrolstations, bakeries and so on.

Jacobs Suchard succeeded in gaining marketshare from Mars in West Germany: it started with a small 1,2% in 1985 and raised its share to 10% in spring 1988. Mars lost in this period from 63% to 49%. But the price for which Jacobs Suchard entered this new market is not disclosed. It should be very high, and will be higher if it wants to raise its share. To repeat the same success also in the UK will be nearly impossible, and Mars will on its turn also grow more aggressive.

This is only part of the restructuring. All majors are looking for expanding their markets, gain access to markets in which they are not present until now and in the same time fight better marketshares in the major and well-known markets in the various segments. The price is enormous: all have chosen a production strategy which has as main lines:

- concentration of the most important products in specialized one-product factories in which the state of the art technology is invested. Some companies are already far on the way in this strategy like Mars and Rowntree, others like Jacobs Suchard just started this strategy. It means that for example all Toblerone for the european market will be produced in one factory, all Nussini countlinebars in another and so on and that crossborderdistribution will be the normal situation over some years.

- for employment it has tremendous implications : production will be much more automated compared to now and because of the high volume production and the wish of management to earn capital investments back as soon as possible the pressure goes undoubtedly in extension of the working weeks including nights and weekends. In many functions jobs will get lost but through the more shift-systems new jobs will be added. The endresult will be in any case much fewer jobs than now

- productinnovation and the introduction of new products nearly every year will be the irrational base on which companies have to defend or gain marketshares. It implies higher expenses in productdevelopment and a steep rise in marketing and productsupportexpenses.

- in the coststructure of the company (all companies) the relative share of wages/salaries and other social costs will decline further while the share of marketing/advertising will grow.

**Cocoa-processing: consolidation of the sector.**

Jacobs Suchard has to fight two battles in the cocoa/confectionery market. First of all in its original market: the consumerproducts chocolate market, but also in the semi-finished products group, the cocoa-products or cocoagrinding branche.

Jacobs Suchard is among the confectionery companies an exception by its vertical diversification over the last years in cocoa-processing and commodity-trading. Just as Nestle, Rowntree, Cadbury for example it grinded in its Suchard Tobler plants in Europe cocoa beans into cocoaliquor for the own chocolate-production. It bought the extra-cocoabutter it needed from the specialized cocoa-grinding companies. But first the take-over of the belgian Callebaut ( industrial chocolate-producer ) and in 1986 the acquisition of the 4 processing plants out of the Monheim AG (Van Houten in the first place) made Suchard to one of

the most important cocoa-processing companies with sales of cocoa-products of around DM 1 bln.

It has now specialized processing facilities in West Germany (Van Houten, Berlin), Belgium (Callebaut/ Wieze and General Chocolate/Heren-tals), Canada (Comet) and the USA (Van Houten affiliate). Together they grind around 100.000 tons of beans a year: 5% of cocoa world harvest. The Monheim deal was concluded in competition with WR Grace that also was interested to take over the processing plants. WR Grace owns 3 cocoa-processing subsidiaries: De Zaan (Netherlands: this factory 71.000 tons a year and is the biggest in volume on the world), De Zaan Far East in Singapore and Ambrosia in the USA. Combined capacity was between 120. and 130.000.

Grace formed in 1987 a joint venture with SW Berisfords cocao-processing subsidiaries in the Netherlands and Germany: Grace is the majority shareholder and has the management of this joint operation. Combined capacity is 180.000 ton a year.

The reason for Grace to look for expansion of its marketshare was the entry of Cargill in the cocoagrinding market. Cargill owned since 1980 a minor grinding factory in Brazil and took over a trading firm in the Netherlands in 1984, but the real big step in this sector was the take-over of General Cocoa (trading) and its subsidiary Gerkens at the end of 1986. Cargill made very clear from the beginning what its intentions were: a 20-25% marketshare in cocoagrinding and the trade of cocoaproducts, just as Cargill was accustomed to in other agricultural commodities. Grace tries to defend its position in combining forces with Berisfords subsidiaries.

Other big processors are Sucres et Denrees and Gill and Duffus.

