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Stichting Onderzoek Multinationale Ondernemingen
Centre for Research on Multinational Corporations

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STICHTING ONDERZOEK MULTINATIONALE ONDERNEMINGEN
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MARS INC.

Adelien van de Kasteele.

Amsterdam,
2-05-1991.

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CONTENCE

PROFILE ON MARS INC.

1. General Information.

Company name: Mars Incorporated.
Address: 6885 Elm Street, Mc Lean, Virginia 22101, USA
Telephone: +1 703 821 4900

President: Mars, Forrest E Jr./ Co-Pres
Mars, John F / Co-Pres
Chief Executive Officer: Mars, Forrest E Jr.

Sales 1989, (Estimate): Over US $ 8,5 billion
Profits 1989,(Estimate): Over US $ 780 million.

Total Employees (1989): 22,000

Mars is an privately held company, mainly engaged in the manufacturing of Chocolate Confectionery and Pet Foods, and to a lesser extent in food (rice, pizza's, vegetables, sauces as well as catering equipment) and electronics. It's known for its cult of secrecy.

Main Brands:

Confectionery:	Mars, Milky Way, Snickers, Bounty, Raider (Twix), M&M, Balisto, Applaus, Fanfare, Banjo, Canyon, Opal Fruits, Skittles
Companies:	Mars, M&M
Petfood:	Pedigree : Cesar, PAL, Chappi, Frolic, Markies (dog food) (US Kalkan) Sheba, Whiskas, Kitekat, Brekkies (cat food)
Companies:	Effem (short for E.F.M(ars); Pedigree; Thomas; Unisabi; Kal kan
Foods:	Uncle Ben's (rice), Suzi-Wan (oriental meals), Dolmio (sauces, pasta's and pizza's), Yeoman (potato products)
Companies:	Uncle Ben; Masterfoods

Mars has production plants in 9 countries, and sales offices in many more. Globally Mars has over 75 locations in more than 25 countries.

This profile concentrates on the confectionery activities of Mars, as less is known about the other activities. However basic strategies seem to be alike for the different divisions, or groups as Mars calls them. As far as Mars' activities in Australia are concerned: little more is known than that Mars has production facilities for chocolate confectionery, pet food and human foods.

2. Background.

MARS INC. was started in 1920 by Frank Mars after a try-out period of 9 years. In 1922 it introduces of the first candy bar, the Milky Way Bar, known in Europe as the Mars bar. It will become the key of Mars' success, as Mars will be the only real chocolate candy bar producer for decades. In 1932 Forrest Mars Sr. is sent to England to set up his own confectionery business in Europe. At the end of 1932 over two million Mars Bars had been sold in the UK, where nowadays the production capacity of Mars Confectionery in Slough is over two million bars a day!

Chocolate confectionery has been the main business over the years, but since the thirties Mars diversified into other -not related- areas such as petfoods and rice. In 1935 Petfood activities commenced in the UK, and in 1943 Mars begins its rice business in the US, acquiring Uncle Ben's Inc. in Houston. However it was not until 1968 that petfood activities developed in the US, with the acquisition of Kal Kan Foods.

In the sixties Forrest Mars Sr. takes control of the whole company. Real expansion then starts in Europe, Canada and later in Australia. Mars' Chocolate Confectionery, and all food and petfood activities are expanded. With Mars Electronics Int. a non-food activity is started in 1980, but it remains a marginal activity to this day. At present the company is run by Forrest Jr. and his brother John.

The early global push of the Mars bar has for decades given Mars a strong leading position on the US as well as on the European market, where it stood out as the only US-food-firm with a sure market share. It was not until the mid-eighties, when concentration and competitiveness in the food and chocolate sector grow heavily, that Mars' market share really came under attack. In 1988 rumours have been strong on the firm losing ground because of an internal war for control of the company. Analysts saw Mars' failure in acquiring new companies and developing new products as the reason for the decline of its market shares.

The battle to convince management to change strategies seems to have taken a long time and quite a lot of staff members. However, in the last three years Mars developed a more aggressive attitude in all its groups, and over 20 new or renewed brands were introduced. Sales are estimated to rise, and Mars seems to be regaining market share.

3. Some financial data.

"The total sales and assets of Mars are often underestimated because the company is as loose with information as its McLean neighbor, the CIA" (Fortune, 12/9/88).

In the beginning of the eighties the sales of MARS were estimated at approx. US $ 2 - 3 billion. The latest estimates are (in US million dollars):

	1987	1989
Chocolate confectionery	$ 3,800	$ 4,400 (52%)
Petfood	$ 2,960	$ 3,400 (40%)
Food	$ 500	$ 600 (7%)
Electronics	$ 100	$ 100 (1%)
MARS Total:	$ 7,360	$ 8,541

As to the geographical distribution of sales is clear that the European market is very important for Mars, accounting for about half of its turnover. According to estimates of its sales (Business Week, Marketing reports, etc.) about half of its confectionery sales and more than 60 % of their petfood sales are made in Europe.

A rough geographical sales distribution estimate amounts to: USA 35%, Europe 50% (of which UK about 25%), other regions 15%.

Largest European Food-companies.

	European food sales 1989 [1]	Total Food sales 1989	Total Sales 1989 (bn) [2]	Total Sales 1990 (bn) [2]
1. Nestlé (Swi)	$ 15,1 bn	$ 29,4	$ 30,6	$ 36,3
2. Unilever (UK\Neth)	$ 12,2 bn	$ 18,0	$ 36,1	$ 43,0
3. Philip Morris (USA)	$ 8,0 bn	$ 22,4	$ 44,0	$ 51,2
4. BSN (Fr)	$ 7,3 bn	$ 7,4	$ 8,2	$ 10,4
5. Mars (USA)	$ 4,1 bn	$ 8,0	$ 8,5	n/a

[1] Business week, 9 july 1990
[2] Except for MARS, based on valuta exchange-rates of december 1989 and 1990 resp. and sales as published by the various companies.

World-wide Mars belongs to the 15 largest food companies, with over US $ 8 billion in food sales. On European level it was the first US food company with a assured place in the European top. But with the take-over of Jacobs Suchard, Philip Morris more than doubled its European foodsales and left Mars at number 5, behind Nestle, Unilever, Philip Morris (incl Jacob Suchard) and BSN, based on estimated European foodsales (including petfood) of US $ 4,1 billion. However, when comparing total sales, Mars is still well behind the larger four companies. The financial strength of companies like Nestlé, Unilever and Morris is so much greater, that competition for Mars will remain very strong. Especially Nestlé, with which it competes in its three main groups and in all its main markets, is a fierce competitor.

4. Labour relations.

In 1990 Mars said it employed 22.000 people, while according to data from 1986 they had a workforce of 26.000 or more. It is not clear if and where reduction of personnel in such big numbers has taken place, at least not in Europe. Similarly it is not known how the 7000 UK employees are distributed over the various groups.

Known employees:

US	1990:	8.990	(over 3.500 in confectionery)
UK	1988:	7.036	(over 2.000 in confectionery)
Netherlands	1989:	1.400	(about 1.250 in confectionery)
Fr/FRG/Austr	1989: >	1.100	(chocolate confectionery)
Fr/FRG/Austr	1990: >	2.000	(petfood)
Spain	1988: >	.165	(Effem Espana)
Europe	1986: >	.800	(Masterfoods)
Total	1990: >	22.000	

MARS is generally known to have a clear anti-union policy. It is a public secret that already in 1981 Mars had a leading role in the employers lobby in the european parlement against the acceptation of the Vredeling- directive, meant for information disclosure rights for employees. Mars states that "freedom", one of its five basic principles, and therefore also freedom in its labour policy, is a condition to good performance. The level of organisation is therefore very low. In the UK they achieved to get the Unions out of the plant in Slough, where formely existed some organisation. The UK petfood has no organisation at all. The France plants neither are organized. A low organisation level exists in Germany (2-3% in the confectionary as well as in petfood plants) and the Netherlands (12 %). Neither the food group is known to be organised. About the situation in the US and Australia little more is known, than that Mars practices there the same strategy there. Sharing control will never be their goal!

The policy adopted to keep unions out has been by having working conditions that are better than that of the surrounding industries. As Pedigree's managing Director stated: 'A ballot at Pedigree Petfoods voted against admitting unions by 91%. The company would have failed in its people policy had there been a vote in favour.' (New Consumer, 1990). These better conditions are in wages (for example in the UK 10% above the industry average), a good functioning profit-sharing scheme, educational and promotional possibilities, equal opportunities, etc. Nevertheless possibilities for higher personnel are not clear, as a relatively high percentage of managers goes to other companies.

In exchange for the better conditions MARS demands flexibility and loyalty, and works hard to improve the 'we' feeling. A strong company filosofy promotes a high level of identification with the company. It is based on five 'basic principles' (quality, responsa-bility, mutuality, efficiency, freedom), which, according to MARS, set the company apart from others. Labour conflicts are hardly known, or at least not openly. There have been conflicts about the variations of working hours and shift systems, and in the US
Mars had to reinstate an older shift manager after it had been charged because of a case of age discrimination.

Mars' strategy is said to be: by having higher standards conflicts can be discussed directly with the people without need for unions to come in. This does not mean they always act according to their own (higher) standards, but by having them they try to keep
unions out. Furthermore, as the new plants are often greenfield sites, the company does not acquire those with a high level of organisation.

Mars has a very high degree of personnel interchange, not only within the same divisions, but also between the four different divisions. Training-programs are also set up on an European level, including temporary exchange of personnel. Permanent transfers from one plant to another are quite normal, not only in the case of promotion. As this is also the case on management-level, it may be assumed that management strategies, and also labour policy are developed commonly and do not differ much between groups and countries.

In a lot of management techniques Mars was far ahead of its competitors, and employees therefore have been confronted with it for a longer period of time. Nevertheless 1992, and the incorporation of the UK in the Common Market creates new possibilities, and the consequences of a higher degree of centralisation, flexibilisation in job rotation, skills, working ours, etc. will have to be further discussed on European level. And this will particularly the case for the Europet structure as the centralisation process there is less advanced. In this matter contacts between the different groups can be very useful.

5. MARS Confectionery.

5.1. Market situation.

World-wide Mars belongs to the the five biggest chocolate producers, ranking second behind Nestlé:

Confectionery sales 1989

1. Nestlé	$ 4,6 bn
2. Mars	$ 4,4 bn
3. Jacobs Suchard(Philip Morris)	$ 2,1 bn
4. Hershey (estimate)	$ 1,8 bn
5. Cadbury	$ 1,8 bn

The US-market.

For decades Hershey has been the most direct competitor of Mars in the US Chocolate market. Together they held more then 70 % of the market, with Mars a little ahead of Hershey: Hershey was especially strong in table chocolate and Mars in the bars and M&M's (bite-size segment). But in the eighties Mars' market share clearly came under attack because of the better marketing tactics of Hershey. These differences were magnified when Hershey bought the production locations and product licence for the US market of Cadbury in 1988 with a market share of 8% of the US candy market. It then overtook Mars as number 1.

Together they share over 80% in the $ 5,3 billion US chocolate market in 1990 :
44% Hershey
37% Mars

Snickers still is the best selling chocolate product, despite an decline in dollar sales, directly followed by Hershey's Reese product. M&M's plain and peanut are in the third and fourth place, and Milky Way recently slipped from eighth to ninth. So Mars still has 4 of the 10 be-st selling chocolate products and Hershey has numbers 2,5,6,7.