Sucres et Denrees had to take over in

1982 the ailing Cacao Barry Group in France. The french government supported this take over while it wanted to prevent the take-over of Barry by SW Berisford that already signed the contracts but was stopped by the veto of the french government.

These five :

Grace ( De Zaan/Berisford)

Cargill

Sucres et Denrees (Barry)

Dalgety ( Gill & Duffus)

Jacobs Suchard

are engaged in a battle over the marketshares.

They follow all a similar strategy as far as location of productionsites regards. The aim is to possess processing capacity in the main cocoamarkets: consumermarkets and ccocoaproductionmarkets. It means that they all try to have plants in West Europe, the USA, Brazil ( second country in growing), Far East (Singapore/Malaysia) and eventually also Ivory Coast (first cocoagrowing country). Privatisation of the cocoa-industry in Ivory Coast helps this strategy.

\*Cargill has facilities in Western Europe and Brazil and has to proceed.

\*Grace is present in Western Europe, Singapore, USA and has a minority stake in one of the processing plants in Ivory Coast.

\*Sucres et Denrees is present in Western Europe, Ivory Coast, the USA and Brazil.

\*Gill & Duffus is in Western Europe, USA, Brazil. Rumours go that G&D is for sale.

\* And Jacobs Suchard is present in Western Europe and the USA. Recent bids for processing plants in Brazil ( Chadler) and a bid for (part of)

**SOMO**

Paulus Potterstraat 20

1071 DA Amsterdam

Cacao Barry make clear that also Jacobs Suchard follows the strategy to build up capacity in the major regions.

The big question is if the consequence of the recent defeat in the takeover raid on Rowntree, which necessitates Jacobs Suchard to spend more energy and money in building up the countline-activities, can be combined with expansion under heavy competition of its processing-activities. It is clear that the heavy competition which will lead to consolidatyon of the whole sector worldwide in a few hands will lead some companies to quit. There is now an overcapacity and compamies like Cargill are investing to raise their capacities. With Cargill having now 12% of the market and Grace/Berisford around 14% the concentrationprocess looks to be only halfway. And for many smaller independent companies and for some of the majors tough times are coming. At this moment workers are paying the price. Working conditions are under high pressure. The forms in which companies attack existing conditions is mainly permanent overtime, extension of the productiontime into the weekends, more shifts. And of course joblosses through rationalizing. Future restructuring will cause a higher number of jobs to get lost.

#### 7. Organization structure and actual restructuring

Back to Jacobs Suchard itself. Immediately after the coffeecompany Jacobs took over the confectionery group Interfood all energy was spend to integrate both activities as smoothly and fast as possible.

The organization structure in which all activities were grouped got at first a regional emphasis:

- \* corporate management was concentrated in Zurich
- \* all coffee and chocolate activities were regrouped in 4 regional divisions, of which management was responsible for both productgroups: 1. BRD and Denmark 2. France and Spain 3. Zwitterland, Austria, Belgium and UK and 4. N. and S. America.
- \* the corporate reserach and development centers were located/newly build in Bremen (coffee) and Neuchatel (chocolate).

In this structure management spend all energy to merge in the various regions similar activities. The belgian subsidiaries were the first to be restructured. All commercial activities of coffee and chocolate subsidiaries were brought together in one company, all coffe-production was concentrated in one factory and the same happened for chocolate. Administration and commercial departments were housed in one office. This exercise was repeated in all relevant countries. It meant that a whole group of middlemanagement and workers in indirect functions lost their jobs and that thorough rationalizing the production sites after combining productions also many jobs were shed.

The aggressive expansion by takeovers has as one of the effects that this policy in some countries was carried out several times. For example in Belgium:

- first the existing Suchard-factory was integrated in the Callebaut activities taken over in 1980.



- then the merger of admin. and commercial activities of these companies with the coffee-activities of Chat Noir
- in 1986 General Chocolate was taken over (Monheim-deal) and in 1987 Cote d'Or. Now again there has been started this merging-process.

But the structure in which activities will be grouped has been changed. The recent take-overs (Van Houten/Brach/Cote d'Or) brought Jacobs Suchard such an important confectionery division that the emphasis is changed. No longer is the first priority to make the various national operations as lean and low cost as possible by eliminating all layers which are not strictly necessary. From the beginning of 1988 onwards the emphasis is in the first place laid on the globalization of existing activities and brands.