In the total US 8,5 billion confectionery market (about $ 13 bn at retail prices) Mars is number 2 with 16,7%, behind Hershey with 18,4%. Nestle has climbed to 12%, acquiring part of RJR Nabisco's Planters Lifesavers candy business, and Brach (formerly Jacobs Suchard, now Klaus Jacobs) has 1,7%. The $ 13 bn meant a strong performance, and is equivalent to 19.9 pound per capita consumption. The industry's goal is to increas to 25 pounds by 1995!

Recently Hershey got its first manufacturing foothold in Europe with the acquisition of Gubor Schokoladen of Bahlsens Keksfabrik KG in Germany.

<u>The European market.</u>

As stated before, for a long time in Europe Mars was the only candy bar seller with a big share in all countries. Rowntree was its only competitor in the candy bar market, but with a limited market-area. Nestlé and Suchard were important in the table-chocolate market, but the candy bar market had built up a strong position.

From 1985 on, the concentration in European food-sector started heavily, in the chocolate confectionery market even much stronger than in the sugar confectionery: where as the 5 biggest chocolate confectionery makers have more then 70% of the market (Nestlé, Mars, Jacobs Suchard (Philip Morris), Cadbury and Ferrero), in sugar the biggest 12 have less than 30%. So competition increased markedly: one either established a leading European market position or one risked being swallowed up. It became important for companies not only to be strong in their own market, but also in the other major markets. So the swallowing-up of the small companies intensified. Suchard bought six old-line confectionery companies, ranging from US hard-candy-maker E.J. Brach to Belgium's Cote d'Or chocolatier. But it lost the fight with Nestlé over Rowntree in 1988. And recently in 1990, Suchard itself was acquired by Philip Morris. Cadbury grew stronger in the sugar-confectionery.

This meant that Mars got a very strong competitor in Nestlé, with its annual sales in 1989 of SFr 48 billion (US$ 31 bn) and a growing part in Chocolate and confectionery (up from 5% in 1985 to 15,3% of its annual sales in 1989). And with the acquisition of Rowntree Nestlé got the major competitive brands of Mars: Kitkat/ Nuts in candybars and Smarties in the bite-size segment. In 1989 European confectionery market shares were estimated at:

Nestlé	23%
Mars	17%
Suchard	12%.

Within Europe, the German and UK market are the biggest and therefore the most important. In the UK Nestle jumped to number 1 with the acquisition of Rowntree, and market shares are: Nestle (30%: 27% Rowntree + 3% Nestle), Cadbury (29%) followed by Mars (24%).

In Continental Europe Suchard could give its marketing offensive an extra push with the money provided by the selling of its 29.2 % stake in Rowntree, and its Milka brands (like Lila Pause) rapidly gained a significant market share in 1989. In West Germany this meant real competition for Mars, which had a strong leading position in the candy-bar market. It's share in the candy-bar market fell from over 60% before 1985 to under 40% in 1989, while Suchard jumped from 1 to more then 20%, according to Mars' Echo. In other countries Suchard's growth was accompanied with a general growth of the chocolate market. For example in Holland, Lila Pause in 1 year gained 14,5 % of the "heavy" candy-bar market, without effecting the other parties significantly. But it is questioned if Suchard can maintain its heavy marketing efforts, especially now Mars also has increased its promotional activities. At least in West Germany Mars claims to have regained a 6% market share in the candy-bar market during 1989 and the beginning of 1990, a trend that it seems to have continued for the rest of 1990, while Suchard fell back to 15%.

An other segment which Mars is opening up is in the chocolate ice-cream market. In 1988 Mars started the sale of Milky Way ice-cream in the UK. Since april 1989, when a new plant in Steinbourg (France) was opened, 4 different ice-cream bars have been distributed in the main markets of Europe. The European per capita ice-cream consumption is not even half as high as in the US, and therefore market expansion is still possible.

Other markets:

Eastern Europe:

Jacobs Suchard, Nestlé and Mars are racing to introduce Hungarians to their chocolate brands. Suchard signed a 50/50 joint venture with BEV, a leading confectioner in Budapest, and has similar plans for Czechoslovakia. Nestlé has licensed its milk-chocolate to the Hungarian confectioner Szerenes. Nestle in an alliance with BSN, intents to take a majority stake in Cokoladovny, Czechoslovakia's biggest food producer, with BSN taking the responsibility for the operation. A similar operation is being established in Poland, where Nestle will take the leading role.

Mars is already marketing Mars, Bounty, Snickers and Milky Way, Raider and M&M brands in Hungary, with plans to launch Mars Gold soon. In the USSR Mars sells Snickers, Milky Way, Mars and Raiders. Mars handles its Eastern European activities from Austria.

Australia:

Mars has a production facility in Australia in Ballarat, where it produces for the Australian market, as well as for a big part of the Asian market. Sales are rising, but details about their market position are not known. Cadbury, which is market leader in Australia, and Nestlé also have confectionery production facilities, where as Suchard only imports and distributes.

Asia:

Asia forms a growing market. Mars at least is known to have sales offices in Hong Kong, Japan and Saudi Arabia. The local distribution system, that already existed before the war in Saudi Arabia has helped Mars to manoeuvre relatively easy into Operation Desert Shield with the help of specially installed refrigerators at military camps. Supplying the troops meant a significant new contract, said the company. Hershey also got in, and developed a special "Desert Bar"..

Chocolate imports in Japan doubled over 1987 and 1988 but declined lightly in 1989. Although imports amount to only about 12 % of the market, that share has doubled from 1986 - 1989. Mars products accounted for 50% of the imported volume. Effem Foods Ltd Japan markets through Mitsubishi channels and so succeeded in supplying candy to newsstands and grocery stores. In contrast, Hershey and Nestlé marketed through Fujiya Co, Japans 5th largest confectioner, with much less effective sales-outlets. At the end of 1989 each set up joint ventures with Fujiya, to expand their real control. Similarly, Jacobs Suchard stopped selling its Milka brand through major japanese chocolate maker Meji Seika Kaisha, and set up a subsidiary of its own.