In place of the regional organizational structure in which both confectionery and coffee were grouped, a new division structure was formed in which 3 main divisions operate:

- \* beverage business                      responsible corp. manager: Ch.Gebhard
- \* confectionery business                "    "    "    : G.Zinser
- \* trading, industrial and financial business    "    : G.Bolte

Apart from these three divisions and their respective responsible corporate managers there have been formed small departments with each a corporate manager:

- \* expansion    R.Jaunich
- \* economic affairs    H.Pohl
- \* raw material coordination    J.Sroka.

Together with Klaus Jacobs, chairman of the Board of directors and managing director they form the corporate management group.

Now there are carried out two types of restructuring at the same time:

- a. the continuation of the restructuring on a national level with the intention to concentrate similar productions in one plant : all chocolate production in Germany concentrated in Lorrach, in France in Strasbourg, in Switzerland in Bern and so on.
- b. to concentrate production of the 'global' or potential global brands in specialized factories. That is until now only the case for the Nussini brand of which production is concentrated in the Mirabell factory at Grodig, Austria. From there distribution goes for the whole of Europe.

The take-over of the cocoa processing companies Van Houten and General Chocolate caused the delay in investment projects which were planned for amongst others the Austrian Bludenz factory of Suichard. In stead of modernising there the roasting and grinding of the cocoabeans which was foreseen for 1987, plans were delayed. It is possible now to concentrate the first processing completely in the General Chocolate and Van Houten processing plants and to distribute the mass, powder and butter to the chocolate factories of the company.

## Last developments:

\* the concentration of all chocolate production in Switzerland in Bern which implies the loss of 120 jobs at Neuchatel. There will stay the sugar confectionery production and administration, research and management.

\* in Belgium unions and workers are informed about the way Jacobs Suchard intends to merge the existing activities with the recently acquired companies General Chocolate and Cote d'Or.

- Callebaut will concentrate only on the industrial chocolate under its own brandname and the Van Houten brand name. The production of chocolate tablets will be transferred to Cote d'Or.

- in General Chocolate will be concentrated all production of cocoa butter, powder and liquor, also under the Van Houten brand name.

- Cote d'Or will specialize in the production of chocolate tablets, (mini-)bars and other chocolate products. All production will be concentrated in Halle. The Brussels factory will be closed as is the case for the French factory at Seclin. The Oviedo factory in Spain will be merged probably with the San Sebastian of Suchard.

The concentration of the same type of products and production processes go hand in hand with new investments: for the production of chocolate-tablets a new line will be installed for 145 mln Fr Belg ( 7 mln DM) handled by 35 workers. Now there are operating 5 lines handled by 145 workers.

The map shows the production sites of confectionery/cocoa products of Jacobs Suchard in Europe: together 17. Total production is more than 350.000 tons. Capacity is a little bit more than 400.000 ton. This map was given in a special number of the Swiss employee bulletin JS contact of febr. 1988. The message was simple: with so many production sites the company is badly equipped for the future market situation in the harmonized European market. So 1992 has to be prepared by concentrating production in the lowest cost production sites: it got the name 'Vision 2000'. The production of Toblerone, now still made in 4 sites ( France, Germany, UK and Switzerland) will be concentrated in Bern. For other products there will be similar patterns. In the beverage division the same strategy is being followed: in 1987 two brand new factories for the production of decaffeinated coffee on a water and not chemicals base started production, one in Germany ( Berlin) to produce for the whole European market and one in Canada (Vancouver) to produce for North America.

### 8. Labour relations

All the restructuring operations over the last years have been executed without major conflicts. The various involved unions describe relations with company-management as fairly good.

In the beverage division (coffee and chocolate drinks) most restructuring has been done already many years ago and new technologies like turbo-roasting can be introduced without redundancies. Jobs got lost by natural wastage.

This pattern could be followed also in most cases in the

confectionery division.

The last 5 years the implementation of the integration of the Jacobs and Interfood-company structures combined with the concentration of productions demanded a lot of the total workforce.

The year 1987 was devoted to motivate all workers and got the slogan "people 87": the way in which this slogan got a practical form was left to the decentralized decisionmaking in every plant. A centralized operation is the training program: "Coffee and Chocolate Training Program". In this 3-week program many managers get a corporate training program to raise understanding of all activities connected to the main productlines of the company. It includes a one week stay in one of the coffee- and cocogrowing countries to learn all aspects involved in growing and treatment of the fruits. Explicit aim of this program is to improve the quality of the work of management and their assistants. The company introduced a new word: qualitivity, a word that stays for a policy that intends to raise and productivity and quality with fewer costs: cost saving teams scrutinized all operations.

In 1987 Jacobs Suchard purchased a building in Marbach on the Lake of Conzanz/West Germany that will be rebuild and enlarged to be the Corporate Communication Center. It is interesting to note that the official Corporate language is English. In the headquarters of this Swiss-based company english is the communication channel.

Coming restructuring will put a very high strain on the capability of the company to restructure without labour conflicts. It seems not very likely that it is possible to concentrate and automate production and diminish the number of jobs only by natural wastage. Substantial provisions were made in 1987 to provide for the planned rationalizations.

Total employment at the end of 1987 was:

- 16.053	on full-time contracts	( 1986: 10.063)
- 1.066	on part-time contracts	( 1986: 575)

The growth came from	EJ Brach/ USA	4.827
	Côte d'Or/Belgium	1.500
	Du Lac/Italy	141

Of the 16.053 employed

- 75% were working in the confectionery division
- 18% in beverages division
- 7% in trading, industrial and financial business
- 4% in the expansion division.

Headquarters numbers 60 persons.

A regional breakdown of employment :

- Europe 61%
- N.America 35%
- Rest of the World 4%.

**SOM**  
Paulus Potterstraat 8  
1071 DA Amsterdam



- \* Jacobs Suchard Service GmbH & Co KG      Bremen      services/administration  
350 employees  
unions: NGG and DAG  
works council
  
- \* Jacobs Suchard Berlin GmbH & Co KG      Berlin      production roasted coffee  
280 employees  
unions: NGG (15 members)  
DAG  
works council
  
- \* Jacobs Suchard Erzeugnisse GmbH & Co KG      Bremen      distribution of roasted and instant coffee  
780 employees  
union: DAG  
works council
  
- \* Van Houten & Zoon GmbH      Berlin      production cocoabutter/powder and cocoaliquor  
350 employees  
union: NGG (310 members)  
works council

Working time is 37,5 hours a week, this is a company agreement. In the confectionery branche the working week is 40 hours a week. But Jacobs Suchard has a uniform agreement for all subsidiaries. There are regular meetings between union officials and management.

#### Austria

- \* Suchard Schokolade GmbH      Bludenz      Production and distribution of choc.products  
454 employees (end 1986)  
union: LUGA (100% membership)
  
- \* Mirabell Salzburger Coniserie und Bisquit GmbH      Grodig      production and distribution of Mozartkugel and Nussini-bars  
328 employees (end 1986)  
union: LUGA (100% membership)
  
- \* Bensdorp GmbH      Tulln      prod. and distribution of chocolate products  
302 employees (end 1986)  
union: LUGA (100% membership)
  
- \* Jacobs Kaffee GmbH      Vienna      prod. and distribution of roasted coffee and instant cocoa  
302 employees  
union: LUGA (100% membership)

Working time is 38,5 hours a week. Production goes in a two shift system. Management wants a 3 shift system and extension of production in the weekends. To prevent this LUGA sticks to the legal prohibition for women to work at night. Unions and management meet 4 times a year.

## Belgium

- \* SA Jacobs Suchard NV      Brussels prod. and distribution of cocoa and choc. products and roasted coffee
- Chat Noir      Luik      prod. roasted coffee  
132 employees  
union: ACV (102 members)  
ABVV ( 15 members)
- General Chocolate      Herentals prod. of industrial chocolate and cocoa products  
320 employees ( 240 in production)  
union: ACV (60%)  
ABVV (30%)  
ACLVB (10%)
- Callebaut      Wieze      prod. of industrial chocolate  
500 employees  
union: ACV (60%)  
ABVV (40%)
- Cote d'Or      Brussel      prod. and distribution of choc. products.  
900 employees
- Halle      prod. and distr. of choc. products  
300 employees  
union: for the whole of Cote d'Or  
ACV (60%)  
BVV (40%)

Working time is 38 hours a week. Of all employees around 90% is unionized. There are regular meetings between unions and management.