5.2. Management strategies.

Mars went global when others were still concentrating on their home markets, and already started in Europe in 1932. This has given Mars a great advantage on the European market, where it could assure itself a leading position before the others really came in. However the concentration trend that started the last decade has had its effect on Mars.

Mars has been criticized for its low-profile acquisition strategy, which has been mentioned as a reason for its losing ground. But take-overs are clearly not the Mars way of winning market shares. Most production locations are built by the company itself. Mars is known for the high technical norms it maintains for its equipment and its high hygiene standards. The decision whether to buy or build is then easily made in favor of building. Or take-overs lead to heavy reconstructions as was the case with the acquisition of Dove International in 1986.

What Mars seems to search for in take-overs is not primarily the enlargement of its market share, but the technical experience it acquires. So it bought the plant in Breitenbrun with its specific high quality chocolate-biscuit products, Dove Int. for its ice business in the US, and there were talks about the take-over of Tonnema, Holland, what would have meant a first sugar confectionery plant in continental Europe. But Mars Veghel and Viersen (both chocolate confectionery) and the new plant in Steinbourg were built by the company, and at least in the case of Viersen there were take-over possibilities (Coop. Chocolaten Dortmund). But as Mars only buys when a 100% ownership is assured, and a 'cultural' take-over is also assured, its possibilities are limited!

Although Mars does not fit in the 'normal' acquisition strategy companies develop to capture markets and market shares, in other measures they claim to have been pioneers. "It's nice to see other concerns start the same things, that for us are already quite normal" (Leenders, Dir. SFCE in 1989):

- Centralisation of high-volume production in a few locations, a trend that with "Europe 1992" becomes even stronger. Mars has already practised this for years, both in the US and Europe: a relatively small number of production locations, with Multi-Sales Units in the countries where Mars has no production. It is a logical consequence of its expanding strategy. And in Europe Mars started the Continental Snack Food Europe structure in 1987, with the aim of further rationalize production-planning and management. It has led to a further centralisation of production, Research and Development, etc. The opening up of the frontiers in 1992 will make a further centralisation of depots possible.

- Quality-measures: Mars claims to have had its own Just In Time-system for 50 years, with a production strategy based on minimum inventories and a maximum of efficiency. Mars has never had great storage capacity for commodities and inventories, and therefore has worked with timed delivery for quite some time. Silo's and tanks in principle only have a

buffer for a few hours, and supplies come in continuously. With the consumer goods Mars works with an inventory of two weeks maximum.
On the other hand possibilities for higher logistic efficiency are mentioned in several interviews (Echo, Fin. press) and a further rationalisation is to be expected. Mars has developed a 'Vendor Assurance Programme', where standards for suppliers are defined, resulting in a diminished level of control over incoming raw material for Mars.

- Subcontracting all activities that are not directly related to the core production is neither new to Mars: Transport, wrapper imprinting, cleaning and catering services, etc. have all been subcontracted since the seventies.

- Information technology and information exchange plays a more important role. In Maidenhead and Strassbourg the central computersystem for the UK and Continental Europe are centralized (Intelligence Systems Information, ISI) and further developed. In the US it also is a special subsidiary (Effem Services) which provides the computer facilities for Mars.

- Increasing production flexibility, to be able to respond more rapidly to market changes and demands. Automation has been intensified in all plants, re-setting-times for machines are shortened. But increasing flexibility in various aspects is needed to optimize effects: multi skills, flexible shift-systems per line, temporarily contracts, wages, etc.. Harmonisation of training programs on a European level therefore is important. With the more aggressive market-attitude Mars has developed in the last few years, changes in this area have been the most important, and therefore consequences for employees have been the greatest and are still continuing.

5.3. Marketing.

On the other hand, to be able to react to the changing conditions, Mars has had to adequate its, often called antiquated, marketing principles. Until late in the eighties Mars was totally orientated towards 'mono-brands'. With a high advertisement budget Mars tried to keep its market shares. Very few new products were introduced, and line extensions, like Mars' M&M's peanuts and M&M's plain, were rare. Mars' marketing principles were like Ford's: 'the consumer could get every Mars bar he liked, as long as he accepted the only existing bar: 65 gram chocolate with nougat and caramel.' (Mars, Echo, 1990-2)

But consumer wishes change rapidly and international harmonisation is a must to enlarge brand recognition and diminish costs. With 1992 this trend will become even stronger: Product renewal and more global brands are crucial, global promotion and a efficient distribution network is indispensable.

* New products:

Since 1988 Mars' strategy has changed in a trend towards more umbrella brands and a more aggressive product-strategy. From 1980 until 1987 Mars introduced three new brands, and in the period 1987 - 1990 23 new or renewed brands were introduced: Balisto in 1986, with new varieties in 1988. Bounty, existing from 1962, went 'pure' in 1988. The Mars-bar came with almonds and hazelnuts; Milky-Way milkshake and pasta, etc. Mars had also to adapt to the adult-oriented confectionery product, and introduced Mars Gold and Mars miniatures to assure itself a share in this market. Similarly the small candy bar was introduced in the USSR to allow people to buy Mars at lower costs. In 1988 Canyon was introduced, but it has been less successful.

A success seems to be the introduction of the bar-ice creams (Milky Way, Bounty and Mars) of Dove International. The mars-bar was introduced in the UK in 1989 through Allied-Lyons' Lyons Maid branch. Mars started with a relatively low advertising budget and claimed to have 10% of the market by the end of 1990. This meant an ice-battle with Unilever, which is market leader with Wall's Cornetto. Unilever returned in a link-up with Cadbury (a 'dream'-ice cream in Cadbury chocolate), and spent three times as much on advertising. The final result remains unclear as last summers have been hot, and the whole market has expanded.

Meanwhile Doveurope has opened a plant in Steinbourg in april 1989, and Mars, Snickers, Bounty and Milky Way ice-creams are being introduced during 1990/91 in nearly all European countries.

* Global brands:

Mars has been moving towards a harmonisation of its brands for some time. The Treets brand in Europe was the first to go, being replaced with M&M's, the global name, although still with Treets on its label. Marathon is being replaced, mentioning on its label 'internationally known as Snickers'. In this way Mars tries to avoid consumer confusion, while the international name gets recognized. Also Twix in the UK has become re-named Raider.

Until recently it was assumed that the name was everything, and former advertising was wasted after changing names. But the way Mars is changing towards European and global brands seems to overcome these problems. For this reason UK Market Research done by KAE Development applauds Mars for its brands-strategy. The introduction of cable and commercial satellite television has opened up very interesting possibilities in this global brand strategy. It has made it much more easy to harmonize national advertisement campaigns using these media. And the rising of the total media costs can be tempered that way.

* Advertising.

Mars has for long been known for its high spending on advertising. As Mars mainly tries to increase its market share by marketing methods, effective advertising is crucial. Their brand-strategy is not only important for global brand-recognition, but also a condition for rationalizing advertisement-costs. World-wide Mars is estimated to spend over $400 million on media-advertising, making it one of the biggest global advertisers. It ranks in the top-25 US advertisement spenders, and in the UK Britisch Leyland Cars and Mars are the only ones that remained in the top ten over the past ten years. Main agencies, used by Mars, are: Backer Spielvogel Bates World Wide (Saatchi & Saatchi) (US market); D'Arcy Masius Benton & Bowles (UK market); Grey (German and Eastern European market).

Sports marketing is another part of the strategy. Mars sponsored the Olympic Games in Los Angeles, the Soccer World Cup in Italy (1990) and is the official snack food sponsor of the 1992 Olympics. The official status allows Mars to use the Olympics in its promotional campaigns. In 1990 it sponsored the Asian Games in China, which led to a boycott of Mars' M&M's in Hong Kong. An anonymous letter warned for poisoned M&M's accusing Mars of supporting the Chinese government. Mars had to replace all M&M supplies. More generally

Mars is sponsoring several sport activities on a regional and a local level.

In 1990 Mars entered into an agreement with Disney to become the only supplier of candy and snacks to Disney World, Epcot Enter and Disney/MGM, which combined draw more than 60 million consumers a year. In Europe however, it lost this possibility to Nestlé, which signed a contract with Disney for the European Disneyland near Paris. It gives Nestlé the exclusive rights to the food activities of Disneyland in Paris and the use of its logo for promotional purposes.

* **Distribution.**

As Mars products are typical 'impulse' products, it is important for Mars not only to distribute through the traditional food channels (retail chains, etc.), but also through the so called grey channel. The grey channel consists of outlets such as news stands, petrol stations, kiosks, etc., and is very important for confectionery products. This is even stronger in Europe than in the USA, as in the USA only 30% of the Mars-products are sold in single units, while in Europe this percentage is much higher.

Mars has introduced a uniform system within SFCE to calculate the results of each of their buyers, as a tool for its stratigic portfolio decisions. Besides, last years Mars has developed information systems for their trade partners to reduce costs and improve shelf-use. This kind of cooperation with retail chaines is quite important, as good
relations with the big retail chains are becoming every day more indispensable. The food companies are aware that 'big-size' is necessary to cope with the mega-alliances in the retail sector, that are now forming. In April 1990 eight supermarket chains including France's Casino, British Argyll, Dutch Ahold, formed Associated Marketing Services (AMS) to pool buying power and to promote their own house brands. The group aims to study various product areas in turn, talking to suppliers to identify savings. In 1990 a study on pet food resulted in suppliers agreeing to make payments to AMS of 1% of the value of pet food bought by the partners involved, which means a significant benefit for the AMS-partners.

The biggest supermarket chains realize 23% of the European retail sales, and their share is growing. And apart from purchasing, a further rationalisation of storage, administration and distribution, the development of information systems, and further product development are expected. And Supermarket chains will limit the number of brands they sell. This will lead to more severe criteria with respect to product form, packing and price. And only the biggest food companies will be able to cope with this.

5.4. Snack Food Continental Europe (SFCE).

SFCE was organized in 1987, first for the functional integration of the following three Mars chocolate confectionery plants: Mars Veghel, Mars Viersen and Mars Haguenau. At the end of 1988 Mars Breitenbrunn too was integrated. SFCE was conceived as a functional organisation, and forms no legal structure. The head of the SFCE-board, with its headquarters in Brussel, is formed by the Managing Director and the Site-Directors. The different division directors also form part of the SFCE organisation, and a lot of double functions occur.

It is an informal, non-hierarchical organisation structure, that relies heavily on good

communication. There is no written organisation structure, and responsibilities are clearly more person than location related. The different divisions-manager are therefore spread over different locations with site-coordinators at each plant. As specific subdivisions are not necessarily coordinated from the same location, the organisation is quite untransparent. This easily leads to problems if communication is not optimal, especially at lower levels. And it is definitely a problem for the proper functioning of works councils. Moreover, as SFCE is not a legal entity, it could be difficult for unions and works councils to meet with the real decision makers.
For known management, see Appendix.

As stated above, the SFCE organisation fits in the general trend towards production centralisation and more effective management so as to be able to increase market share at the lowest costs possible. In the case of Mars confectionery, where product centralisation was already quite advanced, this means especially centralisation and coordination of commercial (including purchase and logistics), marketing and R&D activities.

Within the SFCE each location now has core production. Depending on special qualities of its location/personnel, one or more divisions are coordinated from there. Commercial activities are centralized for the whole SFCE. Marketing and Sales are coordinated per area and per brand. R&D is coordinated from Veghel, but the different plants all have their own specialty. The four plants report to Mars-headquarters in the USA through the SFCE.