## Great Britain

- \* Tobler Suchard Ltd      Bedford      production and distrib. of choc. prod.  
500 employees  
union: T&GWU ( ca. 330 members).
- \* Sopra (UK) Ltd      London      purchasing cocoa beans/cocoa prod.

## Netherlands

- \* Jacobs Suchard/Cote d'Or BV Amsterdam      distribution of choc. products

France

- \* Jacobs Suchard France SA Choisy-le-Roi prod. and distrib. of roasted coffee and choc. products
- \* Cafe Grand'Mere Wattignies ,prod. and distr. of roasted coffee
- \* Coffex-France SA Strassbourg decaffeination
- \* Cote d'Or France SA Seclin prod. and distr. confectionery prod.

North America

- \* Jacobs Suchard/Brach Inc. Chicago prod. and distrib. of confectionery products.
- Total employment: 4.827
- \*Melrose Park Pla  
 union:RWDSU local 15  
 \*West Kinzie Street Plant  
 union;IBT (Teamsters) local 738

Duration contracts: 1986-1990.  
 Working time 40 hours a week.

- \* Jacobs Suchard Canada Inc. Burnaby/Vancouver, prod. and distr. of roasted coffee

Italy

- \* Jacobs Suchard Spa Brunello Prod. and distr. of choc.products

Denmark

- \* Jacobs Kaffe A/S Odense distr. of roasted coffee and choc. products

Spain

- \* Jacobs Suchard Espana SA Madrid prod. and distr. of choc. products  
 prod. of cocoa products  
 production sites at Oviedo (Cote d'Or)  
 and San Sebastian

South America

- \* Suchard Argentina SA Buenos Aires prod. and distr. of choc.products  
 Argentina
- \* Taloca Cafe S/C Ltda Rio de Janeiro purchasing of green coffee  
 Brazil
- \* Casa Exportadora Naumann Santos,Brazil purchasing of green coffee  
 Gepp SA
- \* Taloca & Cia Ltda Bogota,Colombia purchasing of green coffee
- \* German Merino & Cia Ltda Bogota,Colombia purchasing of green coffee

PRINCIPAL LICENSEES

Portugal : TOFA SARL sugar confectionery and instant cocoa  
South Africa: Suchard Chocolate SA Ltd sugar confectionery  
Thailand : Berli Jucker Co.ltd sugar confectionery  
Malaysia : Khee San Food Ind. sugar confectionery  
Indonesia : PT Union Confectionery sugar confectionery  
Korea : Tong Yang Confectionery Ltd choc. products/Milka  
Japan : Meiji Seika Kaisha Ltd choc. products/Milka,Toblerone  
Australia : Red Tulip Chocolates Pty Ltd. choc.products/Toblerone  
Brazil : Industrias de Chocolate Lacta SA Suchard/Toblerone  
Mexico : Sanborn Hermanos SA choc. products/Milka,Toblerone

BRANDNAMES:

choc. products: Suchard,Tobler,Toblerone,Milka, Van Houten, Brach,  
Lila Pause,I Love Milka,Nussini,Knusperzauber,Cote d'Or,  
Callebaut,Mozartkugeln,Mozarttaler,Mozart-Allegro,  
Finessa, Monte,Sugus,Benco,Feine Gold,Bobby, Pick-A-Mix,  
Philippe Suchard,

choc. drinks : Suchard Express, Milka Drink, Van Houten Cacao

coffee : Jacobs Kronung,Nacht & Tag, Night & Day, Wunder-Mild,  
Meisterrostung, Carte Noire, Swing, Douceur Noire,  
Nabob Tradition, Nabob Summit, Mild & Fein, Maestro Lo-  
renzo, Jacques Vabre, Grand Mere, Johann Jacobs, Nuit &  
Jour, Jacobs Monarch, Jacobs Medaille d'Or