Mars Veghel (Neth, 1963):	Bars
Brands:	Mars, Snickers, Bounty, Raider, Miniatures
employees :	1259 (about 940 in production)
Mars Viersen (Germ, 1979):	Baking products
Brands:	Balisto, Applaus, Raider Mini
employees:	630 (about 240 in production)
Mars Haguenau (France, 1984):	M&M's
Brands:	M&M's, Canyon, Milky way, Mars
employees:	315
Mars Breitenbrunn (Austria, 1974):	Wafel/ biscuits, luxury products
Brands:	Fanfare, Banjo, Milky Way (pasta)
Employees:	105

Doveurope is still seperate. Sales were first managed by Dove Int., but have since 1989 been managed by the SFCE, through its New Business division. A further integration within the SFCE structure is to be expected. The plant in Steinbourg (France) started in 1989 with 50 employees.

The UK has Until now not been included in the SFCE structure. However with the European market progressing it will be difficult to maintain their 'island' position. For some functions coordination already exists. For example, there is one P&O Director for the whole of what is known as Snack Foods Europe (SFE). How Slough will fit within the SFCE is not clear yet. It's quite possible that a first change will be a restructuring of markets, and not directly of production. A change that already has taken place in 1990 is the replacement of M&M's Choco from Veghel to Slough. In Slough the overcapacity could be put to use, and in Veghel the new miniature-line was set up.

Further reorganisation towards a SFE structure is a goal. Moreover similar organisation structures for the other groups, like Europet and Masterfoods Europe, are in development (Europet) or already in function (Masterfoods). And these structure include the UK plants. The different multi-sales units in the European countries where Mars has no production facilities, will be coordinated by the SFCE, but reorganisation has not finished yet.

6. MARS PETFOOD.

Mars Petfood activities go back to 1935 when Pedigree Petfoods in England was started with the product 'Chappi'. But the market took a long time to develop, as in the seventies most people still fed their pets table scraps. In 1959 Mars started producing in Germany. In the same year Unisabi opened up activities on the French market. Ten years later, in 1974 its production-unit was opened in Strasbourg, France, and nowadays Unisabi operates three plants. Thomas, in the UK, was bought in 1968, and produces dog and cat-food as well as pet accessories. In 1985 Effem GmgH start production in Austria. In the US production started in 1968.

In the US Kalkan was bought in 1968, and now operates 3 production plants. In Australia production was started after 1980. World wide Mars now has 17 pet food plants, in the US, Europe and Australia.

6.1. The market.

On world level Mars is clearly number 1, with a total turnover of about 2 times its nearest competitors. But there are big differences between markets, due to the amount of people that give their pets canned food. The percentage of people with pets is still growing everywhere, but the main markets, where more than 70-80% of the pets are already eating canned food, are increasingly getting saturated.

Therefore companies are looking for markets that are still underdeveloped, and for 'niches' in the main markets. High quality, diet foods, snacks, pork chops: Alpo (Grand Metropolitan, UK), Carnation (Nestlé), and Ralston were the first in the US in developing premium-brands. Recently (early 1991) Ralston was the first one in the petfood industry with 'natural food': Nature's Course, a dry dogfood made with grains grown without pesticides!! Petfood makers are not counting on upscale products for faster growth, but they do improve their profits, as these are higher added value products.

	Global petfood sales (1989)
1. Mars:	$ 3,400
2. Ralston Purina	$ 1,684
3. Nestlé	$ 1,400
4. Quaker Oats	$ 1,188

Nestlé claims 10% of the world sales, which means Mars at least has over 20%.

Apart from the developing of premium petfood, the introduction of global brands for petfoods has been necessary. Mars proceeded in the same way as with confectionery: In the US Kal Kan was replaced by Pedigree, still with Kal Kan on its label for dog foods, and the Kal Kan catfoods have been replaced by Sheba and Whiskas. In the UK mister Dog became Cesar, and Munchies were replaced by Brekkies.

The US market.

In the US 80% of the pets was already eating canned food in 1982, and while during the first half of the eighties the market in the US was still growing by 8% annually, it later declined to 4 % a year. And now the $ 6.1 bn market is highly saturated and competition is very strong. However the sales of premium foods are still rising.

Ralston Purina, number 1 in the US, saw its total turnover in petfoods grow until 1988. In 1989 its profit on petfood declined with 8% due to increasing advertisement and promotion costs, higher ingredient costs and shifts in its sales mix. Nestlé's Carnation saw its share grow and surpassed Mars, which until 1986 was number 2 behind Ralston with 9 % of the market. Quaker Oats catapulted from 7 to 14% with the acquisition of Gaines Dog Food from Anderson & Clayton in 1986, but after this had some disappointing years and saw a decline in its market share and profits during the last few years. This also seems to be due to the fact that Quaker is strong in the middle and low market segments, where profits are limited.

Mars is said to have had a $ 50 mln loss on its petfoods in 1988 as well. Both companies introduced an upgraded line in 1990, to assure themselves of a better position in the middle market segment. Mars changed its brand name Kalkan to the better known Pedigree label, and also introduced premium brands, like Sheba, under the well known European names.

Market shares in the US:

	1989	1986
Ralston Purina:	18%	18%
Quaker Oats:	14%	7%
Carnation (Nestlé)	12%	8%
Mars :	10%	9%
Alpo (Grand Met):	6%	-

European market.

In Europe the situation is different. Market growth is still possible, especially in the southern European countries, and the total market is expected to be worth about $ 6.6 bn in 1992, up from $ 5 bn in 1987. Mars, thanks to its long-term presence, has a much stronger position in Europe, and has been market leader since the petfood business really started. When Quaker bought most of Ralston Purina's activities in Europe in 1983, the combination meant a leading position. For example in Holland 1983 the Quaker and Ralston share was good for (23+32) 55% of the market, with Mars (Effem) as number 2 with 22 %. But in a few years the situation had changed, and now it is Mars which has more than 40% in Holland as against Quaker with 30%. This is mainly due to a very aggressive advertisement policy of Mars, and the fact that Mars is stronger in the higher market segments. Brands like Sheba (cats) and Cesar (dogs) cost about 4 four times as much as the average cat/dogfood, and give good profits.

In other European countries Mars has about 50-70 % of the market as well, with generally a higher share in catfoods than in dogfoods. The European petfood sales of Mars are estimated at over $ 2 billion, good for about 60 % of Mars' total petfood sales. Until 1989 in most countries Quaker followed as number two, and Nestlé as number 3. But the latest annual reports indicate that Nestlé has surpassed Quaker Oats on European level as well as globally. On the other hand Quaker is already longer producing private brand labels for the supermarkets, what can become an important income source. In the UK Dalgety Spillers is number 2.

The development of private brand labels by the supermarket chains means more competition in the pet food sector especially for Mars, which only produces Mars' brands. According to the Financial Times, a study by the AMS group showed that petfood is still a growing market with a few, large suppliers: While Mars supplied six of them, Spillers supplied only two and Nestlé four (Quacker was not mentioned). And as there was a demand among retailers for a quality own brand petfood, Nestlé was asked to develop a wet catfood brand for them, that five of the group would be prepared to stock, as well as that some of them were ready to stock some of the Nestlé brands which they had not carried before. This means that as the European market gets more saturated, Nestlé will become a fierce competitor for Mars.

Other markets.

Japan.
The asian markets are expected to grow. In Japan in 1987 only 20 % of the pets ate canned food. Petfood is relatively expensive, and foreign petfood makers saw great potential. With a high advertising budget they went in. As a result in 1987 Mars had 16%, and Ralston Purina 12% of the market. At that time Nippon, the leading Japan petfood maker, had 20%. Consumption of canned food in 1988 went up by 15% (cats) to 40% (dogs) and figures from 1988 indicated Nippon as market leader with 23 % market share, with Mars trailing with 10%.

In june 1990 US and European importers and their agents were accused of arbitraty pricint policies with large gaps in prices among Tokyo, New York, London and Paris. They were keeping prices up and forcing their Japanese retailers to do the same. Mars was charged that it threatened to cut off supplies of petfood to retailers and wholesalers offering discounts. Masterfoods KK, Japan denied the charges.

Australia.
About the Australian market little is known. Mars has production facilities in Wodongo and Bathurst (New South Wales), and its turnover is said to be growing. Here agian it encounters Nestlé, which has opened a new factory in 1988. Dalgety is present as well.

6.2. EUROPET.

At the end of 1990 a similar structure as the SFCE organisation was set up with Europet. In contrast with the SFCE-structure the UK plants are already involved: Europet coordinates the following firms: Pedigree Petfoods (with 2 locations) and Thomas in the UK, Effem Germany (with 2 locations), Effem Austria (with 1 location), and Unisabi (with 3 locations) in France.

Furthermore it coordinates the specific petfood sales offices, like Effem BV, Netherlands.

However the reorganisation within Europet has yet not been completed. The petfood group is the one where centralisation of production is the least advanced. No specific information about the situation in the different plants is available. But as there is a lot of management exchange between the different groups, it is to be assumed that the main strategies are comparable with those of the SFCE structure. For example, Europet's Vice President for Personell & Organisation, David Fish, until last year functioned as P&O Director of the SFCE. Therefore he knows the rationalisation and centralisation proces
of SFCE very well, and a similar approach is to be expected within Europet.

For known management see Appendix 2.

7. MARS MASTERFOODS.

Mars started its food business in 1943 with Uncle Ben's rice. Uncle Ben's rice, with production-sites in the US and Brazil, still is the main product of the human food group. In Europe Uncle Bens rice is packed in Belgium. Further Mars produces products like canned vegetables (Holland, Brazil), Suzi-Wan Oriental meals (Holland), and in the UK (King's Lynn, Basingstoke) Yeoman labeled potatoes, sauces and meat products are made.

Worldwide Mars' human food group has 9 plants: in the US, Europe, Australia and Brazil. Brazil, where canned vegetables and rice are produced, is the only production location Mars has in a third world country. No details are known about the Brazil plant.

In recent years a development towards more convenience food like pizza's, pasta's and sauce-s has taken place, and Mars has joined this trend with Pizzaman and its Dolmio products. The overall effect of the stagnant demand in the food sector has been that companies have looked for 'niche' segments, where demand is likely to be above average, including convenience foods and prepared meals. The fact that giants like Unilever, Heinz and Campbell are heavily promoting new prepared pasta sauces and frozen foods is evidence enough they expect this market will grow. Until 1988 Dolmio was market leader in sauces in the UK, but then came under heavy attack from Unilever's Ragu, which was already leader in the US. Dolmio Sauces and pasta's are made in England and a new plant for pizza's has been opened in Bahlingen, Germany.

Total turnover in foods is an estimated $ 700 million dollars, however it is very difficult to verify. It is clear that the market share of Mars' products is not very big, but the Uncle Bens rice has an assured position. In sauces and pasta's Mars again has to compete with Nestlé, and others like Unilever and Heinz, which all have much stronger positions. Nevertheless Mars' introduction of Dolmio's products is mentioned by several market researchers as a great success.

Mars is also active in vending catering machinery, through its subsidiaries Four Square and Thames Valley Vending in the UK. Four Square has locations in the UK and Germany, and probably also in France. This activity creates the possibility of opening relations and channels in the catering sector, which can later be used for the sale of human food and confectionery.

7.1. Masterfoods Europe.

Since 1986 Masterfoods Europe has been in function, and coordinates the production activities in the UK (King's Lynn and Basingstoke), Belgium (Olen), Holland (Oud- Beijerland) and Germany (Bahlingen). The catering-machine vending activities are controlled separately and not coordinated by Masterfoods Europe.

In 1986 800 people were reported to work for Masterfoods Europe, but with the opening of the new plant in Germany, and the expansion of the product-range the real number must now be higher.

8. MARS ELECTRONICS.

The need of modernisation of production methods and the growing demand for electronics in the production process, led to a growing use of electronics produced under own control, according to the 'Mars-route to the top'. On this basis Mars Electronics was formed in 1980, with a subsidiary in the UK. In 1990 Mars Electronics is known to also have a subsidiary in Australia.

Originally it manufactured coin-changers, lateron also hand-held scanning devices and radar systems for small boats. But with disappointing results. In 1987, it is said to have lost $ 20 million, and there were heavy internal discussions about the strategy to follow, leading to the resignation of management personell, according to Fortune (20-9-88). As to how far things have changed, it is difficult to say, but also here product innovation seems to have taken place. According to recent informations Mars now also produces special equipment like electronic recognition systems in machines for the use of cash and credit cards, and electronic test-systems for, amongst others, printed circuit boards.

Mars electronics would clearly not seem to be a 'core-business', but really very few is known in detail on its operations. Its relation to Effem Services, which provides computer services, neither is clear. Turnover is estimated at US $ 100 million in 1989, and a similar amount in 1986. It seems not to be a growing business.

Sources: Financial Times, Fortune, Business Week, and other periodicals, Mars Echo (published quarterly for SFCE employees).

APPENDIX 1: COMPANY STRUCTURE.

	CHOCOLATE CONFECTIONERY	PETFOOD	MASTERFOODS	ELECTRONICS
USA	MARS INC., Mc Lean (1922) M&M MARS INC, Hacketstown Chicago, Illinois Hacketstown, New Jersey Cleveland, Tennessee Albany, Georgia Elizabethtown, Pennsylv. Waco, Texas	KALKAN FOODS INC.(1968) Columbus, Ohio Vernon, California Mattoon, Illionois	UNCLES BEN'S INC.(1943) Greenville, Mississipi Houston, Texas	MARS ELECTRONICS INT.(1980) Westchester, Pennsylvania Folcroft, Pennsylvania
	DOVE INT. INC. Chicago.(1986) Burr Ridge, Illinois			
	Effem Services INC, Budd Lake NJ (Computer Services for parent)			
CANADA (1974)	EFFEM Foods Canada New Market, Ontario	Effem Petcare Canada Bolton, Ontario		
AUSTRALIA (1980)	MARS Confectionery of A. Ballarat, Victoria	Uncles Ben's of A. Bathurst, NS Wales Wodonga, Victoria	Masterfoods of A. Matraville, NSW	Mars Electronics, Matraville, NSW
ASIA:	Sales and distribution offices for all divisions: Effem Foods Ltd., Tokyo Japan Effem Foods Inc. Hongkong Saoedi Arabia			
BRAZIL:			Effem Produtos, Gauiba	

	CHOCOLATE CONFECTIONERY	PETFOOD	MASTERFOODS	ELECTRONICS
UK	**MARS Confectionery,** (1932) Slough	**Pedigree Petfoods** (1935) Melton Mowbray Peterborough **Thomas,** Batley	**Masterfoods,** King's Lynn **Klix/Four Square,** Basingstoke	**Mars Electronics,** Workingham
HOLLAND	**MARS BV,** Veghel (1963)	**Effem BV,** Veghel (sales)	**Masterfoods,** (1982) Oud-Beijerland	
BRD	**MARS GmbH,** Viersen (1979)	**Effem GmbH** (1960) Verden Aller Minden	**Pizzaman** (1989) Bahlingen **Four Square,** Verden	
FRANCE	**MARS Alimentaire,**Haguenau(1984) **Doveurope,** Steinbourg (1989)	**Unisabi SA.** (1974) La Chapelle Vendomoise St.Denis de l'Hotel Ernolsheim sur Bruche	**Klix,** ?	
AUSTRIA	**MASTERFOODS GmbH,** Breitenbrunn	**Effem GmbH,** Bruck/Leitha (1985)		
BELGIUM			**Masterfoods,** Olen	

Multi Sales Units in :
Italy (Dolma Mars Italia); Spain (Effem España);
Masterfoods: Ierland, Denmark; Sweden; Norway; Finland
Zwitserland (Effem AG); Greece (Trofeklekt); East Europe (Masterfoods East Europe, Austria)

APPENDIX 2 : MANAGEMENT SFCE.

Function	Person	Location
Managing Director	Benno Hoogendoorn	Brussel
Site Director Veghel	Herman Knupfer	Veghel
Site Director Viersen	Hans-Gerd Füchtenkort	Viersen
Site Director Hagenau	Paul Delaoutz	Hagenau
Site Director Breitenbrunn	Gottfried Gröbl	Breitenbrunn
Brands Director	Paul Kenninck	Viersen?
Sales BRD and NL	Hans-Gerd Füchtenkort	Viersen
Consumer Marketing	Paul Delaoutz	Hagenau
Internat. Trade Director	Gottfried Gröbl	Breitenbrunn
Business Manager Ice Cream Dove	Thomas Wenzel	
Manufacturing Director	Wilfried Druskeit	
Commerical Director	Fons Kasbergen	Veghel
Head Research en Development	Herman Knupfer	Veghel
Quality Director	Wolgang Hay	
Director P&O SFE	Neil Donnan	Strassbourg
Service and Finance	Eddie Robinson	?
Financial Controller	William van Ettinger	Veghel
Director ISI	Jeff Smith	Strassbourg

MANAGEMENT EUROPET.

President	Mike Tuttle
Sales & Marketing and Europe Kat-brands	John Price
Sales It, Sp, Port, France and Europe Dog-brands	Laurie Raper
Sales Germany, Austria, East-Eur. and plant-accessoires	Heino Würfel
P&O	David Fish
Service and Finance	Piere Laubies